THE REPUBLIC OF UGANDA

National Budget Conference

BUDGET STRATEGY
FINANCIAL YEAR 2022/2023

Theme: Industrialisation for Inclusive Growth, Employment and Wealth Creation

DELIVERED BY:

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INTRODUCTION

The Rt. Hon. Prime Minister and Leader of Government Business,
Colleague Ministers,
Hon. Members of Parliament,
Development Partners,
All Government Officials,
Ladies and Gentlemen.

I greet you and welcome you all to this National Budget Conference for the coming Fiscal Year 2022/23. This Conference seeks to concretize our budget strategy and the priorities required to meet our development agenda while addressing current socioeconomic constraints.

The third National Development Plan targets the achievement of two key results in the FY2022/23. The first is to raise per capita income from US$936 to US$1,049 and would imply the realisation of middle-income status. The second is the improvement of the quality of life. Currently, Uganda ranks at position 159 out of 189 countries on Human Development Index (HDI). The HDI measures relative achievements made by countries in health, knowledge, and standard of living.

The implementation of NDPIII has been disrupted by the COVID19 pandemic that has unfolded since March 2020. This has slowed economic activities and threatened socioeconomic progress in several ways, with the potential of reversing the socio-economic gains Uganda had registered over the years. Businesses and livelihoods have been disrupted and full recovery to the pre-COVID19 era activity levels is threatened by more waves of the pandemic.

This budget strategy, therefore, presents a way forward on how to deal with the current socioeconomic constraints we face and restore growth and development path back to the pre-COVID19 levels and subsequently place effort on achieving our planned socio-economic development goals. As you are all aware, the NDPIII theme is "***Industrialisation for Inclusive Growth, Employment and Wealth Creation***". All the annual budgets under the NDPIII will therefore have to speak to this theme.

In this statement, I will do the following: -

i) Present an assessment of the current state of socioeconomic progress and the constraints.
ii) Elaborate on the Economic Policy framework and proposed high-level Strategic Budget Interventions that support recovery and build a resilient base for socioeconomic transformation.
iii) Explain the Financing Framework for the budget, including the resource mobilisation strategy.

STATE OF SOCIOECONOMIC PROGRESS AND CONSTRAINTS

The Ugandan economy before the COVID19 outbreak had gathered momentum. Real GDP growth rate registered 6.3% in the Fiscal Year 2017/18, accelerating to an eight-year high of 6.4% in FY2018/19. Unfortunately, the COVID19 pandemic triggered an economic slowdown and Uganda recorded real GDP growth of 3.0% in FY2019/20. This was the slowest rate in almost three decades, and the pace of expansion only picked up marginally to 3.3% in FY2020/21.

Businesses have been severely affected by the COVID19 pandemic. These effects were mainly manifested by the disruption in education, construction, hospitality, tourism, transport, food services, arts, entertainment, and recreation. According to Economic Policy Research Centre, business activity was reduced by more than 50 percentage points, and over 70% of the businesses reduced the size of the workforce due to risks presented by COVID19.

The pandemic has reduced aggregate demand with a decline in domestic consumption, slowed private and public investment and lowering our exports in regional and international markets. Foreign Direct Investment inflows also declined as a result of disruptions in global financial markets. The ensuing lockdown to mitigate the pandemic also caused the reduction in trade and constrained the movement of people, further dampening businesses' economic prospects.

The economy had shown signs of rebounding after the easing of the first lockdown and growth is estimated at 3.3% for FY2020/21. During this period the economy performed as the follows: -

i) Domestic tax collections declined from Ushs. 16,163 billion in FY2018/19 to Ushs. 15,912.2 billion in FY2019/20. In terms of domestic tax to GDP, this decline corresponds to a reduction from 12.2% down to 11.4% over the same period. This has led to the widening of the fiscal deficit from 4.9% in FY2018/19 to 7.1% in FY2019/20 and to 9.9% in 2020/21. With increased fiscal pressures, public debt has risen above the 50% threshold, arising from increased spending on health, stimulus packages and social protection for the vulnerable.

ii) Private Sector Credit (PSC) growth declined from 12.2% in FY2020/21 to 7.2% in the first quarter of FY2021/22. Private sector credit is likely to remain subdued in the short-term due to weak economic growth and increased risk aversion of lenders. Relatedly, the proportion of Non-Performing Loans (NPL) to gross loans has increased to 5.4% in March 2021 from 5.15% in September 2020.

iii) The external position has worsened with the overall balance recording a deficit of USD25.43 million by the end of Q3 FY2020/21, compared to the USD 623.08 million surplus in FY2019/20.

iv) The health system has been stretched and education has been disrupted. As of 6th of this month, Uganda has had 120,847 confirmed cases of COVID19, with 95,687 recoveries and 3,068 deaths. This had far-reaching impacts on Uganda's health care system as the primary focus was placed on stemming the pandemic while dealing with other health concerns of the population. In education, the prolonged school lockdown has severely affected learning, the viability of school and education institutions, and reversed key human capital development results.

So, our budget strategy is crafted within an environment of COVID19 induced shocks which requires innovations and different ways of achieving results. This state of affairs notwithstanding, there are opportunities for growth in the short-to-medium term, as follows: -

i) Acceleration of import substitution for new products, including medicines and other health products.
ii) Digitization of aspects of socioeconomic activities to improve efficiency and reduce costs through e-Commerce, e-Government, e-Learning. The digitization of the economy come with several jobs.
iii) Foreign Direct Investment (FDI) inflows towards major infrastructure developments, including investment in the EACOP, the Oil Refinery and further petroleum exploration.
iv) Improved access to export markets that comes with the development of trade and market infrastructures, including the Gulu Logistics Centre, the road to the DRC and One-Stop Border Posts.

ECONOMIC POLICY STATEMENT & BUDGET PRIORITIES

Economic Policy Framework

The Economic Policy framework in the short to medium-term aims to restore economic activity to pre-pandemic levels and accelerate the pace of socioeconomic transformation. Boosting aggregate demand underpins Uganda's economic recovery, and will be achieved by restoring domestic consumption, private and public investment, and export promotion. This will be complemented by targeting the complete vaccination of the vulnerable population and strengthening our health system to mitigate the COVID19 pandemic and other ailments. In the medium-term, the diversification of the economy, including Uganda's exports, is key to returning to the planned economic growth trajectory. Increasing household incomes and the reduction of poverty will be a major focus of our economic policy.

As a result of this Economic Policy stance, economic growth is expected to rebound to 4.2% in FY 2021/22, 6% in the FY2022/23 and to at least 7% in the medium-term. Our economic policy going forward seeks to achieve the following three broad objectives: -

1. To mitigate the COVID19 impact on business activity and livelihoods to support the recovery of the economy back to normality by increasing access to capital, revamping health infrastructure and health systems; reducing vulnerabilities and ensuring access to education by automatic promotion for all classes.

2. To speed up socioeconomic transformation through re-prioritizing and delivering impactful investments and restructuring resources/budget to areas with more value for money.

3. To sustain macro-economic stability, peace and security as key foundations for growth and development by keeping exchange rate stability, inflation control, maintaining an adequate reserve of forex; and mitigating emerging internal and external security threats.

Strategic Budget Priorities FY2022/23

The Government strategic interventions to achieve the economic policy objectives above will be: -

i) Restoration of business activity by increasing access to capital.
ii) Industrialization particularly focusing on agro-industry and light manufacturing.
iii) Enhancement of the wellbeing of Ugandans by improving health infrastructure and systems and ensuring that learning of students.
iv) Improvement of productive infrastructure, including ICT to support digitizing the economy, energy reliability and affordability, and effective transport development and maintenance.
v) Commercialize oil and gas resources, expedite mineral beneficiation; and fully exploit Uganda's tourism potential.
vi) Reform the public sector for greater effectiveness and efficiency.

Restoring Business Activity & Deepening Financial Inclusion

To restore business activity, the immediate focus will be on implementing fiscal and monetary measures to boost aggregate demand. The key to this is to mitigate the impact of COVID-19 on businesses and SMEs. The following interventions will be prioritized: -

i) EMYOOGA Funding to provide seed capital for special interest enterprising groups.
ii) UDB Capitalisation and other financing schemes such as the Agricultural Credit Facility.
iii) Strengthening Private Sector Institutional and Organizational Capacity by focusing on the establishment of functional Business Development support service centres regionally.

The Government will also fast-track the approval of the Financial Sector Development Strategy (FSDS) by Cabinet to ensure a sound and integrated financial sector. This aims at increasing formal savings to 53% of GDP, and the percentage of adults using formal financial services to 80% by 2025, with 79% female inclusion, 89% inclusion of youths, and 77% of rural adults. The legal and regulatory framework will be strengthened through the implementation of: -

i) The National Payment Systems Act, (NPS Act, 2020), which provides for the establishment of the national payment switch to reduce the cost of financial transactions/transfers.
ii) The amendment of the Microfinance Deposit-Taking Institutions, 2003.
iii) The National Strategy for Combating Money Laundering and the Financing of Terrorism and Proliferation.

Industrialization (Agro-industrialization & Light Manufacturing)

The focus will be on sustaining the resilience of agriculture along the value chain, agro-processing, and support to light manufacturing by doing the following: -

i) Expand storage and processing capacity for agricultural commodities within the 18 zones of the country.
ii) Provide funds for private sector equity investment through UDC to be invested in key commodity agro-processing value chains

iii) Support industries that use locally sourced raw materials to produce most of the goods that we import.
iv) Capitalize Uganda Development Bank (UDB) to provide affordable and long-term capital at lower interest rates to agriculture, agro-processing and manufacturering.
v) Develop the iron and steel industry to reduce the cost of construction.
vi) Government investment in and support to private sector industries with untapped export potential particularly in agro-industry and light manufacturing.
vii) Continue with our policy of attracting Foreign Direct Investment through the implementation of the new Investment Code of 2019.

viii) Strengthen standards for quality assurance to improve access of Uganda's export to regional and international markets.

Enhancing the Wellbeing of Ugandans

With widespread vaccination far from being achieved, the country will continue to tussle, simultaneously, the task of re-igniting the economy, safeguarding lives, and supporting the vulnerable groups. A third wave could further strain hospital capacity and delay the full reopening of the economy. However, we noted the fact that the Government has taken steps to procure vaccines, expand hospital capacity through the recruitment of additional staff and volunteers to assist with the management of the pandemic; expanding High Dependency Units (HDU) and Intensive Care Units (ICUs) to 3,100 and 218, respectively; and increasing the number of standard hospital beds by 475. Funding for scaling up testing continues to be mobilized.

The immediate priority of the Government during FY2022/23 will be to mitigate the COVID19 impact while also obtaining value for money for the resources dedicated to combating the pandemic through: -

i) Countrywide vaccination to mitigate the COVID19 impact.
ii) Maintaining resources in the budget for increasing the capacity for other communicable and non-communicable diseases.
iii) Fast-tracking the national health insurance policy, including the national ambulance systems to reduce the cost of the services on the government.

iv) Sustainably bringing back education to normality and attaining pre-COVID19 levels of access to education.

Improving maintenance, availability & affordability of Productive Infrastructure

Achievements have been made towards increasing coverage of road transport infrastructure. However, to get more value for money, the focus will be on increasing maintenance and undertaking preparatory activities for new constructions in future as the economy recovers. Further, investment in intermodal transportation in rail and water will be key in connecting productive areas to the market. Given this context, the focus of this programme will be to maintain a good road network system, complete existing contracts, undertaking studies and acquiring infrastructure corridors for future investments.

The COVID19 has amplified the need for digital transformation, yet the cost of the internet is still high. This is especially because the pandemic affected the usual and physical way of doing things and running businesses. The focus of the programme will be on: -

i) Implementing last mile connectivity/rollout broadband infrastructure in key government service delivery units ensuring all essential services such as schools, hospitals, post offices, tourism sites, police, LGs etc) are connected.
ii) Supporting the development and commercialization of local ICT products and build a critical mass of talent to develop applications and services.
iii) Supporting the roll-out of e-services such as e-extension, e-education, e-health as well as remote collaboration solutions, to digitally transform public service delivery particularly considering COVID
iv) Providing digital literacy training to SMEs and communities to create awareness about ICTs and empower them in the use of ICT products and services.

Harnessing Opportunities under Minerals, Petroleum & Tourism

Mineral exploitation and development are critical for Uganda’s industrialization process. Investing in mineral development lowers the cost of production, increases return on investment and boosts the supply of locally manufactured products like cement, iron and steel, and fertilizers. Considering dwindling tax revenues due to COVID19, this programme prioritises investments for Import Replacement, Export Promotion; and improvement in domestic resource-based royalties. Because of this, the focus for this programme is towards maintaining existing investments in exploration and quantification for steel and minerals in Karamoja, as well incentives for import replacement of iron and steel.

The oil and gas industry has the potential to transform Uganda's economy. Sustainable development of petroleum resources enhances value addition to oil and gas resources as one of the key growth opportunities. It also facilitates resource-based industrialization agenda through the exploitation of the available oil resources. This contributes to export, employment, and improved quality of life. If well utilized, sustainable exploitation of oil resources provides resources that can leverage investments in other sectors of the economy and lead to increased household incomes. The focus of this programme will be towards on: - fast-tracking completion of the East African Crude Oil Pipeline (EACOP) and refined products pipeline; establishment of the National Petroleum Data Repository; undertaking the preparatory process for establishing a robust petrochemical industry; and capitalization of UNOC.

Under tourism, the following interventions will be prioritized: -

i) Sustaining upstream investment in ongoing product development and tourism-related infrastructure – roads, electricity, internet, security, etc.
ii) Increasing access to recovery financing
iii) Intensification of domestic tourism.

Public Sector Effectiveness and Efficiency

Public sector effectiveness and efficiency will be improved through the following measures: -

i) Continued rationalization of government. The process has already commenced with the transfer of REA to the Ministry of Energy and the dissolution of the Ministry of Science and Technology.

ii) In line with the strategy of the Government to catalyze industrialisation, the Government is finalising the computation of the requirements for phased salary enhancement for scientists and health workers who are engaged in research and innovation, the implementation of which will commence in the FY2022/23.

iii) The Government is implementing the Parish Development Model (PDM) as a mechanism aimed at alleviating poverty by improving household incomes and welfare through employment and wealth creation, especially targeting the 39% of households still outside the money economy.

    For FY2020/2021, the Government released Ushs. 200 Billion for all Parishes in the country. The focus is on implementing the following actions: -

    a) Recruitment of the 5,192 to 10,594 required Parish Chiefs.
    b) Collection of data to guide proper planning for implementation of the Model.
    c) Creation of Parish Development Committees (PDCs) and orienting them about the Model.
    d) Finalization of the Implementation Guidelines and orientation of stakeholders; and
    e) Setting up an Implementation Unit.

    Going forward, other activities will be undertaken and these include training of local government officials and Parish Chiefs; alignment of sub-program plans and budgets to the PDM; operationalizing the community information system; establishment and strengthening of community-based financial institutions; and strengthening the legal and policy framework of the model.

To sustainably develop and transform the economy, we need to take urgent actions against climate change and ensure the efficient development of urban centres. Well-planned and developed urban centres are critical for supporting the efficient settlement of persons, service delivery and trade. To this end, the Government will prioritise the following: -

i) Climate change mitigation actions, including commercial tree planting; the eviction of wetland encroachers, and restoration of the wetlands; and the enactment of by-laws by local government authorities.
ii) Implementation of the integrated physical and economic development plans in the new cities and issuance of guidelines for their operationalization.
iii) Implement projects in line with the Greater Kampala Metropolitan Area (GKMA) Strategy.

THE FINANCING STRATEGY

The overall fiscal strategy is to promote inclusive growth to increase household incomes and improve the quality of life of Ugandans without compromising fiscal and debt sustainability. This will entail the implementation of the Domestic Revenue Mobilization Strategy (DRMS) to reduce the share of the budget that is financed through borrowing. The DRMS aims at achieving revenue to GDP growth of 0.5% every financial year. The focus of the domestic revenue mobilisation in the FY2022/23 will be more on enforcing compliance other than introducing new taxes.

The challenge of the COVID19 pandemic has had far-reaching implications and has led to an increase in the fiscal deficit. The slowdown in growth plus the additional expenditure requirements to finance Government's response measures further constrained fiscal space and necessitated additional borrowing. Uganda's Debt to GDP ratio has since increased from 41.0% in FY2019/20 to 49.9% as of June 2021. The ratio is projected to increase to over 52.7% by the end of this this financial year and peak at 53.1% at the end of the FY2022/23. Also, there are issues affecting the effective management of public debt. These include, among others, low absorption, access of right of way for infrastructure projects and the change in the global financing landscape that now offers less concessional financing.

During Financial Year 2022/23, GOU will continue focusing on recovery measures from the effects of the COVID19 pandemic to meet its debt management objectives. External financing will be driven by disbursements and new financing in form of concessional, semi-concessional, and non-concessional/commercial sources. There will be the continued engagement of Development Partners to provide grant financing for social projects. Domestic borrowing will majorly be in form of longer-dated instruments aimed at reducing the refinancing risk in the public debt portfolio.

The Government will continue to borrow largely on favourable terms and restrict borrowing for projects/expenditures that are likely to enhance productivity and are critical for economic recovery. In addition, the Government will consider sequencing projects and expenditures that can be postponed without causing damage to the economy until the economy recovers from the effects of COVID19.

RISKS TO THE FY2022/23 BUDGET STRATEGY

The proposed budget strategy that I have elaborated today can only be implemented if the following potential risks are mitigated: -

i) Worsening of the COVID19 pandemic through successive waves will cause further disruption to business activity and place additional pressure on the health system.
ii) Failure to collect domestic revenues as planned, especially because of the on-going effects of the COVID19 pandemic.
iii) Institutional weaknesses in budget implementation with numerous requests for supplementary funding.
iv) Failure to align resources to budget priorities under the new Programme Based Budgeting, and
v) Inadequate capacity of Ministries, Agencies and Local Governments (MALGS) to implement budget priorities.

The Government will ensure that it mitigates the risks within its control to ensure the implementation of the Budget strategy.

CONCLUSION

In conclusion, the budget for the coming fiscal year 2022/23 seeks to implement policy actions to first and foremost accelerate interventions to put an end to the health and social crisis posed by the coronavirus pandemic and recover the economy back to pre-COVID level. Secondly, we will maintain investments in the fundamentals for socioeconomic transformation to build the resilience of our people and a more inclusive economy that benefits all Ugandans.

These proposed budget interventions are meant to kickstart budget consultations and the preparation of the National Budget Framework Paper for the fiscal year 2022/23. The next step of this consultation process is the local government regional workshops which provide an opportunity for leaders and technocrats of the local governments to discuss specific issues and make policy proposals for consideration in the coming budget.

I now implore the programme working groups to discuss and come up with specific actionable points and detailed priorities that are well-sequenced within their Strategic Plans and NDPIII Programme Implementation Plans (PIAPs).

Thank you for listening. For God and my Country.