MACROECONOMIC & FISCAL PERFORMANCE REPORT FINANCIAL YEAR 2022/23

MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

October 2023

Foreword

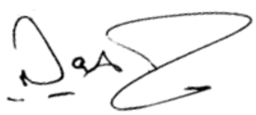
Section 18 of the Public Finance Management Act (PFMA) 2015 requires the Minister of Finance, Planning & Economic Development to present to Parliament a bi-annual Macroeconomic and Fiscal Performance Report by the end of February and October. In this regard, the ministry has prepared an annual report which incorporates the current and projected state of the economy as of 30th June 2023.

In FY2022/23, Uganda's economy displayed resilience despite facing numerous global and domestic setbacks, notably the lingering effects of COVID-19, the Russia-Ukraine conflict, and the emergence of an Ebola outbreak in September 2022. This resilience was primarily driven by recovery in services and agriculture, forestry and fishing sectors, along with consistent growth in the industry sector. These factors collectively boosted the GDP growth rate from 4.6 percent in FY2021/22 to an estimated 5.2 percent in FY2022/23. In nominal terms, the economy expanded to an estimated UShs. 185 trillion (US$ 49) from UShs. 163 trillion (US$ 46) observed in the preceding Financial Year.

Uganda's economic performance in the past year is partly attributed to Government's swift and comprehensive response to health crises, notably COVID-19 and the Ebola outbreak. Furthermore, well-coordinated monetary and fiscal policies played a pivotal role in buffering the economy against shocks. These challenges, including a brief surge of inflation into double digits, were primarily driven by escalating fuel prices due to the Russia-Ukraine conflict. Yet, thanks to Government's strategic interventions, by the end of the fiscal year, core inflation was brought to a stable 4.8 percent, meeting the Central Bank's target of 5 percent.

Beyond these immediate measures, Government took a forward-thinking approach by rolling out a series of initiatives tailored to strengthen private sector activity. Central to this has been the introduction of strategic initiatives aimed at revitalizing businesses affected by recent economic downturns, through provision of affordable credit. The Small Business Recovery Fund acted as a vital financial lifeline, ensuring that many enterprises could weather the storm of the pandemic. Meanwhile, EMYOOGA focused on promoting grassroots entrepreneurship and enhancing household incomes, pushing for socio-economic transformation at the community level. Affordable credit was also directed through the Uganda Development Bank which furthered the nation's development objectives by promoting industrial and commercial projects.

Going forward, Government remains committed to expanding the size of the economy, with a strategic vision of multiplying it tenfold in the coming decade. Key to this endeavour is capitalizing on the expanding oil and gas sector, which promises to be a linchpin for the nation's economic acceleration. Continued implementation of robust fiscal measures and maintenance of a synergy between fiscal and monetary policies to support private sector growth. Furthermore, central to the growth strategy is the Parish Development Model, aimed at comprehensive socio-economic transformation from the grassroots. This sets the foundation for a projected GDP growth rate of 6 percent in FY 2023/24, and an expected growth of between 7 to 10 percent in the medium term, laying the groundwork for increasing the pace of achieving Government’s social economic transformation agenda.



Matia Kasaija (M.P)
HON. MINISTER OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT.

Table of Contents

List of Figures

List of Tables

List of Acronyms and Abbreviations

AIA	Appropriations in Aid
B.Franc	Burundi Franc
BOP	Balance of Payments
BOU	Bank of Uganda
BTI	Business Tendency Index
CBR	Central Bank Rate
CDF	Democratic Republic of Congo Franc
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
IMF	International Monetary Fund
KShs	Kenya Shillings
MDA	Ministries, Departments and Agencies
MOFPED	Ministry of Finance, Planning and Economic Development
NPLs	Non-Performing Loans
NTR	Non-Tax Revenue
PAYE	Pay as You Earn
PMI	Purchasing Managers' Index
R. Franc	Rwanda Franc
SDG	South Sudan Pound
TzShs	Tanzania Shillings
UShs/UGX	Uganda Shilling
US$/USD	United States Dollar
VAT	Value Added Tax

Executive Summary

Uganda's economy registered GDP growth in FY 2022/23 on account of recovery in services and agriculture, forestry and fishing sectors, along with consistent growth in the industry sector. This was supported by continued Government initiatives in boosting private sector activity and increased regional trade. The services and agriculture, forestry and fishing sectors grew by 6.2 and 4.8 percent, respectively, industry expanded by 3.5 percent, leading to an increase in the size of the economy to UShs. 184,895 billion in FY 2022/23 from UShs. 162,750 billion registered in FY 2021/22. In real GDP terms, the economy grew by 5.2 percent compared to 4.6 percent the previous Financial Year.

Amid global and domestic challenges, from the Russia-Ukraine conflict and the Ebola outbreak to unpredictable weather and policy shifts, Uganda's economy has remained resilient. The broader global context does present challenges, notably an anticipated slowdown in growth to 3.0 percent in 2023 and 2.9 percent in 2024, down from 3.5 percent recorded in 2022. This is largely driven by global policy adjustments seeking to manage escalating inflation, further worsened by the Russia-Ukraine crisis disrupting supply chains. To put this in perspective, global inflation spiked to 8.7 percent in 2022 and is projected to settle at 6.8 percent in 2023, a sharp contrast from 4.6 percent seen in 2021. As such, prices in Uganda rose sharply in FY 2022/23 as reflected by annual headline inflation which increased to 8.8 percent from 3.4 percent recorded the previous Financial Year. Subsequently, the Central Bank's monetary policy rate increased from 7.5 percent in June 2022 gradually to 10 percent in October 2022 and remained unchanged for the rest of the Financial Year. With the underlying inflationary pressure, commercial bank lending rates for shilling denominated credit were generally on an upward trend, increasing from as low as 15.53 percent in July 2022 to a peak of 20.24 percent in February 2023. Nonetheless, the stock of private sector credit displayed resilience registering a monthly average growth of 6.4 percent in FY 2022/23.

Uganda's external sector exhibited resilience and growth in FY 2022/23. While the Uganda shilling experienced weakening of 5.1 percent against the US dollar on a year-to-year basis, this movement can be attributed to the broader global trend of the strengthening dollar. A more detailed month on month analysis highlights stability as the shilling strengthened by 2.2 percent against the US dollar within FY 22/23. The nation's value of merchandise exports witnessed an impressive growth of 42.5 percent, driven by increased export receipts from commodities like gold, maize, base metals, vanilla, tea, tobacco and fruits &vegetables. Similarly, the merchandise import bill also increased by 24.31 percent in FY 2022/23.

Crucially, the final investment decision in the oil and gas sector propelled Foreign Direct Investment inflows, which rose by 68.3 percent, from US$ 1,688.56 million in FY 2021/22 to US$ 2,842.65 million in FY 2022/23. The diaspora contributed positively, with remittances marking their first increase since the onset of the COVID-19 pandemic remitting US$ 1,431.23 million in FY2022/23. Tourism, despite facing challenges such as the Ebola outbreak, registered a 9 percent growth to US$ 1,066.41 million. A few areas, nonetheless, like portfolio investments, felt the global pull due to rising interest rates in advanced economies, as well as a moderate dip in international reserves, resulting to an overall external deficit position.

In FY2022/23, Government's fiscal operations resulted in a deficit of UShs 10,126.98 billion, or 5.5 percent of GDP. While this surpassed initial projections, it is a marked improvement from 7.4 percent recorded in FY2021/22, underscoring Government's steadfast commitment to fiscal consolidation. This deficit was strategically financed through a mix of domestic and external borrowing. As a result, the public debt stock rose from US$ 20.99 billion in June 2022 to US$ 23.66 billion by June 2023. Yet when viewed as a percentage of GDP, public debt decreased from 48.4 percent to 46.9 percent within that timeframe, and projections indicate this trend will continue in the medium term. Nonetheless, despite the reduction in the debt to GDP ratio, debt service to domestic revenue ratio increased to 32.6 percent in FY 2022/23 from 30.6 percent in FY 2021/22. However, in FY 2023/24, its projected to decline to 29.3 percent and continue declining over the medium term, as Government implements its fiscal consolidation strategy and Domestic Revenue Mobilisation Strategy. In addition, projected oil revenues within the medium are expected to support reduction in debt. As such, public debt is expected to remain sustainable over the medium to long-term.

Looking to the future, the economy is expected to continue on recovery path, driven by anticipated growth in the services, industry, and agriculture sectors, supported by a resurgence in aggregate demand and continued implementation of strategic fiscal measures. The Parish Development Model is expected to play a pivotal role in driving growth. This is further complemented by increasing investments in the Oil & Gas sector and an expansion in regional trade. As both public and private sectors heighten their investment commitments and with marked enhancements in production and productivity across agriculture and industry, the economy is projected to grow by 6.0 percent this Financial Year and between 7 to 10 percent over the medium term. Nonetheless, downside risks to this growth outlook include, unpredictable weather patterns, potential delays in rolling out planned government projects, escalating global and regional geopolitical tensions, fluctuations in global commodity prices, and tighter global financial conditions.

MACRO-ECONOMIC DEVELOPMENTS

Chapter I: Macro-Economic Developments

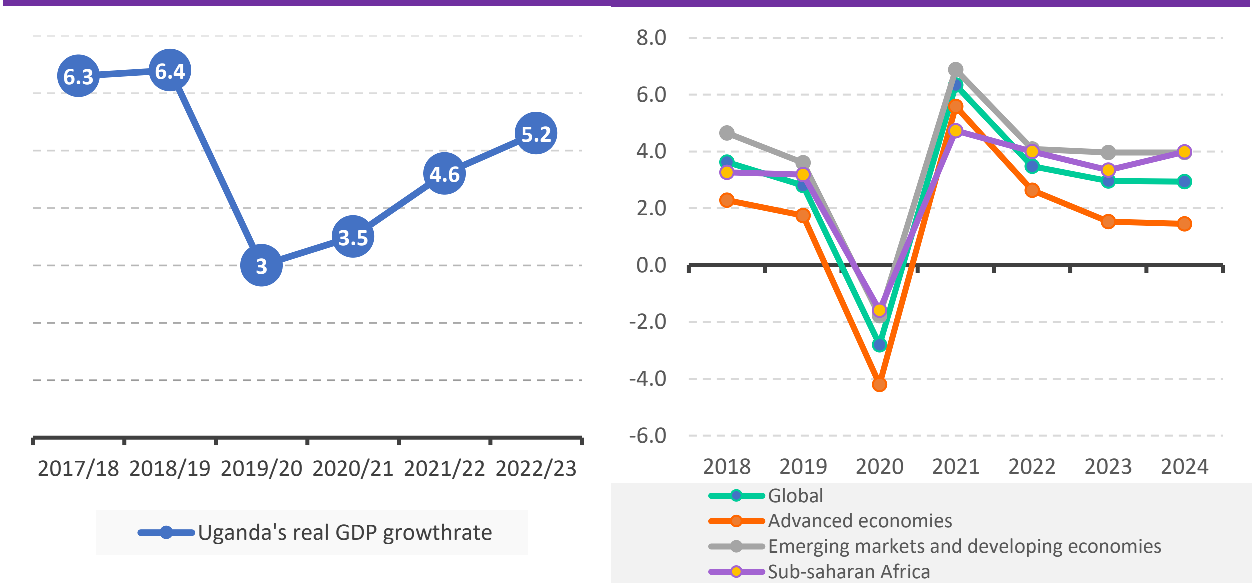
Economic Growth

Economy grew by 5.2%

The size of the economy increased to UShs. 184,895 billion in FY 2022/23, from UShs. 162,750 billion registered in FY 2021/22. Therefore, in real GDP terms, the economy grew by 5.2 percent, compared to a revised growth rate of 4.6 percent in FY 2021/22. This economic growth is mainly attributed to recovery in services and agriculture, forestry and fishing sectors, along with consistent growth in the industry sector, supported by government-driven initiatives targeted at strengthening private sector involvement and advancing increased regional trade. Key strategies have encompassed continuous financial backing for initiatives such as EMYOOGA, designed to boost small service providers and businesses; the Small Business Recovery Fund, aimed at supporting small to medium enterprises; and the proactive role of the Uganda Development Bank in supporting the manufacturing sector, among others.

When placing Uganda's economic trajectory within the broader global context, it becomes evident that, despite the world facing a sluggish recovery with global GDP growth projections at 3.0 percent in 2023 and 2.9 percent in 2024 (down from an estimated 3.5 percent in 2022), Uganda's economy demonstrates notable resilience. This global slowdown is more pronounced in advanced economies, due to the implications of 2022's monetary policy measures aimed at curbing inflation. In contrast, emerging markets and developing nations are predicted to experience a smaller slowdown in growth. However, there's an anticipated resurgence in GDP growth for sub-Saharan Africa by 2024, which could provide a positive impetus to Uganda's economic recovery, primarily through increased trade activities. Figure 1 below shows Real GDP growth rates.

Figure 1: Real GDP Growth Rates (%)



Source: Uganda Bureau of Statistics; International Monetary Fund

On the domestic scene, all three sectors of the economy registered growth in FY 2022/23. The services sector grew by 6.2 percent, with a share of 42.4 percent in total GDP while the agriculture, forestry, and fishing sector grew by 4.8 percent with a share of 23.8 percent; the industry sector grew by 3.5 percent with a share of 26 percent in total GDP.

Table 1 shows a breakdown of Uganda's Economic Performance by sector.

Table 1: Breakdown of Economic Performance by Sector (% change)

YOY Growth Rate	2018/19	2019/20	2020/21	2021/22	2022/23
GDP at market prices	**6.4**	**3.0**	**3.5**	**4.6**	**5.2**
AGRICULTURE, FORESTRY&FISHING	**5.3**	**4.8**	**4.3**	**4.2**	**4.8**
Cash crops	4.7	7.8	12.5	5.7	-0.1
Food crops	1.6	4.6	4.1	3.5	4.7
Livestock	7.3	7.9	7.8	8.3	8.8
Forestry	3.6	3.3	2.9	3.2	3.1
Fishing	39.2	0.3	-8.8	0.3	8.6
INDUSTRY	**9.0**	**3.2**	**3.5**	**5.1**	**3.5**
Mining & quarrying	17.5	16.5	6.9	18.3	2.2
Manufacturing	7.7	1.3	2.2	3.8	3.1
Electricity	2.5	10.9	11.6	3.1	2.8
Water	4.7	4.1	4.8	6.3	4.2
Construction	14.2	3.8	3.6	5.2	4.8
SERVICES	**5.8**	**2.5**	**2.8**	**4.0**	**6.2**
Trade & Repairs	4.9	-1.3	-0.6	3.4	5.7
Transportation & Storage	0.8	-1.7	-0.3	-3.8	-5.9
Accommodation & Food Service	0.5	-8.6	-0.6	-2.5	12.4
Information & Communication	-6.8	19.6	11.8	7.4	10.3
Financial & Insurance	11.1	9.6	8.1	4.5	0.6
Real Estate Activities	10.1	5.1	3.9	9.0	7.4
Public Administration	4.2	16.2	12.6	3.5	0.8
Education	9.1	-2.0	-4.2	1.5	3.4
Human Health & Social Work	5.3	1.0	7.1	9.6	4.2
Arts, Entertainment & Recreation	22.1	-8.1	-13.7	-2.2	4.1
Taxes on products	**4.4**	**-1.6**	**6.2**	**7.5**	**7.1**

Source: Uganda Bureau of Statistics

In FY 2022/23, 6.2 percent growth registered in the services sector was a substantial increase from the 4.0 percent recorded in the previous financial year. This uptick is attributed to a rebound in accommodation and food services, coupled with robust growth in wholesale and retail trade, real estate, information and communication and education services, among others. Conversely, sectors like financial and transport services experienced low growth, primarily due to the adverse effects of high inflation, which subsequently resulted in reduced profit growth compared to the previous financial year.

The agriculture, forestry and fishing sector grew by 4.8 percent from 4.2 percent in FY 2021/22. This growth can be attributed to an increase in food crop production and livestock, alongside a resurgence in fishing activities. Food crops such as maize, beans, matooke, and sweet potatoes saw increased yields, largely driven by favourable weather conditions throughout most of the year. The increase in fishing was further supported by the lifting of fishing bans in certain regions. Nonetheless, the sector's overall growth potential was impacted by challenges in coffee production, stemming from pest infestations, diseases, and prolonged dry periods experienced in the first quarter of the fiscal year.

The industry sector registered modest growth of 3.5 percent, a slowdown from 5.1 percent registered the previous Financial Year. This moderate performance primarily stems from subdued performance in the manufacturing, construction, and mining& quarrying sectors. Specifically, manufacturing and construction sectors faced challenges due to a spike in costs of inputs as inflation significantly increased within the Financial Year.

Employment

The 2021 National Labor Force Survey (NLFS) revealed that Uganda's labor force grew from 9.1 million in FY 2019/20 to 11.1 million by 2021. The labor participation rate saw a rise from 43 percent in FY 2019/20 to 48 percent in 2021, while agriculture remained the dominant employer in 2021, engaging 61.4 percent of the workforce. There was an uptick in employment in the service (24.8%) and industry (13.4%) sectors. Notably, compared to FY 2019/20, there has been a trend of more workers transitioning into the service and industry sectors from agriculture since 2021.

In the aftermath of the challenges posed by COVID-19 and the Russia-Ukraine geopolitical tensions, the Ugandan government has spearheaded initiatives to rejuvenate economic activity and job creation. Among these are the Parish Development Model (PDM), provision of affordable credit through EMYOOGA, the Small Business Recovery Fund, and Uganda Development Bank coupled with the settlement of government arrears. The positive momentum in economic activity and employment growth is evidenced by significant hiring in sectors such as oil and gas, especially with the upcoming launching of Uganda's first oil production. Additionally, leading financial institutions and corporations, including Total Energies, Nile Breweries, Centenary Bank, and the National Social Security Fund, have showcased robust financial health, as emphasized by significant increases in Pay As You Earn (PAYE) collections as well as bonus and gratuity payouts. PAYE collections for the FY 2022/23 exceeded the target by UShs 660.52 billion.

Going forward, Uganda's economic trajectory showcases a promising future with job growth on the horizon. With GDP growth rebounding from 3.0 percent in FY 2019/20 to 5.2 percent in FY 2022/23, and projections of 7 to 10 percent growth in the medium term, employment opportunities are set to rise. This optimism is reinforced by indicators like the Composite Index of Economic Activity, and the Stanbic Purchasing Managers Index, which were largely positive all year during FY 2022/23, and continue to do so in more recent updates, reflecting the private sector's enhanced performance and confidence in sustained output growth.

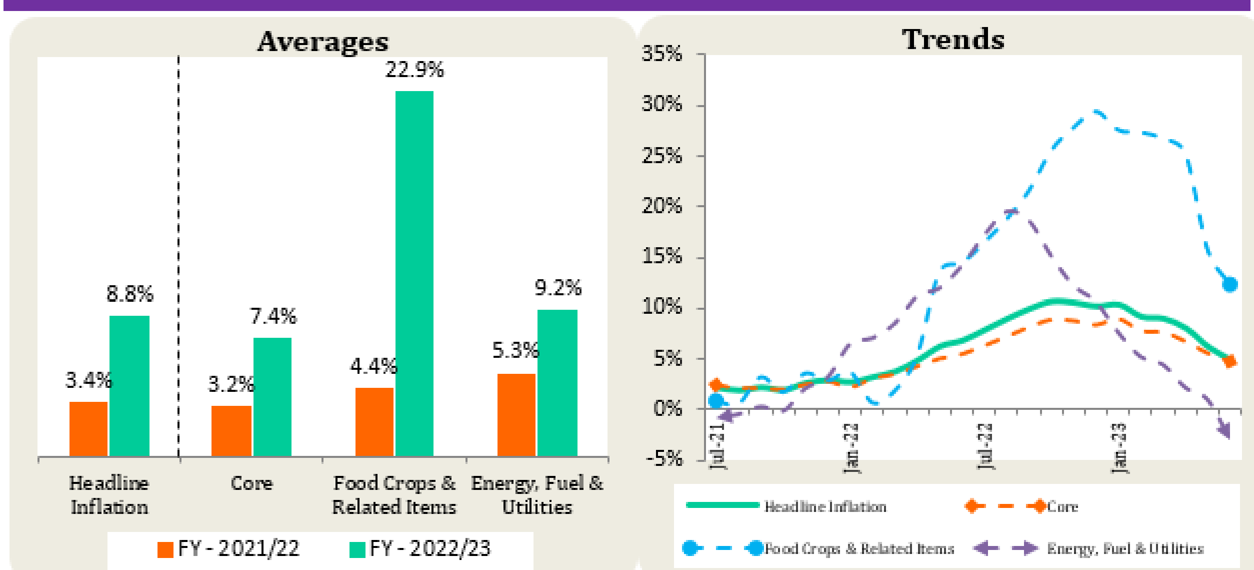
Inflation

Headline Inflation rose to 8.8%

In FY 2022/23, Uganda witnessed a notable surge in overall price levels, with the annual headline inflation rate rising to 8.8 percent from 3.4 percent documented in the preceding fiscal year. This inflationary trend was influenced by a combination of domestic and international factors. On the domestic front, prolonged dry spells in the first quarter adversely impacted food production, leading to a surge in food crop prices. Additionally, heightened regional demand for food coupled with the resolution of non-tariff barriers[1] further contributed to the escalation in food prices. Externally, escalating international oil prices played a pivotal role, causing a consistent rise in local fuel costs.

These factors together translated into higher prices of other goods and services reflecting an increase in all three subcomponents of inflation as shown in Figure 2 below.

Figure 2: Annual Inflation broken down by Sub-Components



Source: Uganda Bureau of Statistics

[1] Notable increase in food related exports following the easing of NTBs with Kenya, the reopening of the Uganda-Rwanda border and the admission of the DRC into the EAC.

Sub-components of headline inflation.

Core inflation increased to 7.4 percent in FY 2022/23 from 3.1 percent the previous Financial Year. This was largely on account of significant increases in prices of manufactured foods such as whole grain maize (56.3%), sorghum grains (66.4%), simsim grains (32.5%), rice (37.8%), maize flour (61.4%), pounded ground nuts (20.3%), sugar (37.0), wheat flour (25.5%) and several baked products like cakes, buns, chapatti, pancakes, doughnuts among others.

Prices of processed foods were affected by the dry weather conditions that plagued several parts of the country in the first quarter of the financial year and significantly hampered production levels of several grains as listed above. The increase in food crop prices and fuel costs also raised input costs of other manufactured products and services hence exerting further pressure on core inflation. Nonetheless core inflation gradually declined over the second half of the financial year settling below the Central Bank's medium- term target of 5 percent by June 2023. This was supported by strategic monetary and fiscal policies, and a decline in international fuel prices.

Food crops and related items inflation also increased to 22.9 percent in FY 2022/23 from 4.3 percent the previous Financial Year, reflecting the effects of prolonged dry weather conditions in the first quarter of the Financial Year on food crop production. By December 2022, food crop inflation had peaked at 29.4 percent before gradually declining in subsequent months. Significant price increases were recorded over the year for food crops such as; matooke (60.3%), whole cassava (52.8%), Irish potatoes (31.4%), fresh beans (23.3%), peas (24.7%), groundnuts (26.7%), green leafy vegetables (12.2%), cabbage (25.9%) green pepper (11.6%), carrots (11.7%), tomatoes (7.8%), bananas (16.2%), and apples (7.8%) among others.

Energy, Fuel and Utilities inflation rose to 9.2 percent from 5.3 percent in the previous financial year. This was mainly due to the high international fuel prices which in turn led to higher prices of domestic liquid fuels. Consequently, the joint price index for petrol, diesel, liquefied gas, and paraffin increased by 20.5 percent in FY 2022/23 from 18.8 percent the previous Financial Year. A monthly trend through the year however shows that EFU inflation rose drastically during the first two months of the Financial Year before gradually declining throughout the rest of the Financial Year as international fuel prices also steadily declined.

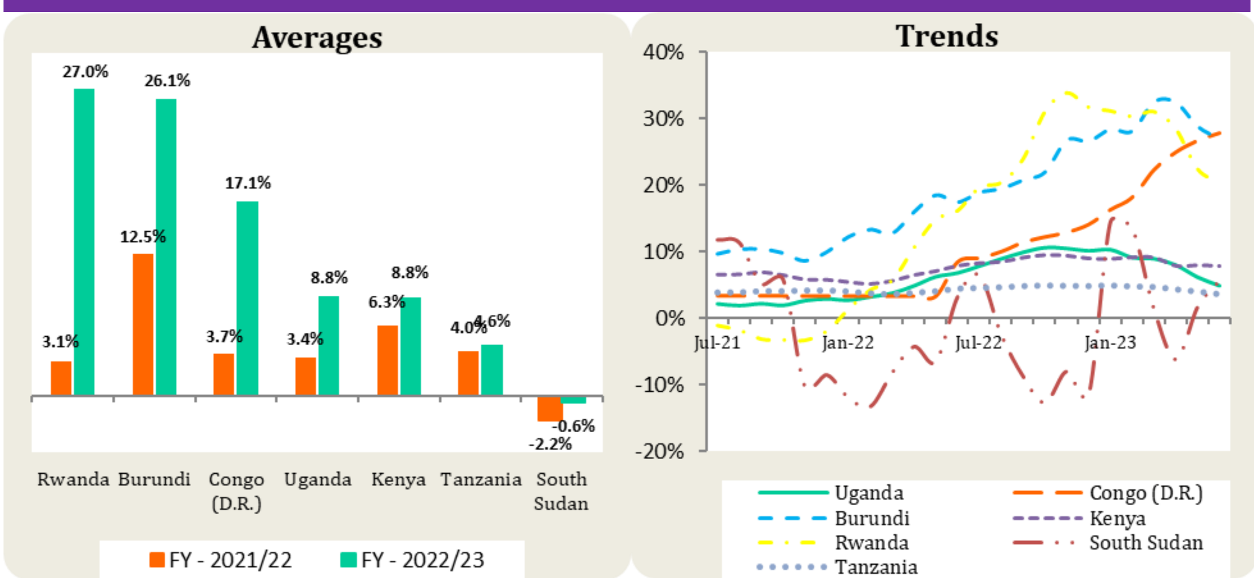
Inflation across the East African Community

Throughout the year, inflation trends across East African nations revealed distinct patterns. While Tanzania, Kenya, Uganda, and Burundi faced rising inflation rates, South Sudan bucked the trend, registering a decline to -0.6 percent, largely credited to its exchange rate reforms[2]. This was followed by Tanzania's moderate 4.6 percent inflation, with Uganda and Kenya paralleling at 8.8 percent. In contrast, Burundi and Rwanda encountered steeper rates at 26.1 percent and 27 percent, respectively.

Two major factors emerged as driving forces behind these inflationary tendencies. First, the region grappled with extended dry periods, significantly hampering agricultural outputs, leading to food supply shortages, and ensuing price hikes. Second, global fuel price increases reflected in the domestic fuel costs of these import-dependent nations. These twin challenges, rooted in climate conditions and global economic dynamics, highlight East Africa's vulnerabilities and the essential need for economic resilience and diversification.

Figure 3 shows averages and trends in Annual Headline Inflation among EAC Partner States in FY 2022/23 compared to FY 2021/22.

Figure 3: Annual Headline Inflation among EAC Partner States



Source: Respective National Bureaux of Statistics

[2] Liberalization of the forex market and unification of the official and parallel market exchange rates since august 2021.

Global Commodity price trends

International Oil prices

In FY 2021/22, the price of Brent crude oil experienced a notable rise, averaging US$ 87.66 per barrel. However, starting from July 2022 and extending into FY 2022/23, a consistent decline was observed, bringing the average price to US$ 81.03 per barrel. This downward trajectory can be attributed to a convergence of factors. From a demand perspective, growing apprehensions about a potential global economic recession, coupled with stringent COVID-19 containment measures maintained throughout 2022 in China, significantly diminished the global appetite for oil. On the supply side, the market witnessed an influx of crude oil. This growth was largely driven by heightened production levels from the U.S. and the initiation of international strategic petroleum reserve release programs. In summary, brent crude oil prices fell due to global economic concerns, strict health measures in China, and an uptick in U.S. oil supply.

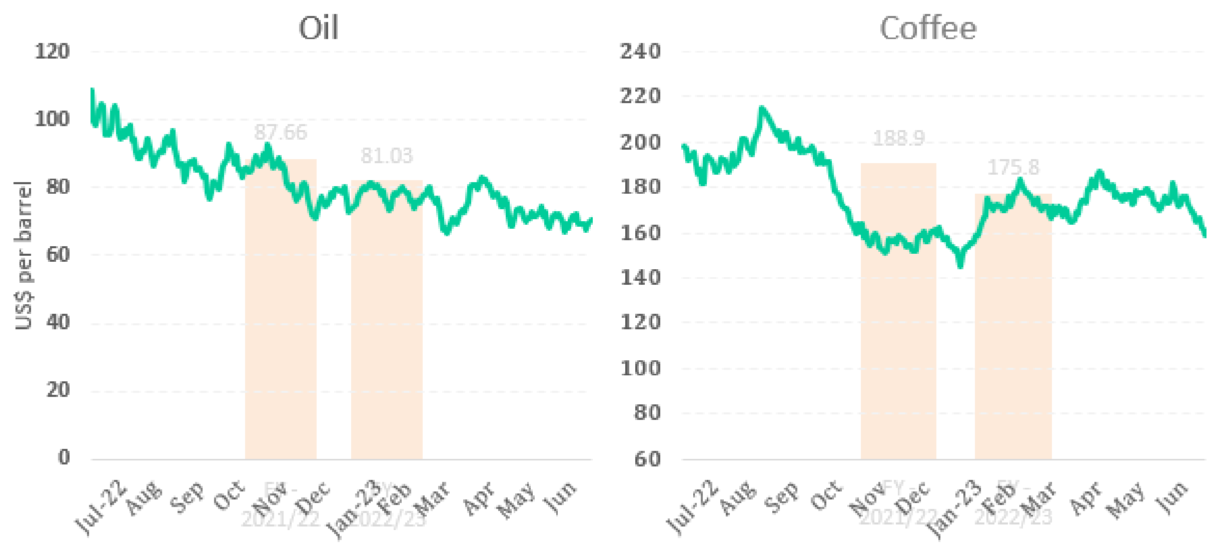
In FY 2022/23, while brent crude oil prices declined, they remained higher than the historical average of US$40-US$50. These elevated prices are key in driving global inflation, as the cost of oil influences many sectors, from transportation to manufacturing. This highlights the significant influence of key commodities like oil on the global economy and consumer prices.

International Coffee Prices

The International Coffee Organization's (ICO) composite price indicator declined in FY 2022/23, falling from an average of 188.9 in FY 2021/22 to 175.8. This decrease can be attributed to a rise in global coffee exports and an optimistic production forecast from Brazil, a major coffee producer, which signalled an increased supply. Additionally, the reduction in international shipping costs lowered the overheads for coffee trade. Together, these factors—rising supply and decreased trade costs—contributed to the significant downward pressure on global coffee prices during the fiscal year.

Figure 4 shows movements in International Oil Prices and the Coffee Composite Price Indicator in FY 2022/23 Vs FY 2021/22.

Figure 4: Movements in the International Oil Prices and Coffee Composite Price Indicator in FY 2022/23 Vs FY 2021/22



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

Financial Sector Developments

FY 2022/23, was characterized by tight monetary conditions as the Central Bank sought to contain inflationary pressures. The CBR, which is the indicative rate used by Bank of Uganda to signal its monetary policy stance, was raised from 7.5 percent in June 2022 to 10 percent by October 2022, and maintained at that level for the rest of the Financial Year. Additionally, the cash reserve ratio was also increased by 2 percent, to 10 percent in June 2022, the effects of which were felt in the financial sector throughout the Financial Year.

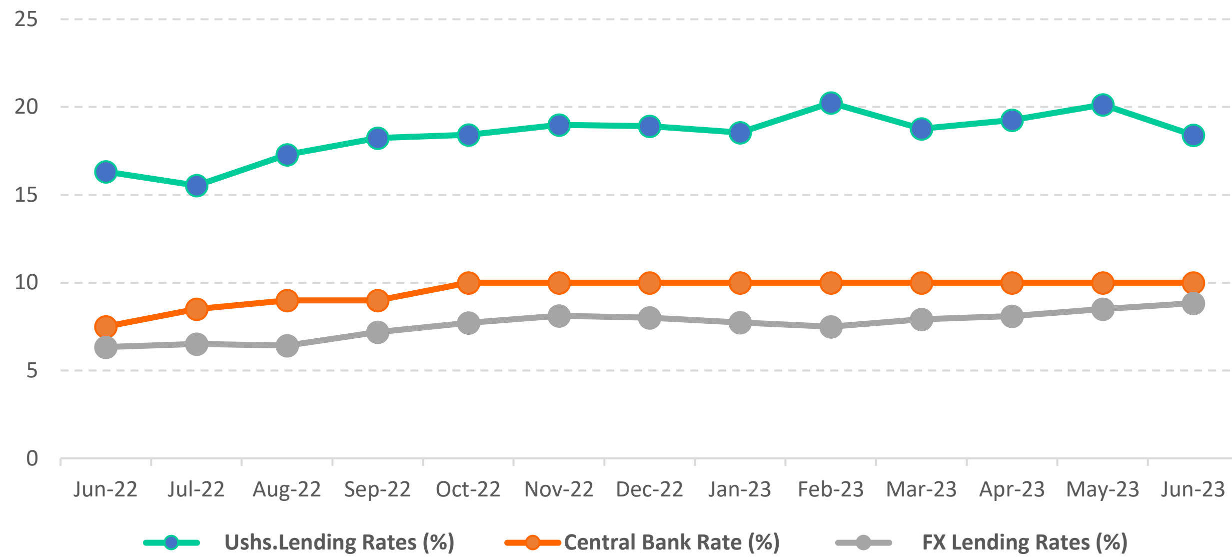
Lending Rates (weighted average)

average Commercial bank lending rate of 18.6%

With the underlying inflationary pressure in the economy, commercial bank lending rates for shilling denominated credit were generally on an upward trend, increasing from as low as 15.53 percent in July 2022 to a peak of 20.24 percent in February 2023, and remained elevated for the rest of the financial year. This trend was influenced by the Central Bank's decision to tighten its monetary policy in response to the inflationary environment. Concurrently, the financial health of the lending market showed signs of strain as the ratio of non-performing loans (NPLs) to total gross loans edged up from 5.32 percent in June 2022 to 5.73 percent a year later. Foreign currency-denominated credit also reflected this trend, with lending rates climbing from 6.34 percent in June 2022 to 8.83 percent in June

2023. Figure 5 shows movements in the Central Bank Rate and Commercial Bank Lending Rates.

Figure 5: Central Bank Rate and Commercial Bank Lending Rates Movements



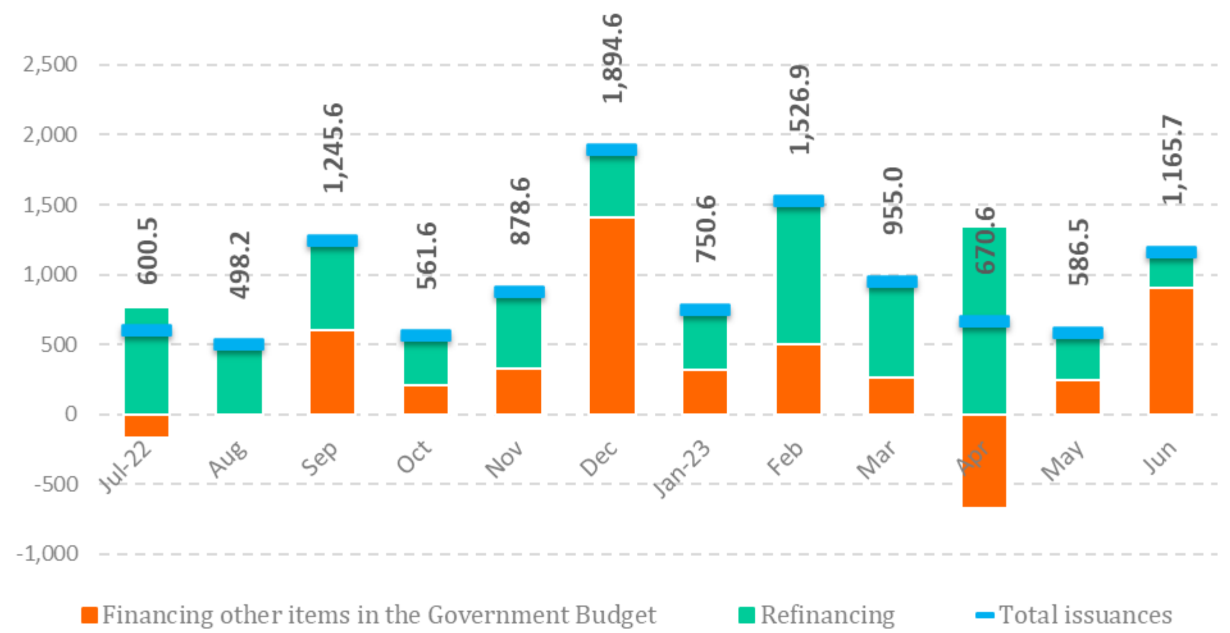
Source: Bank of Uganda

Government Securities

In FY 2022/23, the total issuance amounted to UShs 11,334.2 billion. Of this, UShs 7,406.2 billion was allocated for refinancing maturing debt and the remaining UShs 3,928 billion supported various government budgetary activities.

Figure 6 shows a breakdown of Government Securities in FY 2022/23.

Figure 6: Breakdown of Government Securities in Billion UShs



Source: Ministry of Finance, Planning and Economic Development

Yields (interest rates) on Treasury Bills

Yields increased in the first quarter of the Financial Year in line with rising inflation. Following this, Government took a deliberate action to substitute some of the budgeted domestic borrowing with external borrowing to curb the increase in yields in the domestic market. This policy action, coupled with reducing inflation, led to a significant decline in yields starting in the second quarter of the Financial Year. Specifically, the annualized yield for the 91-day tenor bill increased from 8.77 percent in July 2022, peaked at 11.48 percent in October, and then subsided to 9.85 percent by June 2023. The yields for the 182-day and 364-day tenors mirrored this trend, peaking at 13.69 percent and 15.4 percent in October and November 2022, respectively. Refer to Figure 7.

Compared to the previous financial year, the average annualized yields increased significantly to 10.4 percent, 11.4 percent, and 13.2 percent in FY 2022/23 from 7.0 percent, 8.6 percent, and 9.9 percent for the 91, 182, and 364-day tenor bills, respectively. This general increase in yields was majorly on account of the high domestic inflation experienced over the first half of the Financial Year, which led to the upward revision of the CBR from 7.5 percent in June 2022 to as high as 10.0 percent in October 2022. Table 2 below shows the average Treasury Bill annualized yields since 2017/18.

Figure 7: Movement of Treasury Bill Yields (interest rates) FY 2022/23

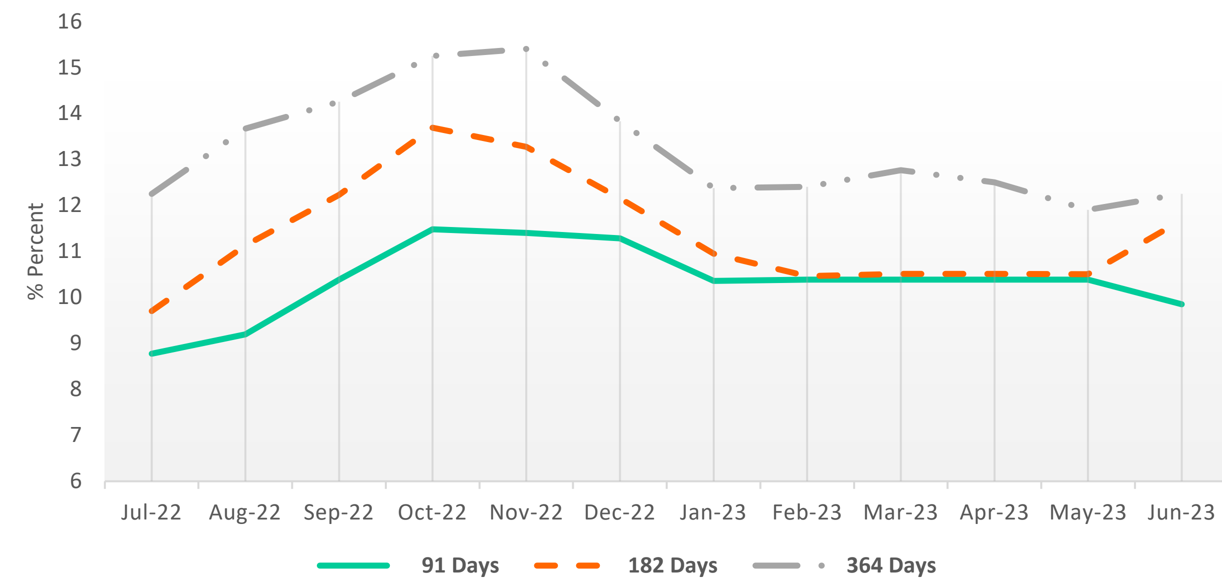


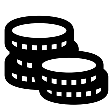
Table 2: Average Annualised Yields on Treasury Bills (%)

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
91 Days	9.1	10.3	9.2	7.8	7.0	10.4
182 Days	9.5	11.7	11.0	10.2	8.6	11.4
364 Days	10.1	12.7	12.2	12.1	9.9	13.2

Source: Bank of Uganda

Lending to the Private Sector

Private Sector Credit

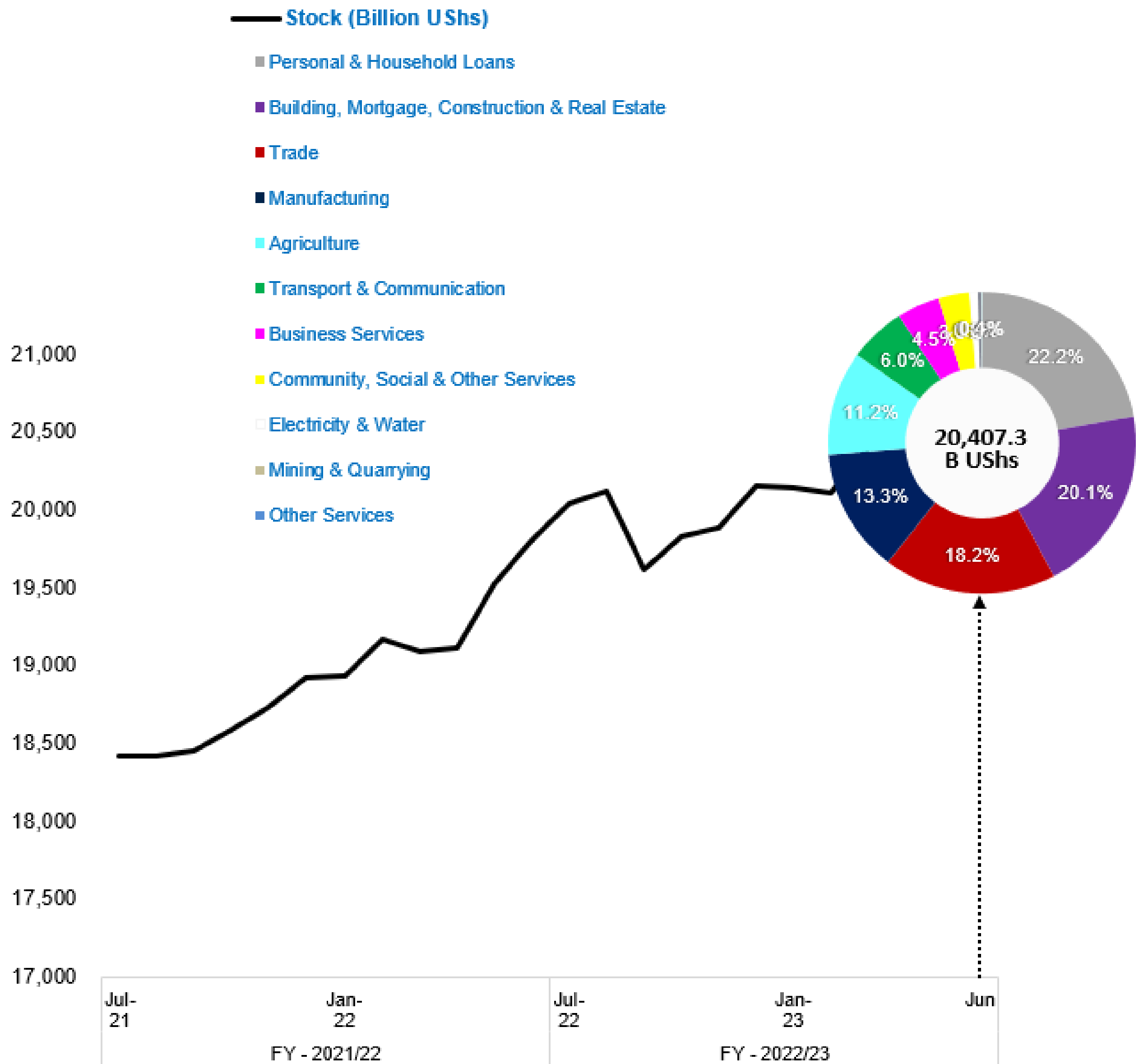


grew by

6.4%

Amidst recent economic challenges, the stock of outstanding private sector credit displayed resilience, reinforced in part by supportive government interventions. By the end of June 2023, it had grown to UShs 20,407.3 billion from UShs 19,808.7 billion at the close of June 2022. Within the financial year on a monthly average, Private Sector Credit grew by 6.4 percent, a slight slowdown from 7.4 percent registered the previous financial year. This is a statement of resilience given the backdrop of rising lending rates during the period. Figure 8 shows the trend in the stock of private sector credit and distribution across sectors.

Figure 8: Stock of Private Sector Credit

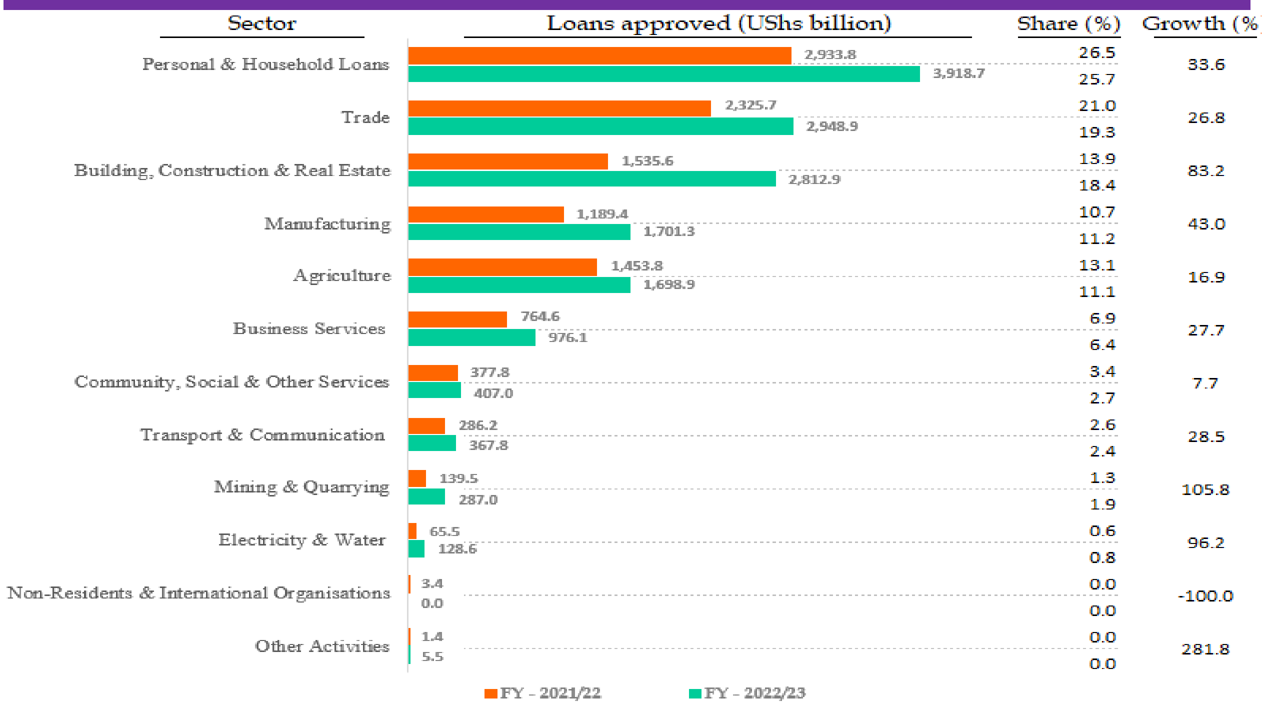


Source: Bank of Uganda

Amidst tight monetary policy, FY 2022/23 witnessed a remarkable 37.7 percent growth in total loan approvals, reaching UShs 15,252.7 billion from UShs 11,076.7 billion in the prior year. This rise was led by personal and household loans, which not only dominated with a (25.7%) share but also observed a recurring trend of consistently increasing prominence, surpassing the trade sector most recently. This, especially in the aftermath of recent economic disruptions, suggests households' adaptive financial strategies to counter both short-term disruptions and potentially deeper-rooted economic challenges. Recognizing the potential challenges this trend might usher in, the government has proactively rolled out strategic interventions, with the Parish Development Model (PDM) at the forefront, aiming to enhance household economic resilience and address any looming economic uncertainties.

Concurrently, key economic pillars secured substantial credit shares: Trade at (19.3%), indicative of its vital role in commerce; Building, Construction & Real Estate at (18.4%), reflecting infrastructural development ambitions; and Manufacturing and Agriculture, cornerstones for value addition, employment, and self-sufficiency, held (11.2%) and (11.1%) respectively. Collectively, these sectors constituted a significant 85.8 percent of the fiscal year's credit approvals, reaffirming their essential roles in driving economic resilience and diversified growth. Refer to Figure 9.

Figure 9: Value of New Loans Approved by Sector



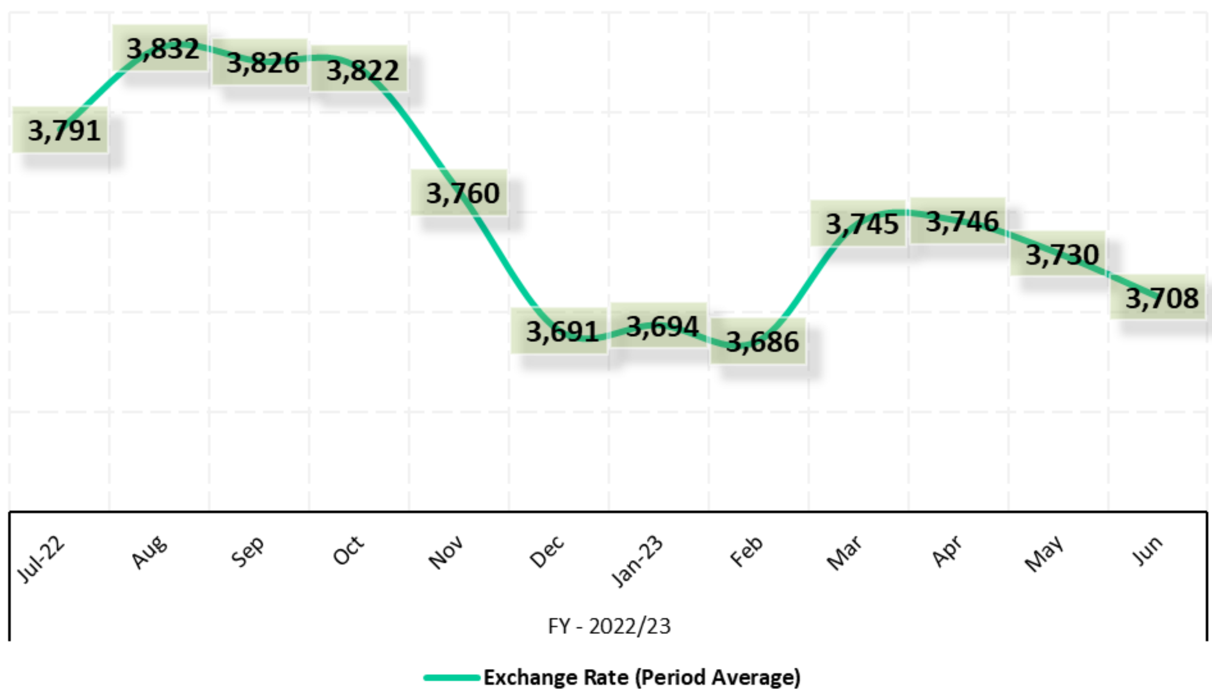
Source: Bank of Uganda

Exchange Rate

Shilling depreciated by 5.1% per US$ to 3,754

During FY 2022/23, the Ugandan Shilling experienced a 2.2 percent appreciation against the US dollar, moving from an opening midrate of UShs 3,791.6/US$ in July 2022 to a closing average of UShs 3,707.8/US$ in June 2023. This strengthening was primarily driven by seasonal inflows from tourism, remittances, and notably, foreign direct investments in the oil and gas sector. Yet, when viewed in the broader context of FY 2021/22, the Shilling experienced an average depreciation of 5.1 percent, trading at UShs 3,754.13/US$ compared to UShs 3,571.64/US$ from the previous year. This weakening was attributed to the global strengthening of the US dollar due to policy adjustments in key advanced economies. These shifts were reactions to heightened global inflation, worsened by geopolitical tensions in Europe and resulting sanctions. Figure 10 below shows official exchange rate movements of the UShs against the US$ in FY 2022/23.

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



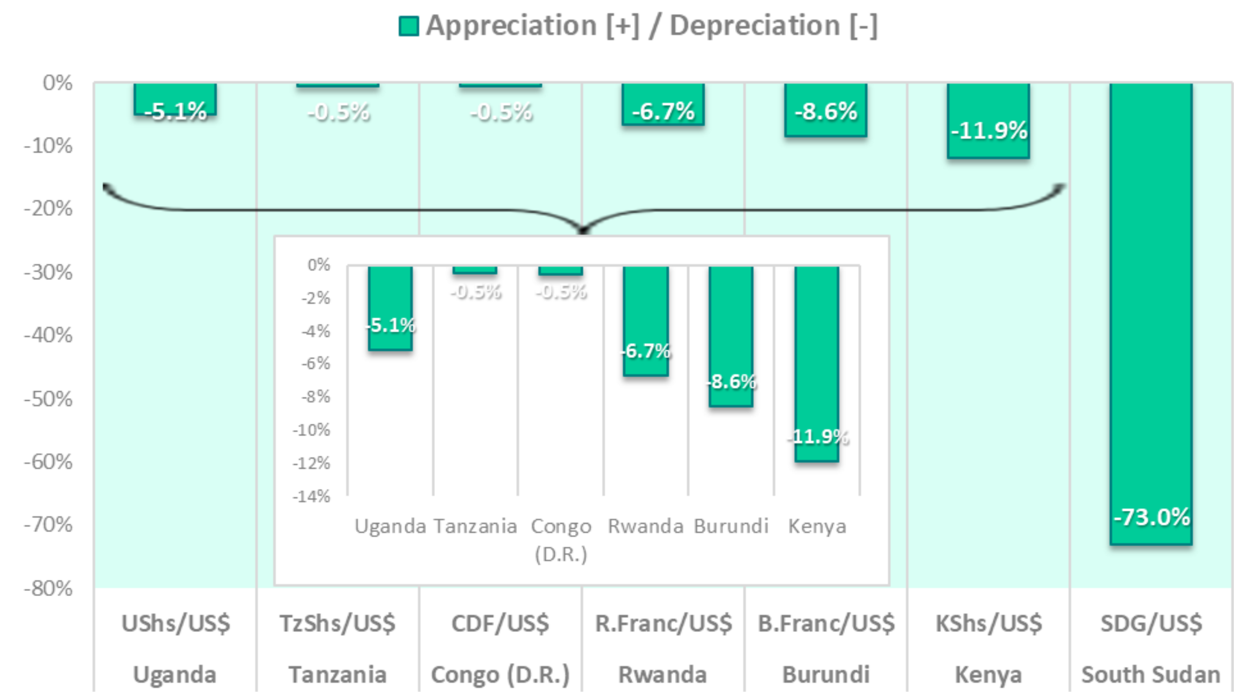
Source: Bank of Uganda

Exchange Rates within the EAC

During FY 2022/23, currencies of the East African Community (EAC) partner states experienced a general depreciation against the US Dollar. This trend was partially influenced by the strengthening of the US Dollar on the global stage.

Among the EAC currencies, the Kenyan Shilling faced the most pronounced depreciation, declining by 11.9 percent, attributed to potential external debt challenges, and shifts in investor sentiments related to internal economic dynamics. On the other hand, the Tanzanian Shilling showcased notable stability, depreciating only by a modest 0.5 percent. This resilience likely stems from a combination of a favorable trade balance and consistent Foreign Direct Investment (FDI) inflows. Burundi and Rwanda's currencies also registered depreciations of 8.6 percent and 6.7 percent respectively, aligning with the general trend in the region during the fiscal year. Refer to Figure 11.

Figure 11: Change in Exchange Rates (Period Average) in EAC for 2022/23 Vs 2021/22



Source: Respective Central Banks

External Sector

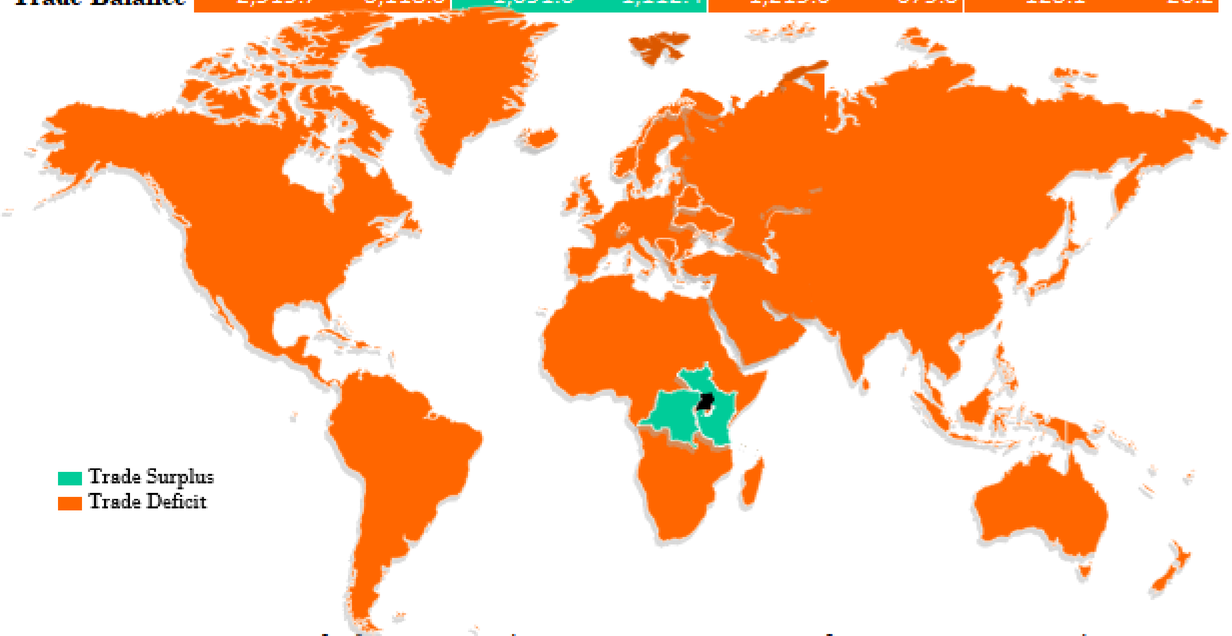
Merchandise Trade Balance

The merchandise trade deficit widened during the period under review as the growth in the import bill more than offset the increase in export receipts. Export receipts increased by US$ 1,630.41 million while the import bill increased by US$ 1,735.15 million. The merchandise trade deficit was recorded at US$ 3,405.63 million in FY 2022/23, higher than the deficit of US$ 3,300.12 million the previous financial year. While there was an expansion in the merchandise trade deficit, it was modest, largely due to to effective export promotion initiatives.

Asia maintained its position as Uganda's main trading partner in FY 2022/23, with total trade of US$ 4,610.3 million up from US$ 3,489.3 million in FY 2021/22. The East African Community, the Middle East, the European Union, and the rest of Africa followed in that order. Uganda registered a trade surplus with the EAC while a trade deficit was registered with the other regional blocks, (refer to Figure 12). Uganda's trade surplus within the East African Community highlights its strong position and growing competitiveness in the region. Yet, deficits with other regional blocs point to opportunities for strategic enhancement to achieve balanced trade dynamics.

Figure 12: Uganda's Trade Balance across Regional Blocs in FY 2022/23 (US$ Million)

	Asia		EAC		Middle East		European Union	
	FY-21/22	FY-22/23	FY-21/22	FY-22/23	FY-21/22	FY-22/23	FY-21/22	FY-22/23
Total Trade	3,489.3	4,610.3	3,413.5	4,143.1	1,396.2	2,405.4	1,422.4	1,591.0
Trade Balance	-2,919.7	-3,118.0	1,091.6	1,112.4	-1,219.6	-679.0	123.1	-20.2



	Rest of Africa		The Americas		Rest of Europe		Others	
	FY-21/22	FY-22/23	FY-21/22	FY-22/23	FY-21/22	FY-22/23	FY-21/22	FY-22/23
Total Trade	568.2	951.6	441.9	382.1	202.6	216.9	39.2	38.5
Trade Balance	-9.3	-445.8	-258.7	-166.6	-75.4	-62.8	-32.1	-24.8

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

Merchandise Exports

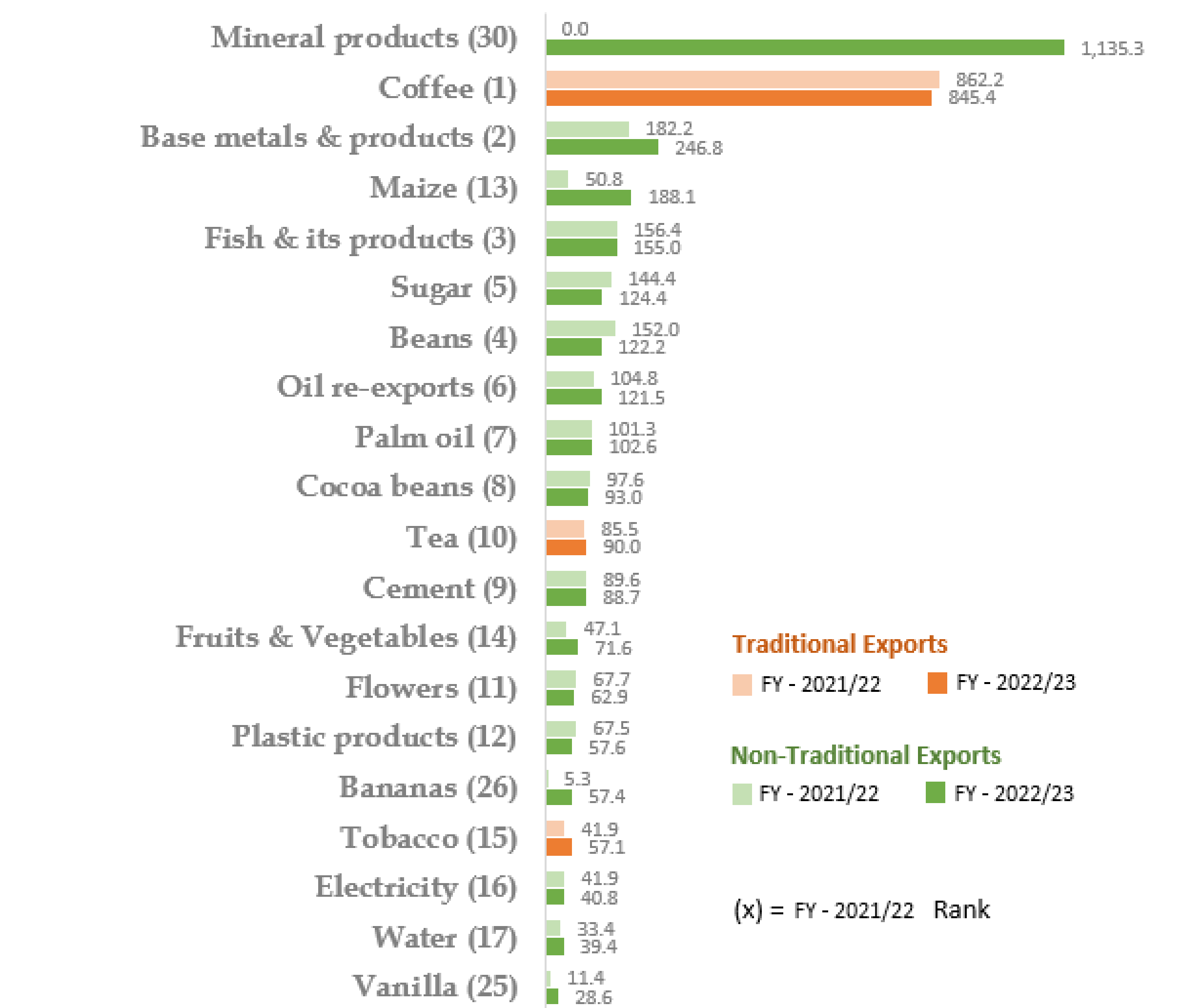
During FY 2022/23, Uganda saw a 42.5 percent increase in export receipts, reaching US $5,466.99 million, up from US $3,836.58 million in the previous fiscal year. This surge was largely attributed to a resumption in gold exports which had temporarily been halted in FY 2021/22, pending negotiations between Government and the gold industry stakeholders regarding the levies on gold exports.

During FY 2022/23, several of Uganda's commodities showcased impressive performance. Earnings from maize exports experienced a significant leap, tripling to a record US $182.18 million. This success can be attributed to the easing of non-tariff barriers with Kenya and the reopening of the Uganda-Rwanda border, further bolstering trade relations. Additionally, commodities such as base metals, vanilla, tobacco, tea, fruits& vegetables and oil re-exports all registered increased earnings, reflecting the country's diversified export strength.

Coffee, which is Uganda's second largest export commodity, experienced a slight dip in earnings from US$ 862.22 million in FY 2021/22 to US$ 845.41 million in FY 2022/23, as coffee export volumes declined from 6.26 million bags (60 kg each) in FY 2021/22 to 5.76 million bags (60 kg each) in FY 2022/23. This was influenced by challenges such as drought, pest infestations, and diseases in robusta growing areas. Moreover, external factors, such as the unrest in Sudan and anticipated high coffee outputs from Brazil, also played roles.

Figure 13 shows performance of the top 20 commodity exports of Uganda in FY 2022/23 compared to FY 2021/22.

Figure 13: Top 20 Commodity Exports of Uganda in FY 2022/23 (US$ Million)



Source: MOFPED calculations based on data from BOU

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

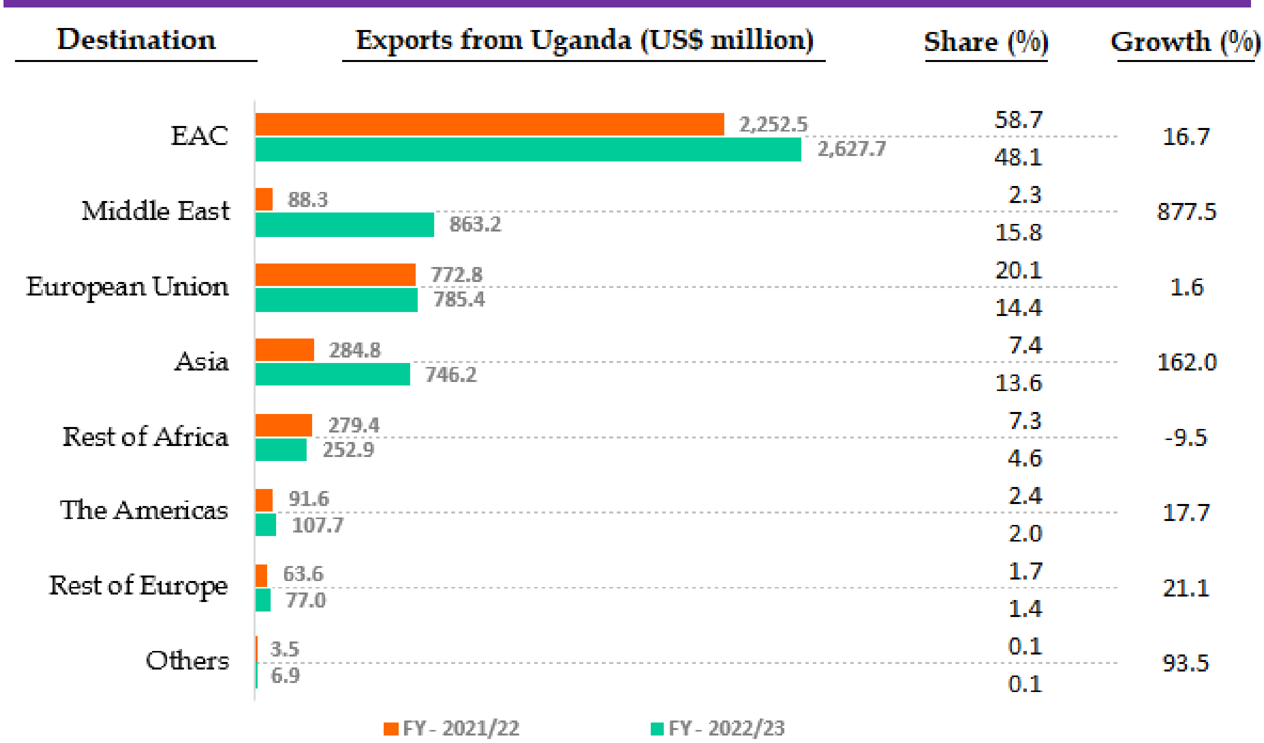
Traditional Exports are listed according to the Uganda Trade Policy

Destination of Exports

During the FY 2022/23, the East African Community (EAC) was the main destination of Uganda's merchandise exports, followed by the Middle East, the European Union and Asia. Exports to the Middle East amounted to US$ 863.17 million for FY 2022/23, which represents a ten-fold growth from US$ 88.30 million the previous Financial Year. This increment follows the resumption of the exportation of gold.

Uganda's exports to EAC partners accounted for 48.07 percent of overall exports, which was an increase from the previous year's US$ 2,252.34 million to US$ 2,627.73. The Middle East bloc came in second with 15.79 percent, followed by the European Union and Asia which accounted for 14.37 percent, and 13.65 percent, respectively, of total exports. Refer to Figure 14.

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



Source: MOFPED calculations based on data from BOU

Merchandise Imports

Merchandise worth US$ 8871.85 million was imported into Uganda during FY 2022/23, representing an increase of 24.31 percent, from US$ 7,136.70 million worth of import receipts the previous year, (refer to table 3). Imports of mineral products, petroleum products, miscellaneous manufactured articles, base metals and their products along with machinery equipment, vehicles and accessories increased during the period under review.

Table 3: Performance of Imports in US$ million				
	FY 2021/22	FY 2022/23	Difference (value)	Growth Rate
Total Imports (fob)	7,136.7	8,871.9	1,735.2	24.3%
Government Imports	367.9	227.8	-140.0	-38.1%
Project	349.9	215.4	-134.5	-38.5%
Non-Project	18.0	12.5	-5.5	-30.6%
Formal Private Sector Imports	6,676.5	8,520.0	1,843.5	27.6%
Oil imports	1,237.3	1,638.2	400.9	32.4%
Non-oil imports	5,439.2	6,881.8	1,442.5	26.5%
Estimated Private Sector Imports	92.3	124.1	31.7	34.4%
Total Private Sector Imports	6,768.8	8,644.0	1,875.2	27.7%

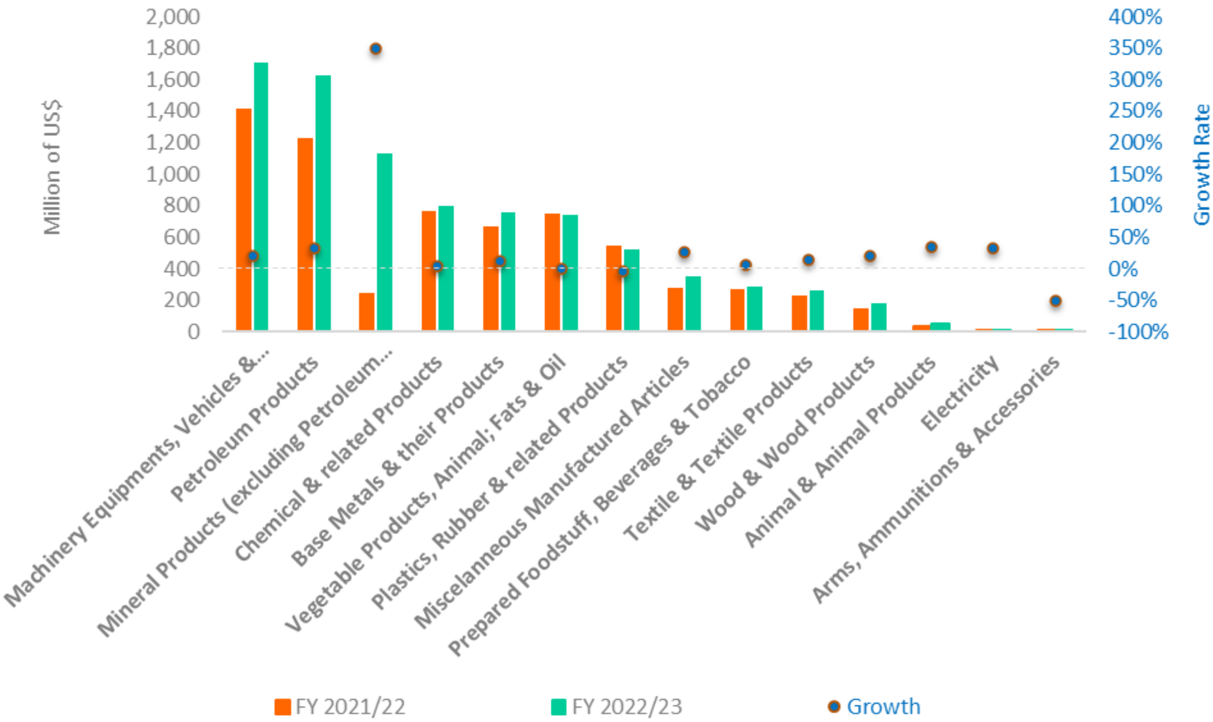
Source: Bank of Uganda

Government imports continued a downward trend, falling from US$ 367.88 million in FY 2021/22 to US$ 227.84 million as shown in table 3, mainly on account of reduced government project imports.

The value of oil imports rose from US$ 1,237.27 million in FY 2021/22 to US$ 1,638.19 million in FY 2022/23. Oil imports increased because of the higher volumes imported (the oil volume index by BOU was 478.13 in FY 2022/23 compared to 344.25 the previous year). The increase in oil import volumes was partly attributed to the reduction in oil prices from the FY 2021/22 levels as shown by the oil price index which fell from 171.08 to 163.09 in FY 2022/23.

Formal private-sector imports constituted 96 percent of the total merchandise imports in FY 2022/23. The major private sector imports were machinery equipment, vehicles& accessories (US$ 1,718.52 million), petroleum products (US$ 1,638.19 million) and mineral products (US$ 1,139.14 million). Imports for mineral products increased significantly by 350 percent, while animal and animal products as well as petroleum increased by 34.64 and 32.40 percent respectively. Figure 15 shows composition of formal private sector imports by category and their performance in FY 2022/23 compared to FY 2021/22.

Figure 15: Composition of Formal Private Sector Imports by Category

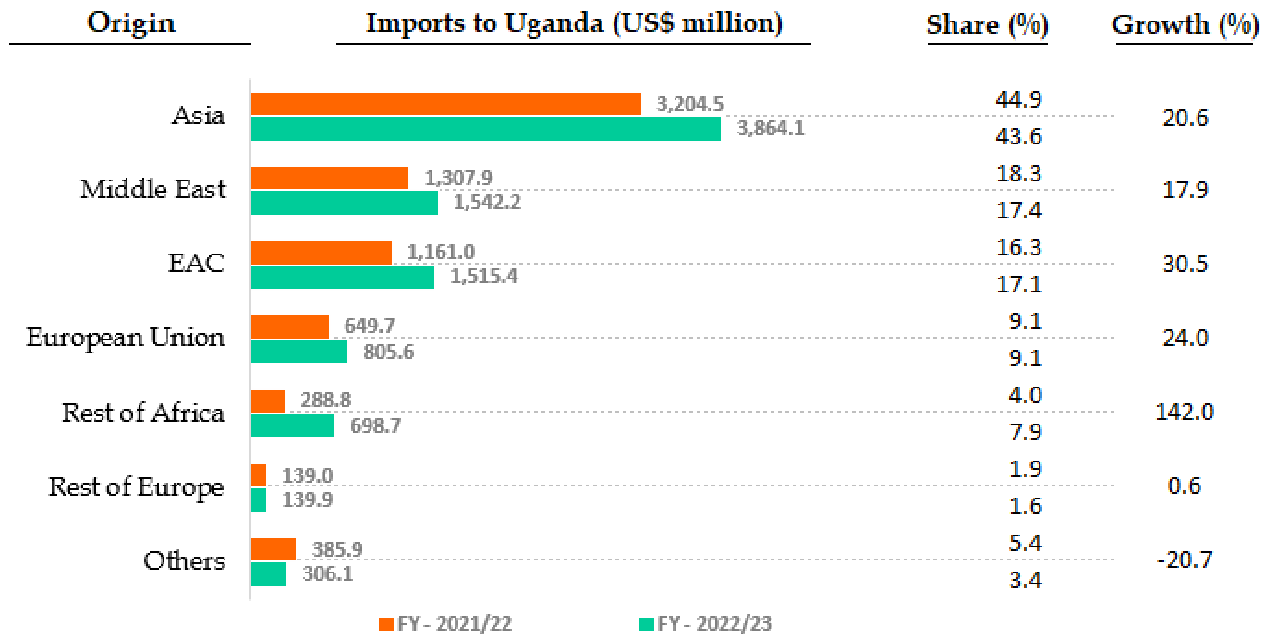


Source: Bank of Uganda
Note: Commodity category is according to the Harmonised Coding System, (BOU)

Origin of Imports

Asia maintained its position as the major source of Uganda's merchandise imports for FY 2022/23 contributing about (43.6 percent) of the total imports, followed by the Middle East (17.38 percent), the East African Community (17.08 percent), and the Rest of Africa (9.08 percent). Imports from Asia have continued to increase, rising from US$ 3,204.53 million in FY 2021/22 to US$ 3,864.13 million. Refer to Figure 16.

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



Source: MOFPED calculations based on data from BOU

About 86 percent of imports from Asia were sourced from China, India, Japan, Malaysia and Indonesia. Some of the imports from Asia include machinery, plastics, electronics, vehicles & accessories, and medical & pharmaceutical products. Kenya accounted for 56.8 percent of the total imports from EAC, while the United Arab Emirates accounted for 73.2 percent of imports from the Middle East in the same period.

Trade with the EAC

In FY 2022/23, Uganda's merchandise trade with the East African Community (EAC) showcased a favorable trend, culminating in a trade surplus of US$ 1,112.37 million. This Figure marked a 1.92 percent enhancement compared to the previous financial year. The region witnessed a surge in overall trade, elevating from US$ 3,415.67 million in FY 2021/22 to US$ 4,143.09 million in FY 2022/23, attributable to a significant uptick in both imports and exports. Notably, the momentum of export growth surpassed that of imports.

During the year, significant increases were noted in trade with certain EAC countries. For instance, Uganda's imports from South Sudan surged by 744 percent, while those from the DR Congo grew by 102 percent. The bulk of Uganda's regional trade, 56 percent, was concentrated with Kenya and Tanzania.

Regarding exports, there was an elevation in merchandise export receipts to the EAC, rising from US$ 2,254.72 million in FY 2021/22 to US$ 2,627.73 million in FY 2022/23. Most EAC nations, excluding D.R. Congo and Burundi, marked an uptick in their imports from Uganda. Rwanda led this growth trajectory. Kenya emerged as the premier recipient of Uganda's exports in the EAC, claiming 32.14 percent of the share, followed by the Democratic Republic of Congo at 25.64 percent and South Sudan at 25.52 percent. Refer to Figure 17.

Figure 17: Uganda's Trade with EAC Partner States (US$ Million)

Source: Bank of Uganda

Other Balance of Payments (BOP) transactions

Balance of payments overview: Developments in the external sector resulted in a deficit of US$ 100.67 million in FY 2022/23, compared to a surplus of US$ 191.34 million that was recorded the previous year. This deficit stemmed from a deterioration in the current account position from a deficit of US$ 3,617.09 million in FY2021/22 to US$ 3,851.97 million in FY2022/23. The increase in the current account deficit followed a higher increase in the imports of goods and services that more than offset the growth in the exports of the same, and, increased outflows through the primary income account such as increased interest payments on public debt.

Tourism/ travel: Amid challenges brought by the outbreak of the Ebola disease during FY 2022/23, the tourism inflows remained resilient during the year recording an increase of 9 percent from US$ 978.35 million in FY2021/22 to US$ 1,066.41 million. This growth is partly attributed to increased confidence of travelers as the world recovers from the COVID 19 global shock.

Remittances: For the first time since the outbreak of COVID 19, Uganda recorded an increase in remittances. Remittances to Uganda increased to US$ 1,431.23 million in FY2022/23, higher than the value of US$ 1,133.94 million registered in FY2021/22. This was partly on account of the reopening of host economies as the COVID-19 pandemic receded thereby supporting migrants' employment.

Foreign Direct Investment (FDI): For the seventh year in a row, Foreign Direct Investment inflows into Uganda increased, with the highest increase (68.3%) registered in FY2022/23. Improvements in Foreign Direct Investment inflows are largely hinged on the developments in the oil sector as Uganda prepares for first oil. FDI inflows rose from US$ 1,688.56 million in FY 2021/22 to US$ 2,842.65 million in FY 2022/23.

Portfolio investments: Uganda's portfolio investment registered a higher net capital outflow during the year under review, as interest rates surged in advanced economies which prompted investors to shift their investments to advanced economies. During the review period, Uganda's portfolio investment registered a net capital outflow of US$ 617.31 million in FY 2022/23 compared to an outflow of US$ 273.75 million in FY 2021/22.

International reserves: As at the end of June 2023, the stock of international reserves stood at US$ 4,074.63 million. This was equivalent to 3.4 months of imports of goods and services. This reserve cover was lower than the 4.7 months of import cover recorded at the same time, the preceding year.

FISCAL PERFORMANCE

Chapter II: Fiscal Performance

Overview

The FY 2022/23 budget was the third year of implementation of the National Development Plan III (NDP III) which aims at increasing household incomes and improving the quality of life of Ugandans through sustainable industrialization for inclusive growth, employment, and wealth creation. In line with the objectives of the NDP III, the budget for FY2022/23 was premised on the theme "Full Monetisation of Uganda's Economy through Commercial Agriculture, Industrialisation, Expanding and Broadening Services, Digital Transformation and Market Access".

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

The budget for FY 2022/23, therefore, was set at UShs **48,130.68** billion. Expenditure, excluding debt refinancing and expenditures related to local government revenue, amounted to UShs 37,471.92 billion (as reflected in the fiscal operation tables) while total revenue and grants were estimated to be UShs 27,719.28 billion. This would lead to an overall deficit of UShs 9,752.64 billion (equivalent to 5.4% of GDP).

FY 2022/23 FISCAL OUTTURNS

During the execution of the budget in FY 2022/23, certain obstacles impacted the timely rollout of externally funded development projects, leading to an overall government expenditure that was 2.0 percent below the anticipated amount. Concurrently, the fiscal year's revenues and grants fell short of the target by 4.1 percent. This entire shortfall was attributed to grants, as domestic revenue surpassed its target.

Fiscal deficit

5.5% of GDP

Ultimately, the fiscal operations in FY 2022/23 resulted in a fiscal deficit of UShs 10,126.98 billion, or 5.5 percent of the GDP. While this deficit was somewhat greater than anticipated, it was an improvement from the 7.4 percent observed in FY 2021/22. This progression underscores the government's ongoing efforts towards fiscal consolidation. The slightly higher than planned deficit for the financial year was due to two factors;

i. Higher than budgeted expenditure (Supplementary budgets) on recurrent items such as wage, non-wage recurrent, domestic arrears payments and interest payments, and

ii. Lower than anticipated grants which were less by UShs 1,140.37 billion.

These factors more than offset the impact of poor performance of externally financed expenditure on development items, resulting in a higher than projected fiscal deficit.

Table 4 shows a summary of Government's fiscal operations for FY 2022/23.

Table 4: Fiscal Operations in FY 2022/23

Billion Shs	Budget	Outturn	Performance	Deviation	Percentage of GDP
Total revenue and grants	**27,719.28**	**26,595.68**	**95.9%**	**- 1,123.60**	**14.4%**
Revenue	25,550.69	25,567.46	100.1%	16.8	13.8%
Tax revenue	23,754.86	23,732.99	99.9%	- 21.87	12.8%
Non-tax revenue	1,795.83	1,834.47	102.2%	38.64	1.0%
Grants	**2,168.58**	**1,028.22**	**47.4%**	**- 1,140.37**	**0.6%**
Budget support	78.12	31.87	40.8%	- 46.25	0.0%
Project grants	2,090.47	996.35	47.7%	- 1,094.12	0.5%
Expenditures and net lending	**37,471.92**	**36,722.66**	**98.0%**	**- 749.26**	**19.9%**
Recurrent expenditures	**22,243.64**	**25,079.88**	**112.8%**	**2,836.24**	**13.6%**
Wages and salaries	6,363.19	7,057.92	110.9%	694.73	3.8%
Non-wage	11,188.55	12,110.22	108.2%	921.68	6.5%
Interest payments	4,691.90	5,911.73	126.0%	1,219.83	3.2%
o/w: domestic	3,551.08	4,711.33	132.7%	1,160.26	2.5%
o/w: foreign	1,140.82	1,200.40	105.2%	59.58	0.6%
Development expenditures	**14,268.31**	**10,736.70**	**75.2%**	**- 3,531.61**	**5.8%**
External	6,418.25	3,457.70	53.9%	- 2,960.55	1.9%
Domestic	7,850.06	7,279.00	92.7%	- 571.06	3.9%
Net lending and investment	**297.92**	**137.21**	**46.1%**	**- 160.72**	**0.1%**
Arrears Payments	662.05	768.88	116.1%	106.83	0.4%
Overall balance	**- 9,752.64**	**- 10,126.98**	**103.8%**	**- 374.34**	**-5.5%**
Excluding grants	**- 11,921.22**	**- 11,155.20**	**93.6%**	**766.02**	**-6.0%**
Financing	**9,752.64**	**10,126.98**	**103.8%**	**374.34**	**5.5%**
External financing (net)	4,744.64	3,793.12	79.9%	- 951.52	2.1%
Disbursement	7,156.90	6,214.33	86.8%	- 942.57	3.4%
Budget support	2,531.19	3,884.29	153.5%	1,353.10	2.1%
Project Support	4,625.71	2,330.04	50.4%	- 2,295.67	1.3%
Amortisation (-)	- 2,412.26	- 2,421.21	100.4%	- 8.95	-1.3%
Domestic financing (net)	5,007.93	6,223.82	124.3%	1,215.90	3.4%
Bank Financing	2,520.32	3,887.05	154.2%	1,366.73	2.1%
Central Bank	42.65	2,423.61	5683.2%	2,380.96	1.3%
Commercial banks	**2,477.68**	**1,463.45**	**59.1%**	**- 1,014.23**	**0.8%**
Non Bank	**2,487.61**	**2,336.77**	**93.9%**	**- 150.84**	**1.3%**
Errors and Ommissions	**0**	**110.04**			

Source: MoFPED

REVENUE AND GRANTS

Total revenue and grants amounted to UShs 26,595.68 billion in FY2022/23. This was against a target of UShs 27,719.28 billion implying a performance of 95.9 percent. The lower than target performance was wholly on account of grants from development partners from whom Government received only 47.4 percent of what had been anticipated. Domestic revenue, on the other hand, was on target, having performed at 100.1 percent.

Domestic Revenues

Government had targeted to collect domestic revenues worth UShs 25,550.69 billion in FY2022/23. However, UShs 25,567.46 billion was collected during the Financial Year, implying a surplus of UShs 16.77 billion. Of the total collections in FY2022/23, UShs 1,834.47 billion was non-tax revenue while UShs 23,732.99 billion was tax revenue. Whereas tax revenue was below its target for the financial year by UShs 21.87 billion (0.1%), non-tax revenue turned out higher than its target for the financial year by UShs 38.64 billion (2.2%), thereby explaining the surplus in domestic revenues for the period.

Tax Revenue collections performed at 99.9 percent of the UShs 23,754.86 billion target set for FY2022/23. The collections amounted to UShs 23,732.99 billion implying a deficit of UShs 21.87 billion. The near-target performance was mainly on account of direct domestic taxes which were above their target by UShs 724.62 billion. The surplus registered under this tax category was close to offsetting the shortfalls registered under indirect domestic taxes (short of target by UShs 559.81 billion) and taxes on international trade transactions (shortage of UShs 136.05 billion).

Direct Domestic Taxes

Government collected UShs 8,957.42 billion in form of direct domestic taxes (income taxes). This was higher than the target for the financial year and reflected a 21.4 percent growth compared to FY2021/22.

The impressive performance of this tax category was explained by;

i) Enhanced wage bill in various subsectors which resulted in Pay As You Earn (PAYE) collections being more than anticipated by UShs 660.52 billion. The oil and gas sector employed more workers as preparation to produce Uganda's first oil entered a critical stage. The wage bill of the public sector also went up following enhancement of wages for Scientists, and the financial sector players also upped their staffing levels following improved performance as the economy continues to recover from the shocks related to COVID-19 and the Russia-Ukraine war. Additionally, the good financial performance of various big companies such as Total Energies, Nile Breweries, Centenary Bank and NSSF saw a significant pay out of bonuses and gratuity to their staff which further contributed to the surplus in PAYE collections.

ii) Increased profitability within the Financial Year as the level of economic activity picked up, resulting in corporation tax being above target by UShs 238.81 billion. The financial sector was the largest contributor to Corporation tax revenue with 24.74 percent in the FY 2022/23, followed by manufacturing with 24.54 percent.

iii) Recovery of the real sector activities also saw a significant increase in the amount of rental income tax collected, surpassing the target by UShs 44.02 billion.

iv) A rise in betting activities also saw a surplus of UShs 40.46 billion in Casino tax. This was partly attributed to the increased presence of online betting that has aided easier access by the public.

In spite of the above, there were some components of domestic direct taxes, including withholding tax, which underperformed resulting in a combined shortfall of UShs 220.03 billion though was not big enough to offset the surpluses registered elsewhere as enumerated above.

Indirect Domestic Taxes

A total of UShs 5,436.82 billion was collected in form of consumption taxes during FY2022/23. This was against a target of UShs 5,996.63 billion, implying a shortfall of UShs 559.81 billion. Whereas there was improvement in the level of economic activity during the financial year, consumption tax collection suffered from high inflation especially in the first half of the financial year which constrained spending at household level to basic needs.

Both Value Added Tax (VAT) and Excise duty collections were short of their respective targets by 9.4 percent and 9.2 percent respectively. This followed lower than anticipated collections from cement, phone talk time, internet data, bank charges, cooking oil, sugar, beer, cosmetics and cigarettes.

The sectors that registered significant shortfalls in Value Added Tax included manufacturing, construction, transport & communications, real estate and public administration. All these sectors faced higher than anticipated input costs in addition to lower sales all emanating from the inflationary pressures experienced in the earlier part of the Financial Year.

In spite of the shortfalls registered against its target for the year, consumption taxes grew by 10.0 percent compared to the previous FY2021/22. Net Value Added Tax (VAT) increased by 19.0 percent while Excise duty increased by 16.6 percent, reflecting the impact of growth in economic activity between the two periods on tax collections.

Taxes on International Trade Transactions

Tax collections on international trade transactions amounted to UShs 9,326.64 billion in FY2022/23. This was against a target of UShs 9,462.70 billion implying a performance of

98.6 percent (UShs 136.05 billion shortfall). This shortfall was mainly due to lower than projected imports for instance;

a) Lower than anticipated value of key import items on which VAT is levied such as Portland cement, flat rolled product of alloy steel, polymers, electric transformers, beet sugar, prepared binders, and iron/steel structures among others led to an overall shortfall in VAT on imports during the Financial Year.

b) Lower than projected fuel import volumes led to a shortfall of UShs 152.89 billion on petroleum duty. The lower import volumes were explained by; low fuel demand against high fluctuating pump prices, front loading by key sector players, speculation of violence after the Kenyan elections where Uganda resorted to importing expensive fuel from Tanzania, and a policy by the Kenyan government to regulate fuel trade.

c) Non-performance of other subcategories such as excise duty on exports, withholding tax, infrastructure levy and surcharge on imports which registered a combined shortfall of UShs 113.17 billion.

Despite the shortfall, taxes on international trade transactions registered an annual growth of 10.6 percent compared to the previous Financial Year.

Non-Tax Revenue

Government had anticipated to collect Non-Tax Revenue amounting to UShs 1,795.83 billion in FY2022/23. Of this much, UShs 1,396.71 billion was to be collected by the Uganda Revenue Authority (URA) while UShs 399.12 billion was anticipated to be collected by given Ministries, Departments and Agencies (MDAs).

Over the Financial Year, a total of UShs 1,834.47 billion was collected as NTR, implying a performance of 102.2 percent and a surplus of UShs 38.64 billion. The performance of NTR was explained by the continued improvement in collections ever since Uganda Revenue Authority started collecting this revenue on behalf of most MDAs. Table 5 shows details of domestic revenue performance for FY2022/23.

Table 5: Domestic revenue performance for FY 2022/23				
Billion Shs	BUDGET	OUTTURN	VARIANCE	PERFORMANCE
OVERALL DOMESTIC REVENUE	**25,550.69**	**25,567.46**	**16.76**	**100.1%**
NON TAX REVENUE	**1,795.83**	**1,834.47**	**38.63**	**102.2%**
NET TAX REVENUE	**23,754.86**	**23,732.99**	**(21.87)**	**99.9%**
Direct Domestic Taxes	**8,232.80**	**8,957.42**	**724.62**	**108.8%**
O/w -PAYE	3,793.68	4,454.20	660.52	117.4%
-Corporate Tax	1,838.22	2,077.03	238.81	113.0%
-Withholding Tax	1,477.53	1,330.81	(146.71)	90.1%
-Rental Income Tax	171.09	215.10	44.02	125.7%
-Casino Tax	35.28	75.75	40.46	214.7%
Indirect Dmestic Taxes	**5,996.63**	**5,436.82**	**(559.81)**	**90.7%**
Excise duty:	**2,114.63**	**1,920.66**	**(193.96)**	**90.8%**
O/w Cigarettes	35.61	19.54	(16.07)	54.9%
Beer	414.05	389.38	(24.67)	94.0%
Wines	2.28	0.35	(1.93)	15.3%
Phone Talk time	370.75	292.86	(77.89)	79.0%
-Sugar	79.86	52.22	(27.64)	65.4%
Cement	58.18	42.30	(15.88)	72.7%
Cooking oil	62.76	42.07	(20.69)	67.0%
Internet data	142.28	112.60	(29.68)	79.1%
Net Value Added Tax:	**3,882.00**	**3,516.16**	**(365.84)**	**90.6%**
O/w Manufacturing	**2,489.34**	**2,246.52**	**(242.81)**	**90.2%**
Services	**769.94**	**814.40**	**44.46**	**105.8%**
Construction	181.79	127.03	(54.76)	69.9%
Wholesale & retail trade; repairs	410.04	422.39	12.35	103.0%
Transport & communications	81.39	45.71	(35.68)	56.2%
Real estate activities	198.11	161.62	(36.49)	81.6%
Taxes on International Trade	**9,462.70**	**9,326.64**	**(136.05)**	**98.6%**
O/w -Petroleum duty	2,978.06	2,825.17	(152.89)	94.9%
-Import duty	1,707.60	1,982.77	275.17	116.1%
-Excise duty	323.54	268.19	(55.35)	82.9%
-VAT on Imports	3,688.69	3,527.12	(161.57)	95.6%
Stamp duty & Embossing Fees	**125.17**	**111.63**	**(13.54)**	**89.2%**

Source: Uganda Revenue Authority, TPD

Grants

Government received UShs 996.35 billion worth of project support grants and UShs 31.87 billion for budget support. This was against respective targets of UShs 2,090.47 billion and UShs 78.12 billion. Both types of grants were significantly lower than budgeted (by 52.3 percent) mainly due to absorption constraints.

EXPENDITURE

Total Government expenditure (excluding debt refinancing and Appropriation in Aid – AIA), amounted to UShs 36,722.66 billion in FY 2022/23. This is against the respective budget of UShs 37,471.92 billion, implying a performance of 98.0 percent. The slightly lower-than-programmed expenditure was due to development expenditure, which was lower by UShs 3,531.61 billion, more than offsetting the higher-than-programmed performance of recurrent expenditure that was above by UShs 2,836.24 billion.

Expenditure on recurrent items was above the original budget following supplementary budgets for wages and salaries to cater for the increment in wages for scientists, as well as non-wage recurrent items. Interest payments also contributed to the excess spending registered under recurrent expenditure. This was due to the reinstatement, during budget implementation, of a portion of interest payments that had been cut at budget time.

Expenditure on externally financed development projects was lower than planned mainly due to absorption constraints faced by implementing agencies, leading to slower disbursement by development partners.

FINANCING

Government operations in FY2022/23 resulted in a fiscal deficit of UShs 10,126.98 billion which was financed through borrowing from the domestic financial market and external development partners. Net domestic financing was UShs 6,223.82 billion..

Total disbursements from development partners amounted to an equivalent of UShs 6,217.39 billion. Of this total, UShs 3,884.29 billion was borrowed to support general activities in the budget while UShs 2,333.10 billion was tied to specific development projects.

During the Financial Year, an equivalent of UShs 2,421.21 billion was used to retire outstanding external debt (amortization), bringing the net external financing to UShs 3,796.18 billion.

Compliance with the Charter for Fiscal Responsibility

FY2022/23 was the second year of implementation of the second Charter for Fiscal Responsibility (CFR). Two of the targets for FY2022/23 in the Charter were met. The debt to GDP ratio is projected to be 46.9 percent for the Financial Year and thus lower than the

53.1 percent ceiling set in the Charter implying that the target was met. Additionally, the target of growing domestic non-oil revenues by at least 0.5 percentage points on an annual basis was met. Domestic revenue as a percentage of GDP was 13.9 percent in FY2022/23 which is 0.5 percentage points above the 13.4 percent for the previous year.

The government's fiscal operations in FY2022/23 faced challenges in meeting specific targets set out in the Charter for Fiscal Responsibility. Although the government remained committed to its fiscal consolidation path, the fiscal deficit for the year was slightly higher than the anticipated CFR trajectory. The Charter had established a deficit ceiling of 5.2 percent of GDP for FY2022/23. However, due to unexpected expenditure needs and supplementary budgets for some MDAs, as well as a shortfall in anticipated grants, the fiscal deficit concluded at 5.5 percent. Nevertheless, the government's steadfast efforts to ensure a reduction in the deficit to 3.0 percent of GDP by FY2025/26 are noteworthy and demonstrate a commitment to long-term fiscal stability.

In addition, the ratio of domestic debt interest payments to domestic revenues was 18.4 percent, which is higher than the 14.6 percent envisaged in the charter for FY2022/23. However, there was a reduction from the 19.1 percent recorded for FY2021/22.

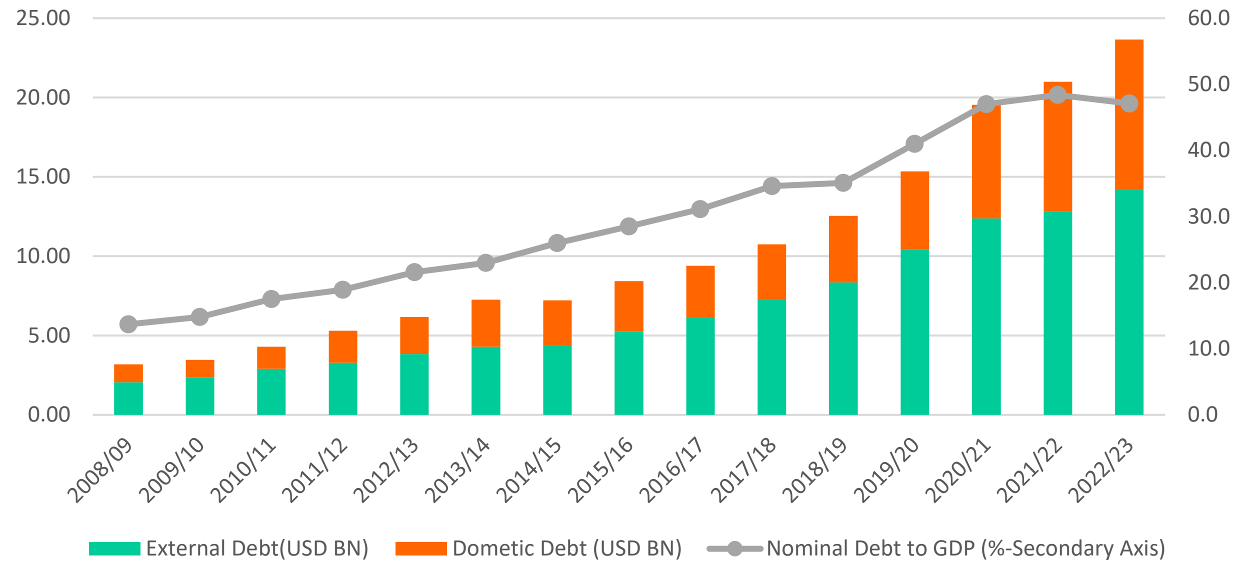
Status of the Petroleum Fund

The opening balance in the Petroleum Fund at the start of FY2022/23 was UShs 121.18 billion. There was no withdrawal made from the fund during the Financial Year since there was no appropriation to that effect as required by the Public Finance Management Act (as amended) 2015. However, there was revenue received into the fund amounting to UShs 125.97 billion which constituted tax revenue of UShs 118.58 billion and non-tax revenue of UShs 7.39 billion. Consequently, as of June 2023, the petroleum fund had a balance of UShs 246.66 billion.

Debt Sustainability Analysis

The stock of public debt increased from US$ 20.99 billion (UShs 78,833.4 billion) in June 2022 to US$ 23.66 billion (UShs 86,779.87 billion) in June 2023. As a share of GDP, public debt reduced from 48.4 percent to 46.9 percent over the same period, as GDP growth outweighed the rate of debt accumulation. This was partly supported by; the continued recovery from the covid-19 shock, which had earlier affected economic activity and necessitated higher government borrowing; coupled with Government's deliberate efforts towards fiscal consolidation. Figure 18 shows the evolution of Uganda's debt.

Figure 18: Evolution of Uganda's Debt



Source: MoFPED

As a share of GDP, Public debt is projected to continue a downward trend over the medium term following continued economic recovery; higher revenues receipts through the implementation of the Domestic Revenue Mobilization Strategy (DRMS), as well as the onset of oil production which together will reduce the reliance on debt. As such, public debt is projected to remain sustainable over the medium to long-term.

Nevertheless, the debt outlook continues to be faced with moderate risk of debt distress, with major vulnerabilities relating to the increased debt service burden brought about by the accumulation of domestic debt and commercial external debt over the recent years especially as global financing conditions continue to tighten. This trend is however projected to reverse in the medium term as some major infrastructure projects come to a completion, and as oil revenues start to materialize.

Spending on Contingency Fund

Section 18 (1) (d) of the Public Finance Management (PFM) Act 2015 requires a report on spending on the Contingencies Fund. In FY 2022/23 the Contingency Fund was allocated UShs 62.07 billion by Parliament and UShs 62.07 billion was transferred to the fund by end of June 2023. Of this, UShs 50.59 billion was spent by 12th May 2023 by Office of the Prime Minister:

I. UShs 40.0 billion to cater for governments interventions towards households at risk of food insecurity in Karamoja sub-region and other parts of the country.

II. UShs 10.59 billion for relocation of persons at risk of landslides in Mt. Elgon Sub-region.

Virement report

The detailed report is in the Annual Budget Performance Report FY 2022/23.

Donations by Vote

Detailed Report in the Annual Budget Performance Report FY 2022/23.

OUTLOOK ON THE ECONOMY

Chapter III: Outlook on the Economy

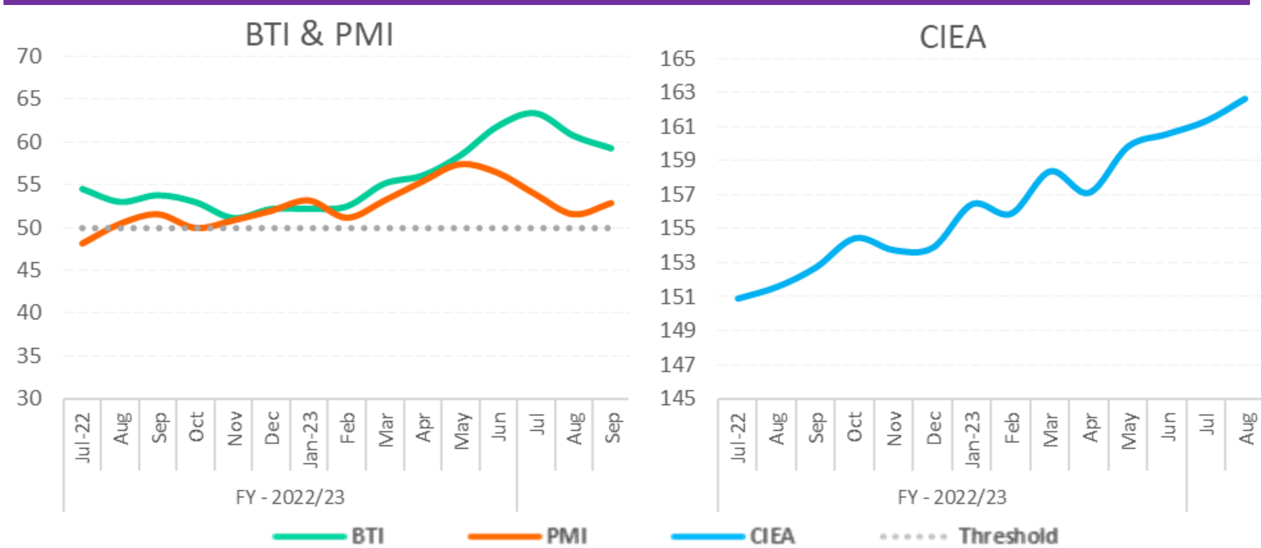
Economic Growth

The economy is projected to grow by 6.0 percent in FY 2023/24, driven by higher output in services, industry and agriculture sectors of the economy, supported by recovery in aggregate demand as inflation slows down; continued implementation of the Parish Development Model which is expected to increase production and productivity in agriculture and agro-processing; increased Oil & Gas sector activities; growth in regional trade as well as expected growth in global and Sub-Saharan Africa.

Supporting this growth trajectory are several initiatives. The government's consistent investments in the establishment and operationalization of industrial parks aim to attract more investments. Infrastructure development, spanning roads, bridges, railways, ICT, and affordable electricity, is being prioritized. Furthermore, initiatives through the Uganda Development Bank, the Small Business Recovery Fund, and Emyooga are in place to provide affordable credit.

The high-frequency indicators already highlight promising economic activity, with the business community exuding optimism. Refer to Figure 19.

Figure 19: High Frequency Indicators of Economic Activity



Source: Bank of Uganda; Stanbic Bank Uganda

Over the medium term, economic growth is forecasted to lie between 7 and 10 percent. This projection is primarily anchored on anticipated boosts in agricultural and manufacturing production and productivity. The government is facilitating this through numerous initiatives, such as enhancing the quality of agricultural inputs, offering extension services, refining irrigation systems, and consistently investing in industrial parks and economic free zones. Furthermore, the resurgence of private sector activity and investments, combined with the government's sustained infrastructure investments and the expanding operations in the Oil and Gas industry, are set to provide additional stimulus to this growth trajectory.

However, it's important to note potential challenges that could temper this growth. These immediate risks encompass unpredictable weather patterns, potential delays in rolling out planned government projects, escalating global and regional geopolitical tensions, fluctuations in global commodity prices, and tighter global financial conditions.

Inflation

Inflation is expected to continue declining in the months ahead, driven by improved global supply chains; exchange rate stability owing to the prudent monetary and fiscal policies; as well as bumper food crop harvests due to favorable weather conditions. Core inflation is projected to remain within the 5 percent target this Financial and over the medium-term, supported by well-coordinated monetary and fiscal policy interventions.

The inflation outlook is however subject to several risks and could be higher than expected if: tighter financial conditions in international financial markets result in a more depreciated exchange rate; higher crude oil prices due to OPEC+ production cuts; and a resurgence of supply chain bottlenecks resulting from increased geopolitical tensions such as the Israel and Palestine conflict.

Financial Sector

In October 2022, the Bank of Uganda (BOU) adjusted the Central Bank Rate to 10 percent in response to rising inflation expectations and to control escalating prices. This rate was consistently maintained throughout the fiscal year. By August 2023, given the prevalent low inflation circumstances and BOU's commitment to sustain inflation within the 5 percent medium-term target while bolstering economic stability, the rate was revised downward to 9.5 percent.

However, there's an anticipation that private sector credit might remain subdued in the immediate future due to the lingering impact of this monetary tightening on consumer and investor demand. A significant concern on the lending front is the rise in non-performing loans, which, since the onset of 2023, have surpassed 5.5 percent of the total gross loans. Over the medium term, the direction of private sector credit will be largely influenced by the economy's growth trajectory.

Nonetheless, the financial sector remains sound and adequately capitalized.

External Sector

The challenges in the Global financial markets notwithstanding, the Uganda Shilling is expected to remain stable against major currencies in the short to medium term supported by tight monetary and fiscal domestic policies, a rebound in offshore inflows and Foreign Direct Investment flows to the oil and gas sector. However, risks to the outlook are likely to arise from lower global growth, persistently elevated inflation in advanced economies, tightening global financial conditions and subsequently a high cost of external borrowing.

Fiscal Operations

Government revenues are projected to increase by UShs 286 billion from UShs 29,672 billion, supported by continued implementation of the Domestic Revenue Mobilisation Strategy. Government expenditure in FY 2024/25 will reduce in line with the fiscal consolidation strategy. As a result, the fiscal deficit will be lower than UShs 7,197 billion in the approved budget of FY 2023/24 as shown in table 6. This will ensure that the fiscal targets set out in the Charter for Fiscal Responsibility are met, to ensure debt and macroeconomic stability.

The debt outlook continues to be faced with moderate risk of debt distress, with major vulnerabilities relating to the increased debt service burden brought about by the accumulation of domestic and commercial external debt over the recent years due to tightening Global financing conditions. This trend is however projected to reverse in the medium term as some major infrastructure projects come to a completion, and as oil revenues start to materialize.

Table 6: Fiscal Framework which will guide Fiscal Operations in FY 2023/24 and the medium term

	Budget 2023/24	proj. 2024/25	proj. 2025/26	proj. 2026/27	proj. 2027/28	proj. 2028/29
Total revenue and grants	**32,751**	**32,869**	**40,760**	**47,336**	**54,311**	**57,021**
Revenue	29,672	29,958	38,309	45,261	52,404	55,392
Tax revenue	27,424	27,784	32,518	37,333	42,003	51,861
Non-tax revenue	2,248	2,174	2,364	2,578	3,226	3,531
o/w Appropriation in Aid	1,203	1,099	1,220	1,365	1,536	1,719
Grants	3,079	2,911	2,452	2,075	1,907	1,629
Budget support	70	29	29	0	0	0
Project grants	3,009	2,882	2,423	2,075	1,907	1,629
Expenditures and net lending	**39,948**	**38,968**	**47,759**	**54,965**	**62,763**	**62,766**
Recurrent expenditures	**24,784**	**26,272**	**29,636**	**34,254**	**35,581**	**43,208**
Wages and salaries	6,931	7,512	8,909	11,500	11,492	11,850
o/w: Statutory	254	254	254	3,117	158	0
Non-wage	11,792	11,136	12,563	14,274	15,025	22,105
o/w: Statutory	2,597	3,117	3,117	158	0	3,529
Interest payments	6,062	7,623	8,164	8,480	9,064	9,253
o/w: domestic	4,978	5,663	6,157	6,399	6,907	7,186
o/w: foreign	1,084	1,960	2,007	2,081	2,157	2,067
Development expenditures	**14,246**	**12,248**	**18,123**	**20,029**	**26,974**	**19,349**
External	7,762	9,162	11,575	13,989	16,819	7,960
Domestic	6,483	3,086	6,547	6,040	10,155	11,389
Net lending and investment	**703**	**249**	**0**	**682**	**208**	**209**
Contingency fund	0	0	0	0	0	0
Others	216	200	0	0	0	0
Overall balance	**-7,197**	**-6,099**	**-6,999**	**-7,629**	**-8,453**	**-5,746**
Excluding grants	-10,276	-9,010	-9,450	-9,704	-10,359	-7,374
Financing	**7,197**	**6,099**	**6,999**	**7,629**	**8,453**	**5,746**
External financing (net)	**5,313**	**3,305**	**4,954**	**7,034**	**9,545**	**-265**
Disbursement	7,951	6,529	9,152	11,914	14,913	6,332
Budget support	2,712	0	0	0	0	0
Concessional project loans	3,395	2,697	4,426	7,360	10,266	4,649
Non-concessional loans	1,845	3,831	4,727	4,554	4,647	1,683
Revolving credit	0	0	0	0	0	0
Amortisation (-)	-2,639	-3,224	-4,199	-4,880	-5,368	-6,597
Domestic financing (net)	**1,885**	**2,795**	**2,045**	**595**	**-1,092**	**6,010**

Source: MoFPED