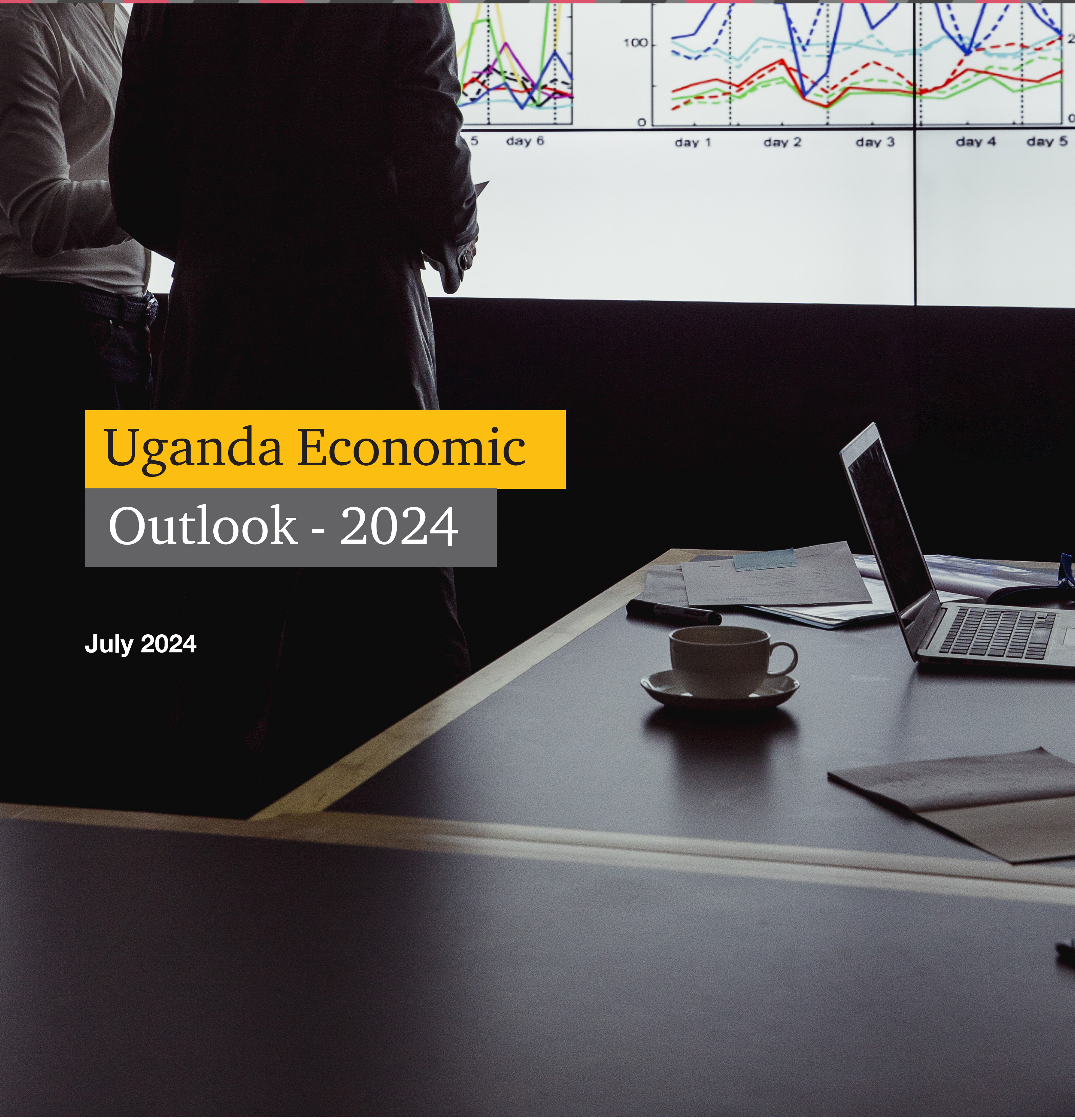

Uganda Economic Outlook - 2024

July 2024

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Executive Summary

Welcome to the second edition of our 2024 economic outlook report, providing insights into Uganda's economic performance up to June 2024. As we delve into the key highlights of Uganda's economic landscape, the conclusion of the 2024 national census has shed light on crucial demographic data that will shape policy decisions and resource allocation strategies for the 45.9 million Ugandans in the future.

The total budget allocated to address this new demographic reality for the financial year 2024/2025 stands at UGX 72.1 trillion. This year's budget is guided by the theme *'Full Monetisation of Uganda's Economy through Commercial Agriculture, Industrialisation, Expanding and Broadening Services, Digital Transformation and Market Access'.* The budget reflects a commitment to strengthening domestic revenue mobilisation and improving public finance management. The budget is also geared towards improving efficiency in project execution and borrowing only for strategic high impact interventions. This means that the Government is focusing on increasing its revenue, being accountable with its spending, and investing in areas that will stimulate economic growth.

With the demonstrated economic growth in FY 23/24 (6% growth up from 3.5% in the prior year), Uganda's economy appears well positioned to achieve its status as one of Africa and the world's fastest growing economies in the next five years[1]. Uganda outperformed Sub-Saharan Africa's average growth of 3.8%, highlighting its relative economic strength in the region. Globally, the projected growth for the calendar year 2024 will slow down to 2.9% year on year from 3.1% in 2023, making Uganda's growth significantly higher than the global average.

The economic growth trajectory suggests the existence of business opportunities arising from a favourable economic climate. In a growing economy, it's common for consumers to experience an increase in disposable income, which supports greater purchasing power and therefore more growth opportunities for business. Indeed, there was a notable increase in household consumption which grew by 8.2% in FY2023/24 from the 3.6% growth seen in FY 2022/23, presenting new opportunities for businesses to expand their operations and create more jobs.

For more than ten years, infrastructure development has been a key government priority in Uganda. This focus has led to the expansion of the road network, expansion and modernisation of the airport, installation of telecommunications infrastructure to expand access to communication services and development of renewable energy projects, among others.

However, this expansion has come with a downside. Uganda's public debt has escalated significantly due to the heavy investment of these infrastructure projects. According to the Ministry of Finance and Economic Development's ("MoFPED") Debt Sustainability

[1]Source: IMF World Economic Outlook, April 2024

Analysis, between the fiscal years 2021/22 and 2022/23, Uganda witnessed a rise in its public debt, from USD 20.99 billion to USD 23.66 billion.

The ratio of Uganda's debt to its overall GDP saw a slight increase from 46.9% in June 2023 to 47.9% in FY 23/24[2]. This is below the 52.4% threshold provided for in the Charter for Fiscal Responsibility for FY24 and less than 50% of GDP Government policy target for debt sustainability.

While the debt-to-GDP ratio was predicted to rise to 49.2% by mid-2024, it is expected to trend downwards by the end of the year. Government's approach to debt management is multifaceted, being focused on driving economic growth, initiating commercial oil production, enhancing tax collection through the Domestic Revenue Mobilisation Strategy and wrapping up key infrastructure developments.

Given the concerning trajectory of Uganda's public debt levels and the high individual debt burden faced by its citizens, it is important for Government to prioritise prudent debt management. Immediate actions should include implementing measures to enhance fiscal discipline and transparency in public financial management to control expenditure.

Uganda is focusing on enhancing its revenue collection and being strategic with its spending and borrowing. With a tax revenue collection target of UGX 31.9 trillion, equivalent to 14.2% of GDP, government aims to reduce dependency on external borrowing and strengthen its fiscal position. To support this agenda, the Uganda Revenue Authority ("URA") will need to continue streamlining its operations, broadening the tax base and curbing tax evasion.

Measures such as identifying untapped sectors and bringing them into the tax bracket, supporting formalisation of the informal economy and collaborating with international partners to address cross-border tax challenges will continue to be critical for sustainable and inclusive development.

It is estimated that about 78% of the labour force and 51% of Uganda's GDP are generated by the informal sector. Working collaboratively with businesses in the informal sector will enhance their ability to comply with their tax obligations. This will benefit both the economy and the well-being of citizens.

[2]MoFPED Budget Speech FY2023/24

Macroeconomic Outlook

Overview

Uganda's economy has shown remarkable resilience in the face of global economic crises. Uganda's strong macroeconomic stability, infrastructure investments, including the oil and gas industry and improved trade prospects are all highlighted by this resilience.

Uganda's economy grew by 6% in the financial year ("FY") 2023/24 compared to 5.3% in FY 2022/23 and a global growth of 2.9%[3]. The growth of the economy has been driven by manufacturing, construction and mining sectors. There was also notable growth in the services sector mainly driven by strong recovery in retail and wholesale trade, tourism as well as communication and real estate activities.

Real Gross Domestic Product ("GDP") growth is expected to accelerate to 6.6% in FY25, mainly driven by investments in the oil sector. With the progressed preparation of the drilling fields and supportive infrastructure, Government expects oil exports to commence by the end of 2025.

However, this timing is likely to slip due to delays with the financing expected from external creditors. Accordingly, the actual timeline within which the oil exports will commence may extend beyond 2025. The investments and exports of oil will support Government's other promotion efforts for tourism, export diversification, and agro-industrialization.

Other factors that have contributed to the notable economic growth include a relatively stable exchange rate which averaged at UGX 3,771. This has allowed good investment planning and supported export competitiveness.

There was also a notable increase in household consumption which went up by 8.2% in FY2023/24 from the 3.6% growth seen in FY 2022/23[4]. The easing of consumer price inflation from 5.4%[5] in FY23 to 3.9%[6] in FY24, played a crucial role in enhancing households' purchasing power, thus increasing consumers' buying power.

However, there has also been a notable rise in Uganda's public debt attributable to multiple factors such as a shift in spending towards development infrastructure and the impact of the COVID-19 pandemic.

Inflation

For FY 2023/24, Uganda contained inflation at an average rate of 3.2%, being one of the lowest inflation rates in the region. Annual headline inflation also reduced from the peak of 10.7 percent in October 2022 to 3.9% as at the end of June 2024.

Lower inflation is expected to enable Bank of Uganda ("BoU") to reduce the Central Bank Rate (CBR), which, combined with reduced fiscal pressures under a fiscal consolidation regime that currently emphasizes reduction of consumptive expenditures in favour of

[3]Ministry of Finance,Planning and Economic Development, June 2024, The Budget Speech Financial Year 2024/25.

[4]Bank of Uganda. April 2024. "Monetary Policy Report."https://bou.or.ug/bouwebsite/bouwebsitecontent/MonetaryPolicy/Monetary_Policy_Reports/2024/Apr/Monetary-Policy-Report-April-2024-v1-002-004.pdf

[5]UBOS June 2023 CPI, https://www.ubos.org/wp-content/uploads/publications/07_2023CPI_Press_Release_June_2023.pdf

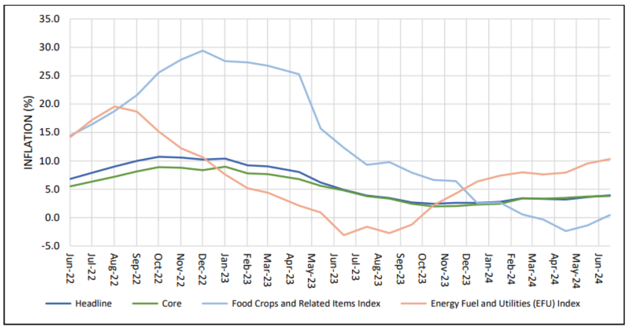
[6]UBOS June 2024 CPI https://www.ubos.org/wp-content/uploads/publications/CPI-PUBLICATION-FOR-JUNE-2024.pdf

development spending, augurs well for both foreign and domestic investment. Nonetheless, the slowdown of global growth and disruptions in global financial conditions remain major downside risks to economic growth.

The drop in consumer price inflation has been a result of good coordination of monetary and fiscal policies, leading to low inflation for most food crops, manufactured foods, and essential commodities like laundry bar soap, sugar and cooking oil. Reduced and predictable inflation rates benefit organisations by improving financial planning and resulting in more steady operating costs.

However, on the other hand, due to the rising power and petrol costs as well as a notable increase in the price of charcoal, annual inflation for energy, fuel and utilities ("EFU") increased to 10.3% in the year ended June 2024 compared to 9.5% registered in the year ended May 2024.

Figure 1: Annual Headline, Core, Food crops and EFU Inflation: June 2022 – June 2024.



Exchange Rate

Despite the lingering uncertainty and tight global financial conditions, the Uganda shilling has broadly maintained relative stability. The Uganda shilling has registered an extended period of appreciation since late March 2024 following the two successive increases in the CBR which lured back offshore investors that were seeking higher returns.

The shilling has retreated from the recent peak of UGX 3,942 per USD in August 2023 to below UGX 3800 with the appreciation momentum peaking in June 2024[7].

Trend of Uganda Shilling Exchange rate against the US dollar

Source: Bank of Uganda

The appreciation of the shilling has also been supported by increased inflows from coffee receipts, and Non-Governmental Organisations (NGOs). Despite the tight global financial conditions, the shilling has been relatively strong against the US dollar reflecting the tight monetary policy supported by relatively improved commodity export revenues.

These inflows more than outweighed the strong demand from domestic corporations, notably manufacturing, energy, and trade, reflecting strong economic activity.

Notably, the share of the manufacturing sector's demand for foreign exchange from the domestic market has been significant relative to other sectors and this is consistent with Government's industrialization agenda targeted at increasing export earnings through value addition as well as supporting the Import Substitution Strategy by producing imported products.

The Uganda shilling was also stable compared to other currencies within the East African Community ("EAC"), based on an average decline in value of 0.4%[8].

Public Debt

Uganda's public debt grew by 5% from UGX 93 trillion (USD 24.69 billion) as at 31 December 2023 to UGX 98 trillion by 30 June 2024. Consequently, the public debt to GDP ratio rose to 47.9% by the end of the 2024 fiscal year[9].

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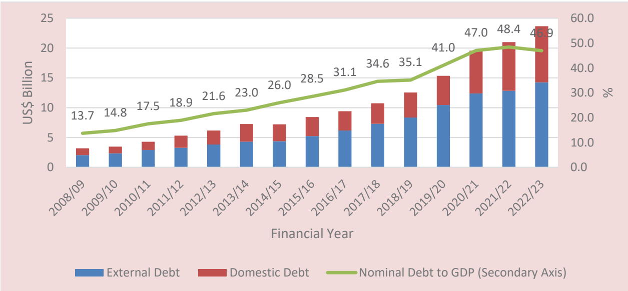
[7]MOFPED State of Economy Report, June 2024
[8]Supra note 1
[9]MoFPED Debt Sustainability report, December 2023, https://mepd.finance.go.ug/documents/DSA/DSA-FY202223.pdf

Evolution of Public Debt



Source: Ministry of Finance Debt Sustainability Report 2023

According to the Ministry of Finance and Economic Development (MoFPED), although the country's debt has increased, the Government affirms that it is still sustainable as most of the investments using the borrowed funds have started to yield returns.

Government also expects this sustainability to be supported by continuous improvement in GDP growth based on an ambition to grow the economy tenfold over the next ten years. The onset of oil production and realisation of its associated revenues alongside strong revenue growth following the implementation of the Domestic Revenue Mobilisation Strategy are expected to strongly contribute to this anticipated GDP growth.

On the other hand, the debt outlook continues to be faced with risk of debt distress, with the major vulnerabilities to the outlook relating to the slow growth of exports and the increasing debt service burden on revenues.

Debt service costs excluding domestic debt redemptions have been projected to take up 40.3% of domestic revenue in FY25, up from 33.4% in FY24. This may continue to grow in the medium term especially due to high domestic interest rates as well as the increasing cost of external debt as global financing conditions continue to tighten.

According to Moody's, a credit ratings agency company, Uganda's credit worthiness has been downgraded from B2 to B3 due to fiscal challenges, external vulnerability and economic concerns. The downgrade is largely due to concerns over Uganda's debt affordability and financing options which have become increasingly constrained. The rating also means that the Government may face challenges accessing global credit markets and attracting investors.

In the Medium Term Debt Management Strategy 2024/25-2027/28, the Government has committed to

manage borrowing costs and risks by determining an appropriate balance between domestic and external borrowing. To this end, the Government envisages to source 60% of the debt domestically as well as prioritising concessionary borrowing.

However, the heavier reliance private borrowing raises more concerns around the associated interest costs as well as foreign exchange risk associated with repayments. In addition, since part of these borrowings go towards funding non-productive sectors of the economy and therefore do not, of themselves, generate foreign exchange or other cash inflows to support debt repayments, this is expected to place an increased burden on taxpayers to meet any shortfall without necessarily having contributed to growth of taxable incomes.

The anticipated increase in public debt for the next fiscal year highlights the necessity of careful budgetary management. The sizable amount set aside for domestic debt refinancing emphasises how critical it is to manage short-term debt commitments in order to prevent defaults and preserve investor confidence in the nation.

The budget for paying down foreign debt is comparatively less, indicating a deliberate emphasis on maintaining domestic fiscal stability. Uganda will need to strike a balance between funding growth-promoting initiatives and debt servicing to keep debt levels under control and promote economic resilience and development.

Fiscal Performance

The overarching goal of Uganda's fiscal strategy in the medium term is to attain inclusive economic growth, while maintaining a stable macroeconomic environment and preserving debt sustainability.

Outcome for FY 2023/24

The fiscal deficit for FY 2023/24 is projected to decrease slightly to UGX 9.095 trillion (4.5% of GDP), compared to prior year's budget deficit of UGX 9.5 trillion (5.5% of GDP). This is largely due to the significant reduction in development expenditure which more than outweighs the increase in interest costs and domestic revenue shortfall.

Fiscal deficit is the difference between the total revenue and total expenditure of a government in a financial year. The deficit arises when Government's expenditure exceeds revenue (excluding borrowings) in the fiscal year.

Budget for FY 2024/25

The planned deficit for FY 2024/25 is UGX 12.7 trillion (5.7% of GDP) which is a 40% increase from the FY 2023/24 deficit of UGX 9.095 trillion (4.5% of GDP). This increase not only exceeds the Government's cap of 5% and the EAC target of 3%, but also reverses the consistent downward trend achieved since FY 2020/21 where there has been a decrease in the deficit year on year.

The total resource envelope for FY 2024/25 is UGX 72.1 trillion, which represents a 36.8% increase from the FY 2023/24 budget, and the most ambitious in Uganda's history. Domestic revenue is targeted to increase by 15.4% from the FY 2023/24 outrun of UGX 27.7 trillion to UGX 31.98 trillion in FY 2024/25.

	FY 2023/24	FY 2024/25	Variance
	UGX 'Billions		
Domestic Revenues	29,672	31,981	2,309
Budget Support	2,782	1,394	-1,388
Petroleum Fund		115	115
BOU Recapitalisation	217	7,779	7,561
Domestic borrowing	3,172	8,968	5,796
Sub-Total GOU Resource Envelope	**35,843**	**50,237**	**14,394**
External Project Support	8,249	9,583	1,335
Domestic Refinancing	8,358	12,022	3,664
Local Governments	287	294	7
Total inflows	**52,737**	**72,137**	**19,400**

Source: Budget Speech - ANNEX 2: RESOURCE ENVELOPE FY 2024/25

Domestic revenue

Outcome for FY 2023/24

The projected domestic revenue outcome for FY 2023/24 was UGX 27.725 trillion, representing a shortfall of UGX 1.946 trillion (6.6%) when compared to the budget of UGX 29.672 trillion. The revenue to GDP ratio is estimated at 13.6% in FY 2023/24.

Outlook for FY 2024/25

The domestic revenue outlook for FY 2024/25 is UGX 31.982 trillion, of which UGX 29.366 trillion will come from tax revenue and UGX 2.616 trillion, from non-tax revenue. The planned revenue to GDP ratio is estimated at 14.2%.

To achieve its domestic revenue target, the Government plans to continue enhancing tax administration by URA and rationalising tax exemptions in line with the Domestic Revenue Mobilisation Strategy.

More focus is therefore expected in expanding URA's presence and coverage, strengthening tax compliance enhancement tools such as the Digital Tax Stamps ("DTS") and the Electronic Fiscal Reporting and Invoicing System ("EFRIS") enforcement and use, as well as rental tax compliance.

Government is also expected to leverage information exchange with other tax authorities to combat illicit financial flows and under-declarations and strengthen enforcement interventions.

The resource envelope is to be financed by a mix of domestic and foreign debt and budget support, domestic debt refinancing, as well as recapitalisation of the Bank of Uganda.

Domestic Revenue Resource Envelope	FY 2023/24 Projection	FY 2024/25 Budget	Change from prior year %
	UGX 'Billions		
Tax revenue	25,695	29,366.0	14%
Non-tax revenue	2,031	2,616.0	29%
Petroleum Fund drawdown	0	115.4	100%
Local Government revenue collections	287.1	293.9	2%
Total Domestic revenues	**28,013**	**32,391**	**16%**
GDP	202	225.5	11.6%
Domestic revenue to GDP	13.7%	14.2%	

Government spending

The total government expenditure for FY 2024/2025 is also projected at UGX 72.136 trillion; of which the total appropriation (or specific sector allocation) is UGX 37.56 trillion (52.4% of the resource envelope) and statutory expenditure (already approved) is UGX 34.756 trillion (47.65% of the resource envelope).

Government expenditure (excluding interest) for FY 2024/25 is expected to increase by 12.2% from UGX 33.7 trillion to UGX 37.8 trillion.

Statutory spend on interest and other debt obligations continue on an upward trend, increasing by 80% from UGX 19 trillion the prior year to UGX 34 trillion; and taking over 47.6% of the resource envelope.

Programme allocations FY 2024/25

Total government spending for FY 2024/25 (including interest but excluding domestic arrears and other debt obligations) is set at UGX 47.4 trillion, representing a 19.2% increase compared to the FY 2023/24 budget. This total represents 21% (versus 19.6% for FY 2023/24) of the resource envelope.

Human Capital Development and Governance and Security have retained their spots as the largest programme beneficiaries taking a combined share of 40.6% of total appropriation; with transport infrastructure coming in third place at 10.5%.

Noteworthy is the significant budget increase in allocations in FY 2024/25 versus prior year for some sectors such as the sustainable development of petroleum resources (106% increase), community mobilisation and mindset change (108.6% increase), Climate Change, Natural Resource, Environment and Water Management (74.4% increase)

In the public sector, the Government plans to continue enforcing tight control and elimination of unnecessary expenditure and to prioritise spending towards sectors with high investment multipliers and households in the subsistence economy in line with the objective of full monetization of the economy.

The projected budget spend by sector for FY 2024/24 is as below:

Program	FY 2023/24 UGX' billion	Share %	FY 2024/25 UGX 'billion	Share %	Change from prior year %
Agro-Industrialisation	1,813	4.56%	1,878.27	3.96%	3.60%
Mineral Development	47	0.12%	41.55	0.09%	-11.60%
Sustainable Development of Petroleum Resources	447	1.13%	920.86	1.94%	106.01%
Manufacturing	219	0.55%	288.67	0.61%	31.81%
Tourism Development	248	0.62%	289.60	0.61%	16.77%
Climate Change, Natural Resource, Environment and Water Management	427	1.07%	744.83	1.57%	74.43%
Private Sector Development	1,911	4.81%	2,023.31	4.27%	5.88%
Sustainable Energy Development	1,343	3.38%	982.55	2.07%	-26.84%
Integrated Transport Infrastructure and Services	4,493	11.31%	4,989.36	10.53%	11.05%
Sustainable Urbanisation and Housing	524	1.32%	649.42	1.37%	23.94%
Digital Transformation	192	0.48%	245.89	0.52%	28.07%
Human Capital Development	9,580	24.11%	10,216.27	21.57%	6.64%
Innovation, Technology Development Transfer	257	0.65%	346.91	0.73%	34.98%
Public Sector Transformation	413	1.04%	192.61	0.41%	-53.36%
Community Mobilisation and Mindset Change	35	0.09%	73.01	0.15%	108.60%
Governance and Security	7,677	19.32%	9,102.49	19.22%	18.57%
Regional Development	863	2.17%	1,524.28	3.22%	76.63%
Development Plan Implementation	1,804	4.54%	1,795.92	3.79%	-0.45%
Administration of Justice	432	1.09%	481.39	1.02%	11.43%
Legislation, Oversight and Representation	946	2.38%	978.56	2.07%	3.44%
Sub Total	**33,671**		**37,766**		
Interest Payments	6,062	15%	9,606	20.28%	58.46%
Total appropriation + interest	**39,733**		**47,372**		**12.22%**

Source: Budget Speech - Annex 3

Sector highlights

Over the last 10 years, Uganda has experienced a transition from a predominantly agricultural driven economy to an industrial and services led one. Nonetheless, agriculture continues to serve as the backbone to Uganda's economy.

The country's growth strategy for FY 2024/25 will be anchored on 4 key growth drivers: (i) Agro-industrialisation; (ii) Tourism development; (iii) Mineral development including oil and gas; and (iv) Science, technology and innovation (STI) – ATMS

These four broad sectors are expected to propel Uganda to a US$ 500 billion economy in the next 15 years by doubling GDP every 5 years, raising GDP per Capita from US$ 1,146 to US$ 7,000 by FY2039/40, and raising exports from 12% to 50% among others.

From a sectoral cluster perspective, in FY 2024/25, the budget allocation towards the 7 priority areas are as below:

- Education, health, water, sanitation and hygiene - UGX 10.204 trillion;
- Peace and security - UGX 9.107 trillion;
- Transport and supporting infrastructure - UGX 4.989 trillion;
- Wealth creation initiatives - UGX 2.641 trillion;
- Electricity transmission, distribution and utilisation – UGX 982.6 billion;
- Natural disaster funding - UGX 146.1 billion; and
- Regional and global partnerships - UGX 31.1 billion.

This section mainly focuses on summarising the historic performance and budget allocations towards the four key growth accelerator sectors.

Agro-industrialisation

Agro-processing plays a crucial role in Uganda's transition from a predominantly agricultural driven economy to a manufacturing and services led one. Currently, food processing, beverages and tobacco account for about 60% of the total manufacturing sector; with more than 95% of manufacturing industries dominated by small and medium enterprises and a few large industries.

It is therefore unsurprising that over the years, manufactured exports including sugar, soap, and beer, have re-emerged as a major contributor to Uganda's exports revenue, yielding revenue of US$ 371 million in 2022 and US$ 289.2 million in 2023.

As part of its ten-fold growth strategy, Government has indicated commitment to step up efforts to accelerate diversification of the economy, promote value addition to raw materials, and boost exports and import substitution. These efforts include providing long term and affordable capital, investment in transport infrastructure, and energy to reduce the cost of doing business, building industrial parks; and supporting agro-processing drives in the private sector through the Uganda Development Corporation.

Challenges that prevail for the sector include navigating the high cost of doing business driven by the impact of regional and global geopolitical tensions, high interest rates, and fluctuations in global commodity prices, amidst competition for cheaper and highly demanded imported goods.

For FY 2024/25, Government has allocated UGX 1.878 trillion towards deepening agro- industrialisation initiatives with increased focus on commercialisation and value addition; a slight increase from UGX 1.813 trillion in the prior year. An additional UGX 75 billion has also been allocated towards improving coffee value chain developments.

As the transition from low value commodities to higher value commodities continues, there is great need to expand existing markets and penetrate into new ones via integration with regional and global markets and removing tariff and non-tariff barriers. It is therefore important to continue supporting the agricultural sector to provide the right quality and quantity of raw material yield to meet industry demand while overcoming the impact of climate change, improved access to cheap capital and tax reforms that support the sector.

Tourism sector

Globally, tourism was regarded as the hardest hit sector by the COVID-19 pandemic. In Uganda, it was estimated that the country lost up to 1 million foreign tourist arrivals by the end of 2020 which translates into a loss in foreign exchange earnings of up to UGX 3.91 trillion in 2020.

By June 2024, Uganda's tourism had recovered from the effects of COVID-19. And now, owing to the sector's high return on investment including Uganda's potential as one of the top 10 tourist destinations in the world, Government has indicated commitments to continue promoting domestic and inbound tourism.

In terms of GDP, revenues (tax and non-tax) from tourism activities were estimated at UGX 5.1 trillion representing 3.64% of GDP per the UBOS, 2023 Uganda Tourism Satellite Account. The sector employs an average of 1.6 million people.

UGX 1.629 trillion

has been earmarked to provide for several critical interventions including support to the Uganda Wildlife Authority, AFCON'27, completing stadiums, and strengthening security, law and order, and internet in tourism destinations

In FY 2023/24, international tourist arrivals into the country increased by 56% to 1.52 million, bringing in revenue of US$ 1.03 billion.

The budget allocation towards tourism development programs in FY 2024/25 is UGX 289 billion. In addition, an amount of UGX 1.629 trillion has been earmarked to provide for several critical interventions including support to the Uganda Wildlife Authority, AFCON'27, completing stadiums, and strengthening security, law and order, and internet in tourism destinations; as well as an additional UGX 55 billion for marketing of Uganda's tourism.

The tourism industry goes beyond wildlife and natural reserves. In addition to having the relevant supporting infrastructure in place, there is also need to invest in a diversified portfolio of indoor and outdoor entertainment activities for all age groups, both within and outside the major cities to ensure a wider customer base and enhanced tourism experience.

Mineral development

The mineral sector has been identified as one of the growth accelerators to expand Uganda's economy due to its capacity to support resource-based industrialisation.

Some of the milestones achieved within the sector in FY 2023/24 include the incorporation of the National Mining Company which is Government's investment vehicle in the sector, and establishment of various mineral processing plants for gold, graphite, limestone, and TIN among others; across the country.

The budget allocation for the minerals sector in FY 2024/25 is UGX 41.6 billion, an 11.6% decrease from UGX 54.3 billion in the prior year. Focus areas will include operationalising the National Mining Company, fast-tracking quantification before beneficiation, and strengthening the fiscal regime for minerals, including regulation of artisanal and small-scale miners, among others.

Oil and Gas sector

Amidst external pressure surrounding the exploration and development of Uganda's oil resources particularly with regards to the construction of 1,443km East African Crude Oil Pipeline (EACOP), the country achieved various milestones in FY 2023/24 in the oil and gas space.

First oil, previously expected in Q4 FY 2024/25 is now planned for FY 2025/26. Upon commencement of commercial production, the oil and gas sector is expected to enable the country to attain prosperity for all and expedite the much-needed socio-economic transformations across all sectors.

In FY 2024/25, Government has allocated UGX 921.86 billion, more than double the prior year's budget, to fast track the development of petroleum resources. Focus areas will include, among others:

- Continued construction of the EACOP and relevant infrastructure to facilitate adherence to high quality environmental statements,
- Development of the EACOP hub in Tanga, Tanzania,
- Equity contribution towards the Refinery Company following the signing of the contract with Alpha MBM Investments to build the oil refinery,
- Procuring and distribution of LPG cylinders for gas.

Science, Technology and Innovation

Uganda's economic growth strategy is anchored on various initiatives, but central to these is the need to boost productivity, efficiency, accountability, and service delivery; and also keep up with global trends.

A budget of UGX 246 billion, has been allocated specifically to accelerate digital transformation initiatives in FY 2024/25; up from UGX 192 billion in the prior year. These initiatives will include further expansion of internet connectivity and digital infrastructure, digitalising various government agencies to improve efficiency of service delivery, transparency and accountability, and cyber security, data protection and privacy, among others

The above notwithstanding, various sector specific budgets include provisions for research, innovation and adoption and improvements of digital and technology advancements.

Summarised Impact of Proposed Tax Amendments to the Economy

The government fiscal strategy for the past 5 years has been aimed at attaining inclusive economic growth, while maintaining a stable macroeconomic environment and preserving debt sustainability. To achieve this, the Government introduced the Domestic Revenue Mobilisation Strategy ("DRMS") 2019/20 - 2023/24 as a practical approach to sustainable revenue collections.

The DRMS was projected to achieve a tax revenue to GDP growth of 0.5% per annum. On average, this growth was achieved in some of the years however, it was affected by the Covid-19 pandemic.

The DRMS was meant to ensure that Uganda's tax policy reflects the principles of simplicity, fairness, citizen welfare and sustainability all of which were meant to foster a business-friendly tax environment that supports investment.

The FY25 budget support, by published amendments to the various Tax acts, introduced the following tax amendments effective 1 July 2024:

Amendments to the Income Tax Act

i) Expansion of the definition of a retirement fund to include funds maintained for the provision of benefits to their members upon termination of employment or upon occurrence of any event as determined by law or an arrangement agreed upon by the parties.

ii) Exemption of certain incomes including income:
   - derived by or from a private equity or venture capital fund regulated under the Capital Markets Authority Act.
   - from the disposal of government securities on the secondary market.
   - earned by strategic investors manufacturing electric vehicles, batteries, charging equipment and fabricators of electric vehicle bodies.
   - earned by an operator of a specialised hospital facility.

iii) Introduction of the term "permanent establishment" to replace "a branch" and new profit attribution rules to replace the current computation of a branch's chargeable income.

iv) Introduction of a 10% withholding tax on commissions paid to payment service providers

Amendments to the Value Added Tax Act

i) Provision of clarity on the person supposed to account for VAT on the proceeds on auctioned goods after the introduction of the VAT on auctioned goods in the 2023 VAT Amendment Act.

ii) Classifying the supply of goods and services to employees for no consideration as taxable supplies made by the employer for consideration.

iii) Increasing the required credit limit to carry forward the claim of input tax from UGX 5 million to UGX 10 million.

iv) The amendment adds the following supplies to the Second Schedule:

- hoes (repealed as zero-rated supplies)
- an electric vehicle locally manufactured or the frame and body of an electric vehicle locally fabricated
- pesticides (repealed as zero-rated supplies)
- fertilizers, seeds and seedlings (repealed as zero-rated supplies)
- cooking stoves that use fuel ethanol and are assembled in Uganda, up to 30th June,2028

Amendments to the Excise Duty Act

i) Introduction of the definitions to fruit juice, powder for reconstitution of beer, un-denatured spirits and vegetable juice.

ii) Increase of the excise duty on un-denatured spirits, other wines, gasoline, and gas oil.

iii) Decrease of excise duty on opaque beer, other locally produced alcoholic beverages and other locally produced non-alcoholic beverages.

iv) Introduction of excise duty on powder for reconstitution into beer and payment services.

v) Exempting the construction materials for the manufacturer of electric vehicles and its particular parts and accessories from excise duty.

vi) Expansion of the description of excisable items of fruit and vegetable juice, un-denatured spirits, and fermented beverages made locally.

vii) Removing excise duty from the telecommunication services for international calls to Burundi and Tanzania.

Amendments to the Tax Procedures Code Act

i) Increase in the tax amnesty period for the waiver of interest and penalties outstanding as at 30 June 2023 if principal tax is paid from 31 December 2023 to 31 December 2024.

ii) Introduction of the requirement for a taxpayer to notify the commissioner of the intention to destroy goods in order to claim a deduction (expense) for this destruction.

Amendments to the Stamp Duty Act

i) Introducing a nil stamp duty from the nominal share capital held by a private equity or a venture capital fund under Capital Markets Authority

ii) Increase in the minimum requirement for locally sourced material for strategic investment projects from 50% to 80%.

iii) Changing the capacity to employ citizens for strategic investment projects from 100 citizens to at least 80% of the project employees earning at least 80% of the total wage bill.

iv) Removing the need for a hospital to be a national referral hospital to qualify as a strategic investment project for a hospital facility developer.

v) Qualifying the manufacturer of electric vehicles and its particular parts and accessories as a strategic investment project subject to stipulated requirements.

About PwC

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 151 countries with more than 364,000 people who are committed to delivering quality in Assurance, Advisory and Tax services. Find out more by visiting us at www.pwc.com

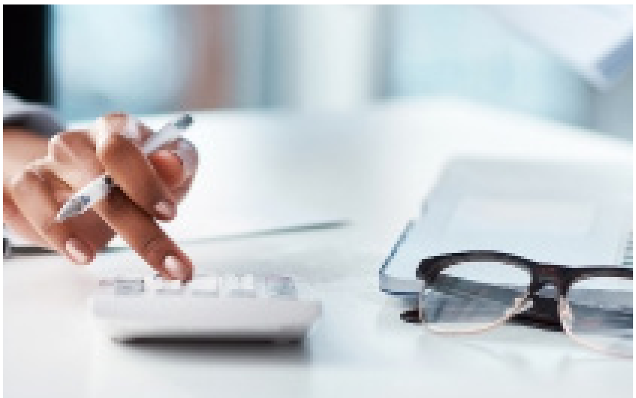
Our History

The Ugandan firm of PwC (and its legacy firms) has operated in Uganda for over 60 years, serving a broad spectrum of clients.

The firm is a full member of the network of PwC and has unrestricted access to the global network's vast resource base of proprietary knowledge, methodologies and experience.

Our Services

We offer a full range of services including assurance and audit, advisory services, tax compliance and tax advisory.



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