



UGANDA NATIONAL BUDGET BRIEF

FINANCIAL YEAR 2023/24

EDITED BY: Economic Policy Research Centre (EPRC)

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UGANDA NATIONAL BUDGET BRIEF | FINANCIAL YEAR 2023/24

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Financial Year 2023/24

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KEY MESSAGES AND RECOMMENDATIONS

- 1 The Economy of Uganda has continued on a growth momentum, with GDP growth projected at 6% in 2023/24. This projected growth, if sustained, has the potential to graduate Uganda into Upper Middle-Income status in the next decade.

■ **RECOMMENDATION:** Though this has the potential to position the country better to meet the needs of its children, it is critical for the country to plan for this graduation as this could impact on Uganda's eligibility to access concessional loans and grants to finance essential social services.
- 2 The services sector is the biggest sector contribution to GDP for Uganda, which is aligned with structural adjustment of the economy as it modernizes.

■ **RECOMMENDATION:** It is critical to strengthen the quality of employment in the services sector to ensure benefit maximization for the entire population, especially for youth and young people.
- 3 Real expenditure has been declining over the past three budget cycles, mainly due to heightened inflation, not only in Uganda but across the East Africa Region.

■ **RECOMMENDATION:** the country needs to continue inflation control efforts, especially through efforts aimed at minimizing the impact of external shocks.
- 4 Debt servicing continues to be the single biggest expenditure item in the budget for the years under review, accounting for 42% of total spending in 2021/22.

■ **RECOMMENDATION:** Though total debt stock is still sustainable as it lies within the 50% of GDP sustainability threshold, it is currently crowding out potential investments in social sectors, especially health and education that continue to spend less than the Abuja and Dakar Declarations of 15% and 20% of annual spending respectively.
- 5 Development Budget credibility and execution continues to be a challenge, though improving for the years under review. Budget credibility improved from -22% in 2019/20 to -14% in 2021/22, while budget execution also improved from -12% in 2019/20 to -5% in 2020/21.

■ **RECOMMENDATION:** In order to improve execution rates, there is need, to the extent possible, to improve on predictability of release of resources in order to facilitate expenditures, especially for development spending where procurement is involved, especially for critical social sectors.
- 6 Total tax revenue is mainly on account of the higher contribution of tax on international trade, accounting for 38% of tax revenue in 2021/22 and projected at 36% in 2023/24.

■ **RECOMMENDATION:** Considering the volatility of international trade, it is critical for Uganda to diversify tax revenue bases, especially towards more stable domestic taxes to avoid risks of revenue dips related to global developments that could impact on overall social spending.
- 7 There is growing evidence showing a shift towards domestic borrowing compared to external borrowing to finance critical government programmes.

■ **RECOMMENDATION:** As the growth in bank financing poses a huge risk to local financial markets, with potential to push interest rates up, crowding out private sector borrowing, it is critical for the government to rebalance the debt portfolio to ensure stability of local financial sector.

01 INTRODUCTION

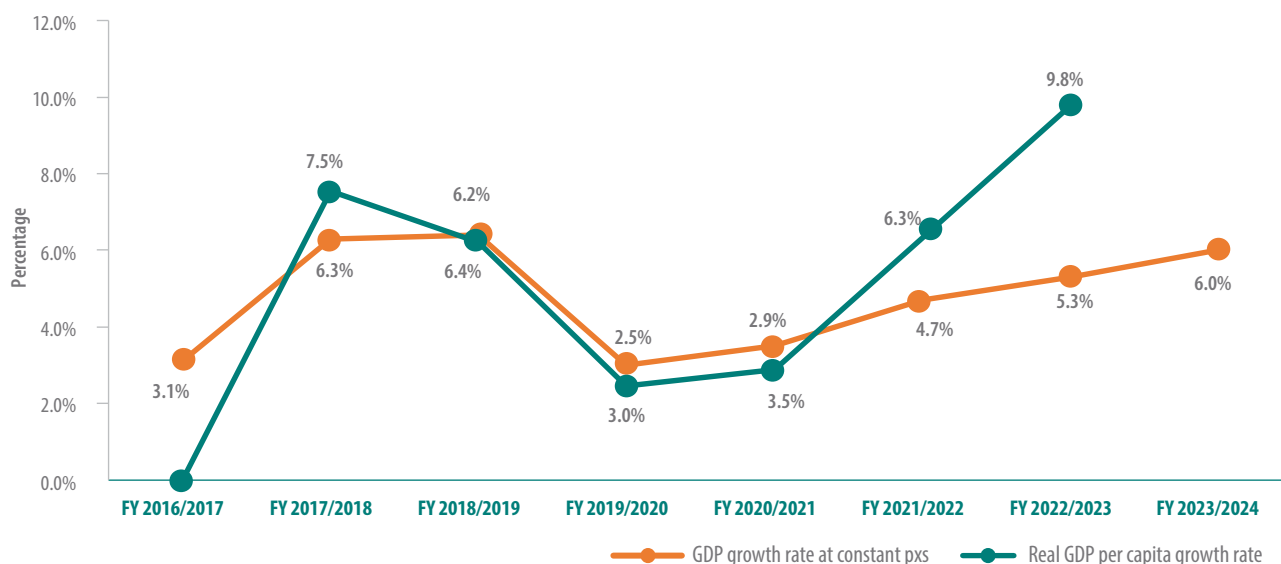
This budget brief provides a summary of key issues in the 2023/24 National Budget, and how it responds to the social sector priorities espoused in the National Development Plan III. Specifically, the brief analyses the size and composition of government spending and offers insights on efficiency, effectiveness, equity, and adequacy of past social sector spending. The analysis is based on reviewing of key budget documents that include the National budget framework Papers 2023/24, Approved Budget Estimates Report 2023/2024, and Sector Performance Review Reports, among others. Noteworthy, we analyze the budget briefs considering the shift from the sector to programme-based budgeting under the National Development Plan (NDP III).

02 MACRO AND SOCIOECONOMIC CONTEXT

2.1 GROWTH IN GDP PER CAPITA

Uganda has been registering growth in GDP per capita over the years, which has put the country on a positive trajectory to attain middle-income status in the next decade. GDP growth recovered from the impact of COVID-19, improving from 3% and 3.5% in 2019/20 and 2020/21 respectively, to 4.7% and 5.3% in 2021/22 and 2022/23. The GDP is projected to grow further by 6% in 2023/24, which is the level of growth registered before the onset of COVID-19.

FIGURE 1 GDP AND REAL GDP PER CAPITA GROWTH, 2016/17 TO 2023/24 (AS %)



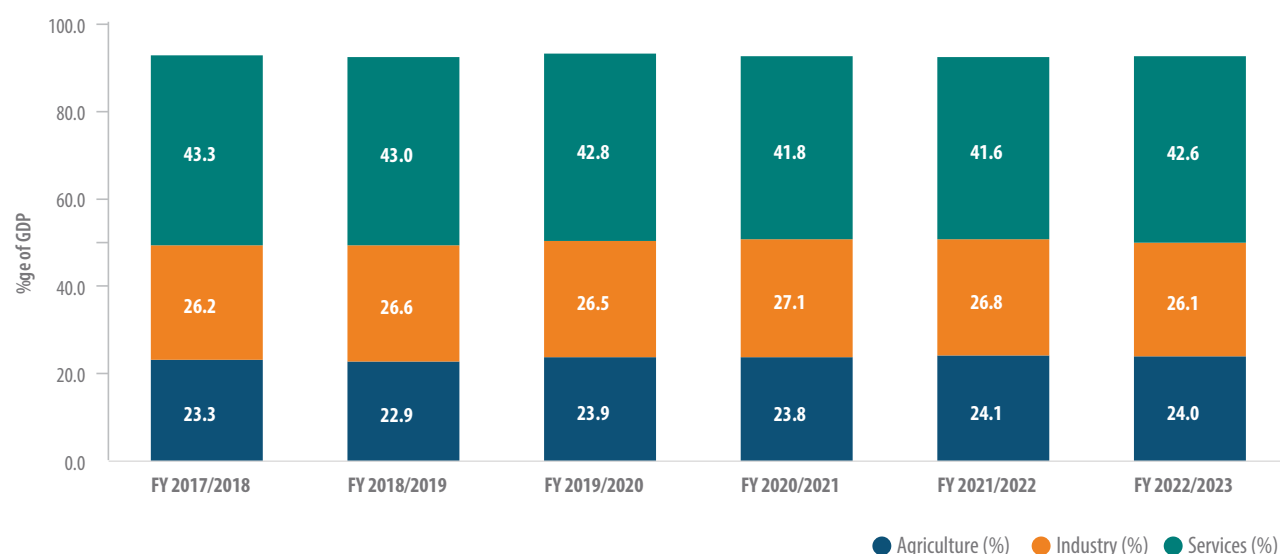
Source: Uganda Bureau of Statistics (UBOS) and Ministry of Finance, Planning and Economic Development

The Real per capita growth is also projected to observe the same trend in growth, more than doubling in growth between 2020/21 and 2021/22, and further estimated to have grown by 9.8% in 2022/23.

2.2 SECTOR CONTRIBUTION TO GDP

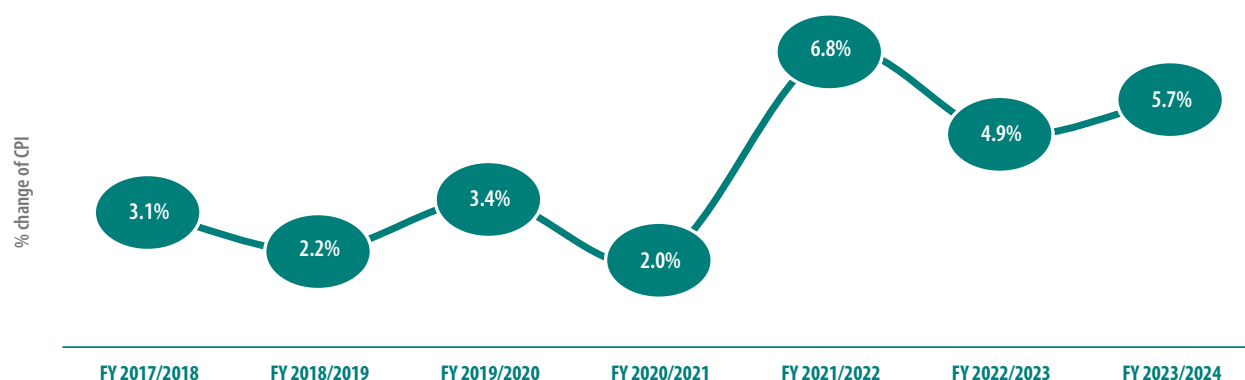
The services sector¹ (it includes Education, Human Health and Social Work activities, Financial and Insurance Activities) remains the biggest contributor to GDP in Uganda. For the period under review, the services sector continued to be the biggest contributor to the nation's GDP, at more than 40% of the total GDP. Industry consistently ranks second over the review period at more than 25%, while agriculture contributes between 22% and 24% (see Figure 2). However, the focus should be on improving the quality of the services sector, as most of the services, including petty trade, are related to insecure jobs, even though the growth of the services sector aligns with economic modernization.

¹ Uganda Bureau of Statistics Data Base, https://view.officeapps.live.com/op/view.aspx?src=https%3A%2F%2Fwww.ubos.org%2Fwp-content%2Fuploads%2Fstatistics%2FAGDP_Publication_Tables_2022_23.xls&wdOrigin=BROWSELINK, Sheet GDP CP

FIGURE 2 SECTOR CONTRIBUTION TO GDP, 2017/18-2022/23 (AS A % OF GDP)

2.3 INFLATION TRENDS

The country has managed to contain inflation after a prolonged period of high inflation in the aftermath of the COVID-19 pandemic. Before the COVID-19 pandemic, the country managed to keep inflation below 3.5%, with the lowest of 2.2% in 2018/19. The lockdown measures caused inflation to decline to its lowest level over the review period, reaching 2% in 2020/21, as trade was restricted. However, as the economy re-opened in 2021/22, inflation peaked at 6.8%, mainly due to external shocks linked to the global oil sector. This declined to 4.9% in 2022/23 and projected to end 2023/24 at 5.7%.

FIGURE 3 INFLATION TRENDS, 2017/18-2023/24 (ANNUAL PERCENTAGE CHANGE OF CONSUMER PRICE INDICES)

Source: Uganda Bureau of Statistics (UBOS)

KEY TAKEAWAYS

- If sustained, the continued growth momentum of the economy has the potential to graduate Uganda into the Upper Middle-Income category in the next decade. If this materializes, this could impact Uganda's eligibility to access certain financing facilities, especially the concessional ones through multi-lateral institutions.

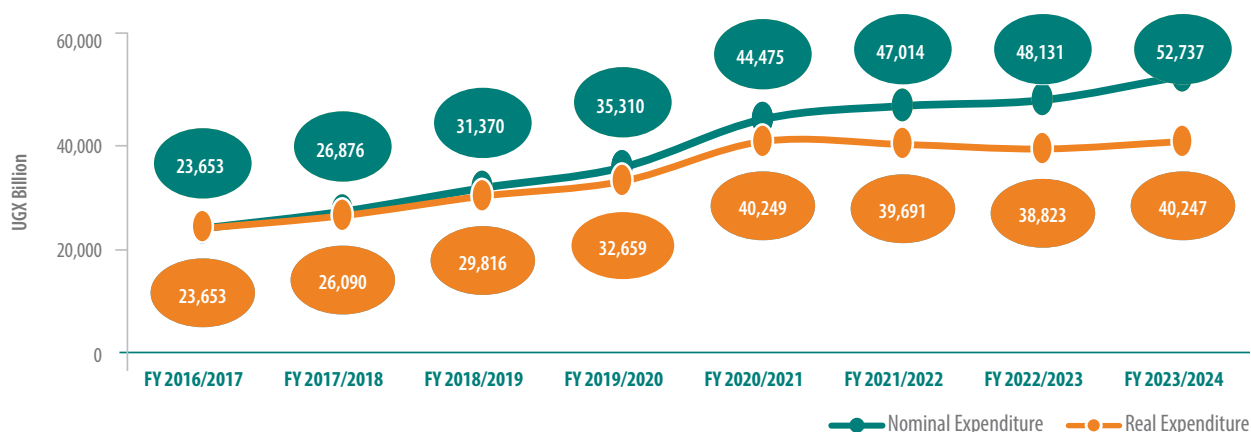
03 AGGREGATE SPENDING TRENDS AND PRIORITIES

3.1 TOTAL GOVERNMENT SPENDING TRENDS

Nominal expenditure has continued to grow over the review period. Over the review period, nominal expenditure has continued to grow, more than doubling from UGX23,653 billion in 2016/2017 to UGX48,131 billion in 2022/23, and is projected to reach UGX52,737 billion in 2023/24. The growth in total expenditure over the years is a reflection of the growth in overall GDP.

Real expenditure has begun to decline after a prolonged period of steady growth. Since the COVID-19 pandemic, real expenditure, which had been steadily growing, has seen a decline from its peak of UGX40,249 billion in 2020/21 to an estimated UGX38,823 billion in 2022/23. This is mainly because of growth in inflationary trends since 2021/22 (6.8%) and lower growth in nominal expenditures as the country implemented fiscal consolidation to manage the growth of debt.

FIGURE 4 NOMINAL AND REAL TOTAL GOVERNMENT SPENDING TRENDS, FY2016/17-23/24 (IN BILLIONS OF UGANDA SHILLINGS)

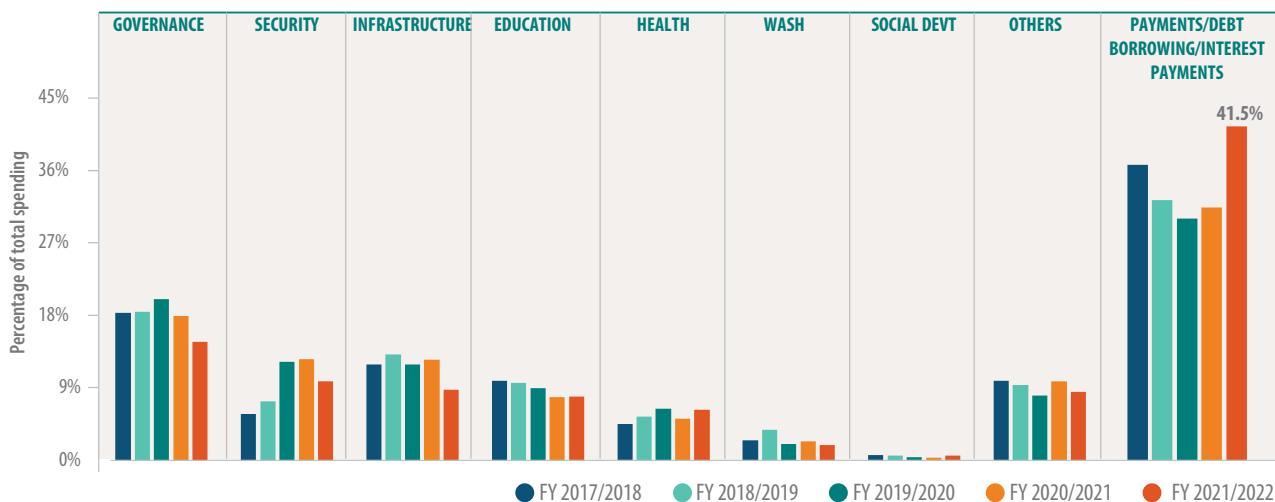


Source: Ministry of Finance, Planning and Economic Development.

3.2 INVESTMENT PRIORITIES

Outside of the sectors, debt management has continued to be the biggest single expenditure item for Uganda. Over the years under review, debt management has consumed at least 30% of the national budget, the biggest expenditure line item annually. In 2021/22, debt management, including borrowing, interest, and debt repayment, accounted for at least 40% of the total national budget, as shown in Figure 5 below. This is followed by Governance and Infrastructure. Social development, under which the country spends on social protection, receives the least priority among all the sectors (see Figure 5)

FIGURE 5 INVESTMENT PRIORITIES, FY2017/18-2021/22 (MAIN SECTORS AS % OF TOTAL EXPENDITURE)



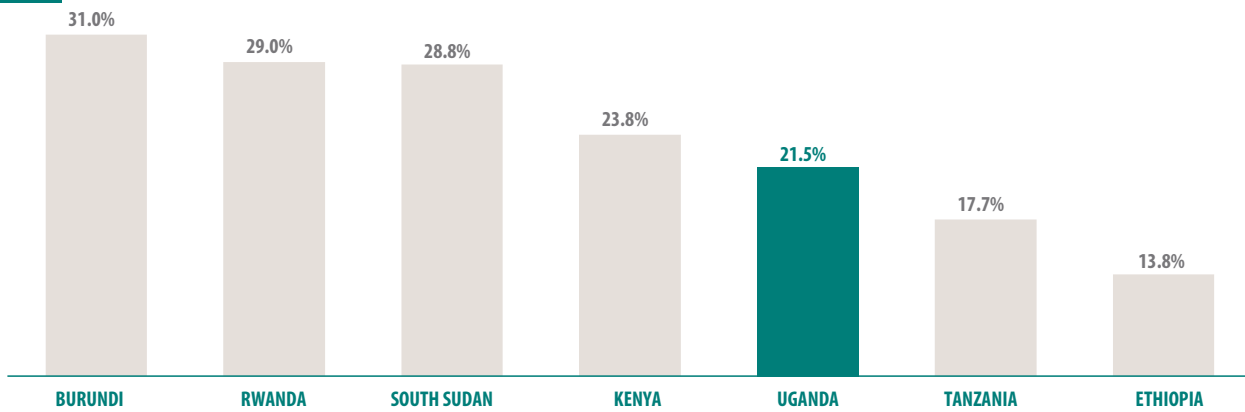
Source: Ministry of Finance, Planning and Economic Development

Debt management consumes the most significant share of resources outside the sectors, crowding out funding for the other sectors. This results in the general constrained growth in sectoral funding while the overall national budget is growing faster. Much of the debt, which has now shifted to more commercial and domestic borrowing, carries a higher premium that will impact future discretionary budgets.

3.3 TOTAL EXPENDITURE IN SELECT ESAR COUNTRIES

On average, Uganda ranks 5th in East Africa on expenditure to GDP, at 21.5%. In the East African community, Uganda is ahead of Ethiopia (13.8) and Tanzania (17.7%) with regard to the proportion of annual expenditure to GDP. However, the country spends comparatively less than the other three neighbouring East African countries, namely Burundi, Rwanda and South Sudan are the highest spenders in the region, at 31%, 29% and 28.8% of GDP (Figure 6).

FIGURE 6 GENERAL GOVERNMENT TOTAL EXPENDITURE IN SELECT ESAR COUNTRIES, 2019/20-2021/22 PROJECTIONS (AS % OF GDP)



Source: National Budget Performance Reports, FY 2019/20-FY 2021/22

KEY TAKEAWAYS

- The recent decline in real expenditure calls for more effort to tame inflation to preserve value of the expenditures
- The debt situation in Uganda, which is taking the highest expenditures than any other sector, is crowding out investment in social sectors.



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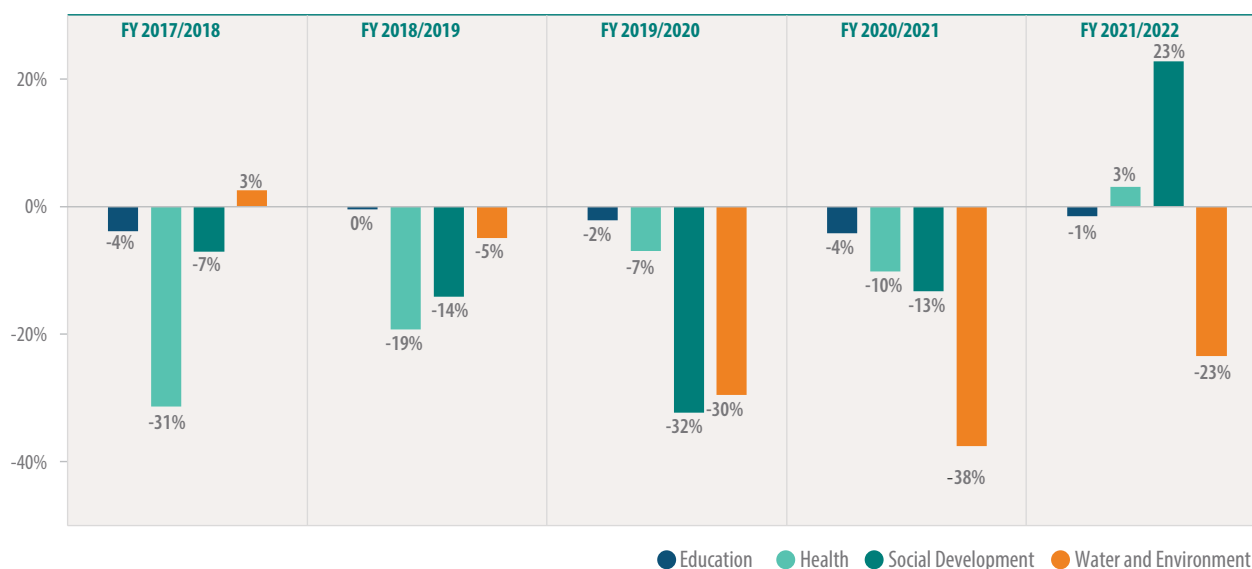
04 BUDGET CREDIBILITY AND EXECUTION

4.1 BUDGET CREDIBILITY RATES IN SELECT SECTORS

Budget release against approved budgets on key sectors of education, health, social development, and water has been sub-optimal against approved budgets over the years. The water and environment sector has been experiencing worsening releases against approved budgets, with under-releases deteriorating from -4% in 2017/18 to -35% in 2019/20 before hitting rock bottom at -40% in 2020/21. Health has also been impacted with an under-release of -31% in 2017/18, though this improved from -19% in 2018/19 to 3% in 2021/22.

On the other hand, social development, under which the country spends for social protection, saw a change in fortune in 2021/22 when the sector experienced an over-release of 23%, mainly emanating from social protection spending in response to the impact of COVID-19.

FIGURE 7 BUDGET CREDIBILITY RATES IN SELECT SECTORS, FY2017/18-2021/22 (DEVIATION FROM APPROVED BUDGET AS A PERCENTAGE).



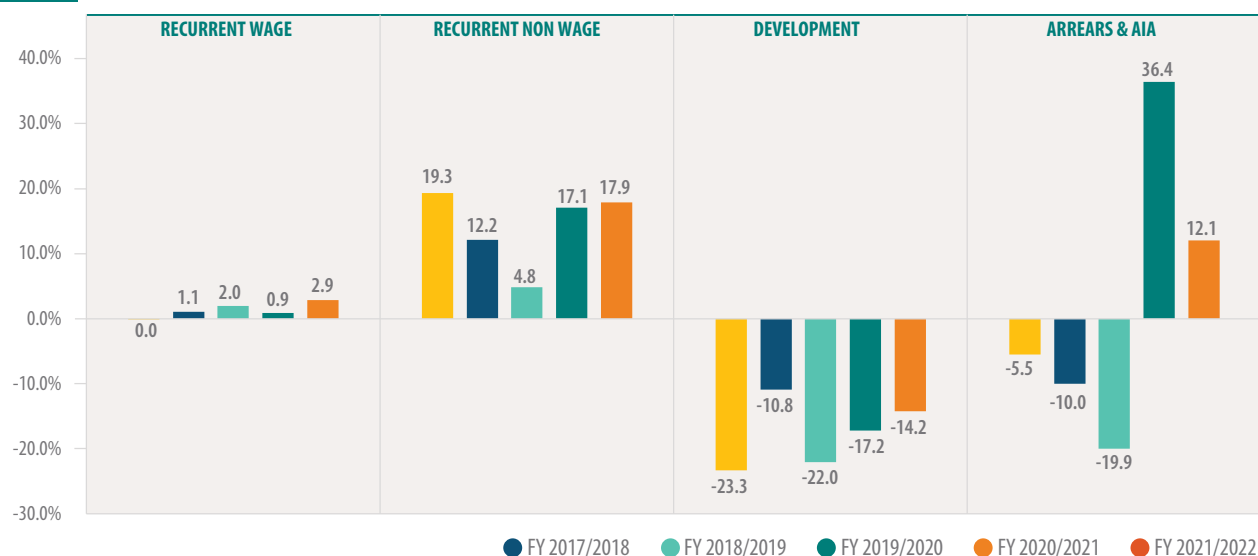
Source: Ministry of Finance, Planning and Economic Development

4.2 BUDGET CREDIBILITY RATES BY ECONOMIC CLASSIFICATION (OVERALL NATIONAL EXPENDITURE PERFORMANCE)

By economic classification, development expenditures have been experiencing the biggest under-releases over the review period. In 2017/18, development budget releases underperformed by -23.3%, which improved to -14.2% in 2021/22. On the other hand, non-wage recurrent expenditure budget releases consistently overperformed for all the years under review. In general, the high releases were to cater for Supplementary expenditures for the Thermal power plant subsidy under Ministry of Energy and Mineral Development, essential medicines under National Medical Stores, commitments under IGAD and Operations of the Uganda Railways Corporation after the termination of the Rift Valley Railways concession, the Supplementary expenditure for classified expenditure under State house (Ugx 179 billion in 2018/19), purchase of e-passports under National Citizenship and Immigration Control (Ugx 60 billion in 2018/19) and shortfalls on fixed cost items for missions abroad (Ugx 13 billion) among others².

² Annual Budget Performance Reports, 2017/18 (Page 51), 2018/19 (Page 66), 2019/20 (Page 74), 2020/21 (Page 85), 2021/22 (Page 97)

FIGURE 8 BUDGET CREDIBILITY RATES BY ECONOMIC CLASSIFICATION, FY2017/18-2021/22 (DEVIATION FROM AMOUNT APPROVED AS %)



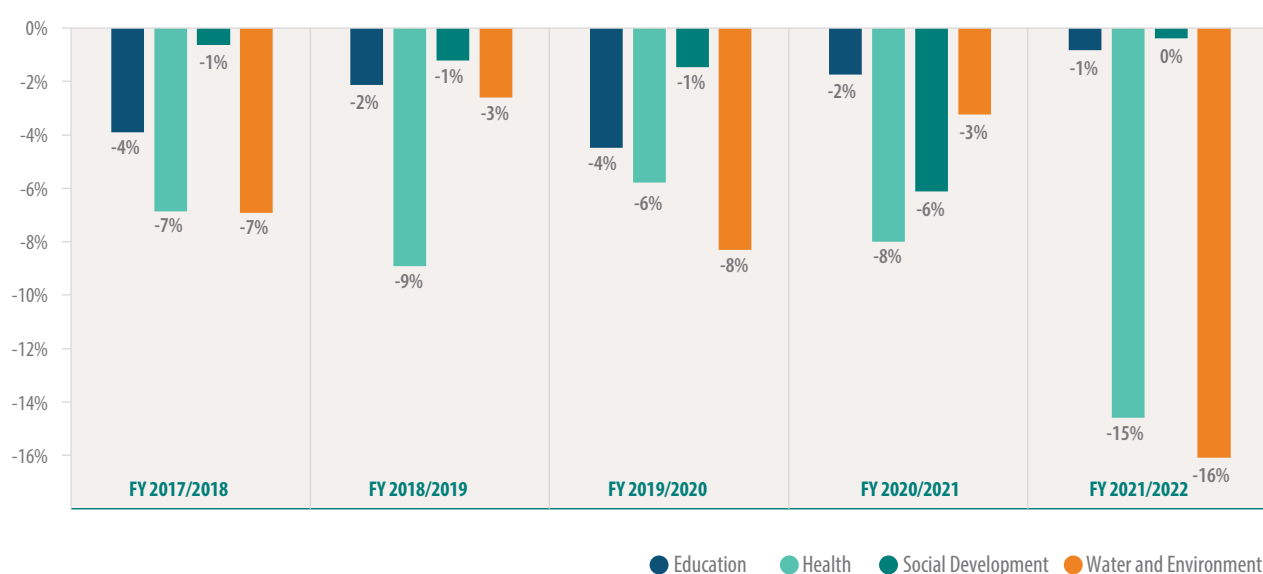
Source: Ministry of Finance, Planning and Economic Development

What is more concerning is underspending for the Arrears and Appropriation in Aid between 2017/18 and 2019/20. This was mainly because of the slow process of validating arrears, which was partially done in 2021 and contributed to the over release of 36.4% in 2020/21 as the arrears accumulated were partially settled, with some carried over to 2021/22.

4.3 BUDGET EXECUTION IN SELECTED SECTORS

Budget expenditure against releases has also been suboptimal for Uganda over the years, especially for Health and Water and Environment Development, at -15% and -16% respectively in 2021/2022. As the sectors experienced lower releases than approved budgets, spending on the released resources has also been low. All the key social sectors of health, education, social development, and water and environment have been consistently spending less than released resources, with water and health being the most impacted. In 2021/22, health underspent on the released resources by -15%, with water and environment underspending by -16%. The situation is worse than in 2020/21, where both sectors underspent by -8% and -3% respectively.

FIGURE 9 BUDGET EXECUTION IN SELECTED SECTORS: EXTENT OF UNDER-EXPENDITURE OF RELEASED FUNDS FY 2017/18-FY 2021/22 (%)

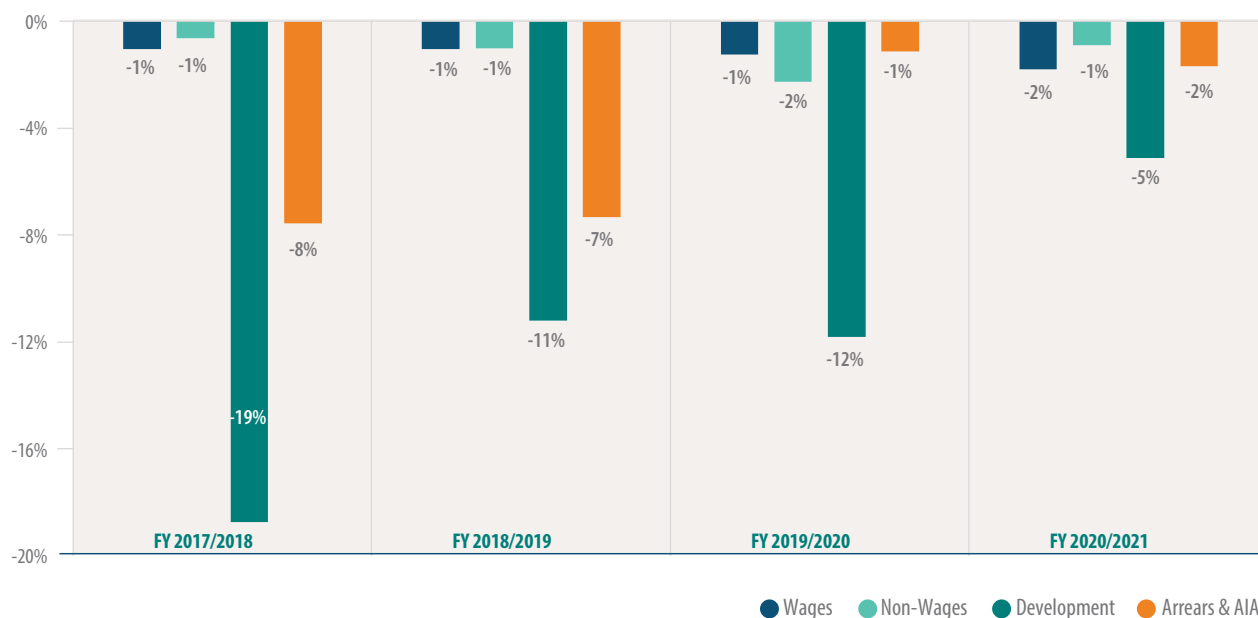


Source: Ministry of Finance, Planning and Economic Development

4.4 BUDGET EXECUTION BY ECONOMIC CLASSIFICATION

By Economic Classification, the development budget has been experiencing the highest underspend. For all the years under review, Uganda has seen poor spending for developing expenditures, mainly related to heavy procurement processes for programme implementation. The situation has, however, been improving, with an underspend of -5% in 2020/21, down from -19% in 2017/18. Improvements have been made for Arrears and Appropriation in Aid, where underspends declined from -8% to -2% in 2017/18 and 2020/21, respectively.

FIGURE 10 BUDGET EXECUTION BY ECONOMIC CLASSIFICATION: THE EXTENT OF UNDER-EXPENDITURE, FY 2017/18-FY 2020/21 (%)



Source: Ministry of Finance, Planning and Economic Development

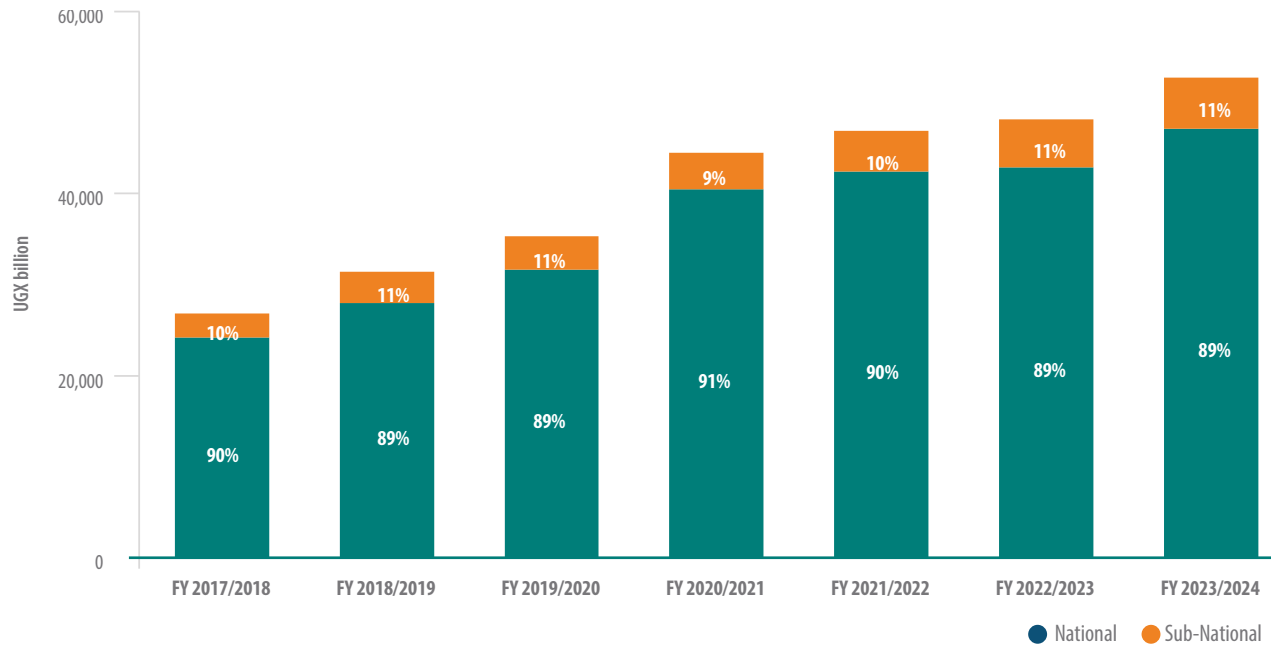
KEY TAKEAWAYS

- The poor releases, coupled with poor execution of released budgets, need improvement as they affect service delivery. The opportunity cost on unspent balances is higher for borrowed funds, which accumulate interest while no service delivery is in place.

05 DECENTRALIZATION.

At least 90% of total spending in Uganda is at the national government level. Though Uganda has a decentralized system of budgeting and spending, most of the total budget is through Ministries, Departments and Agencies at the national level at the expense of district local governments that are the primary agents for service delivery. The 176 subnational government-level Votes, which provide critical social services like health, education, and water, are projected to continue receiving 11 % of the total national spending in 2023/24, just as they did in 2022/23 and before.

FIGURE 11 NATIONAL AND SUB-NATIONAL SPENDING TRENDS, FY2017/18-2023/24 (IN BILLIONS OF UGANDA SHILLINGS AND AS A PERCENTAGE OF TOTAL)



Source: Ministry of Finance, Planning and Economic Development

As local governments are the primary agencies for delivering critical social services, especially health, and education, it is critical to rebalance the level of spending to ensure resources are made available in adequate quantities at the point of spending.



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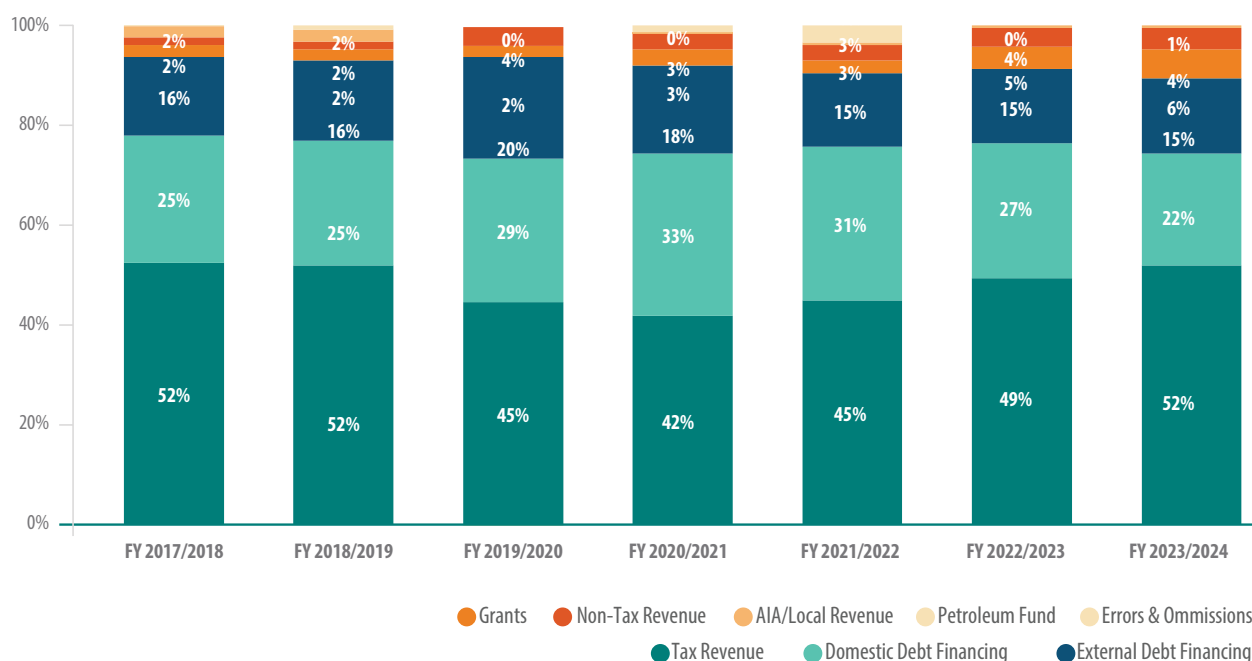
06 SOURCES OF FINANCING

6.1 MAIN SOURCES OF FINANCING THE NATIONAL BUDGET

Tax revenue remains the biggest source of funding for government expenditure. Nearly half of the funding through the national budget is collected from taxes, followed by domestic borrowing. Domestic borrowing, which peaked at 33% of total spending in 2020/21, declined to 22% in the 2023/24 Approved Budget, mainly emanating from fiscal consolidation efforts aimed at managing the total debt within sustainable levels.

On the other hand, external borrowing has flattened at 15% of total expenditure, while grants and non-tax revenue have begun to increase since 2020/21 (see Figure 12). The implementation of the domestic resource mobilization strategy is primarily responsible for the change in shares, as it seeks to reduce risk by reducing external borrowing.

FIGURE 12 MAIN SOURCES OF FINANCING THE NATIONAL BUDGET, FY2017/18-2023/24 (IN BILLIONS OF UGANDA SHILLINGS AND AS % OF TOTAL)



Source: Ministry of Finance, Planning and Economic Development

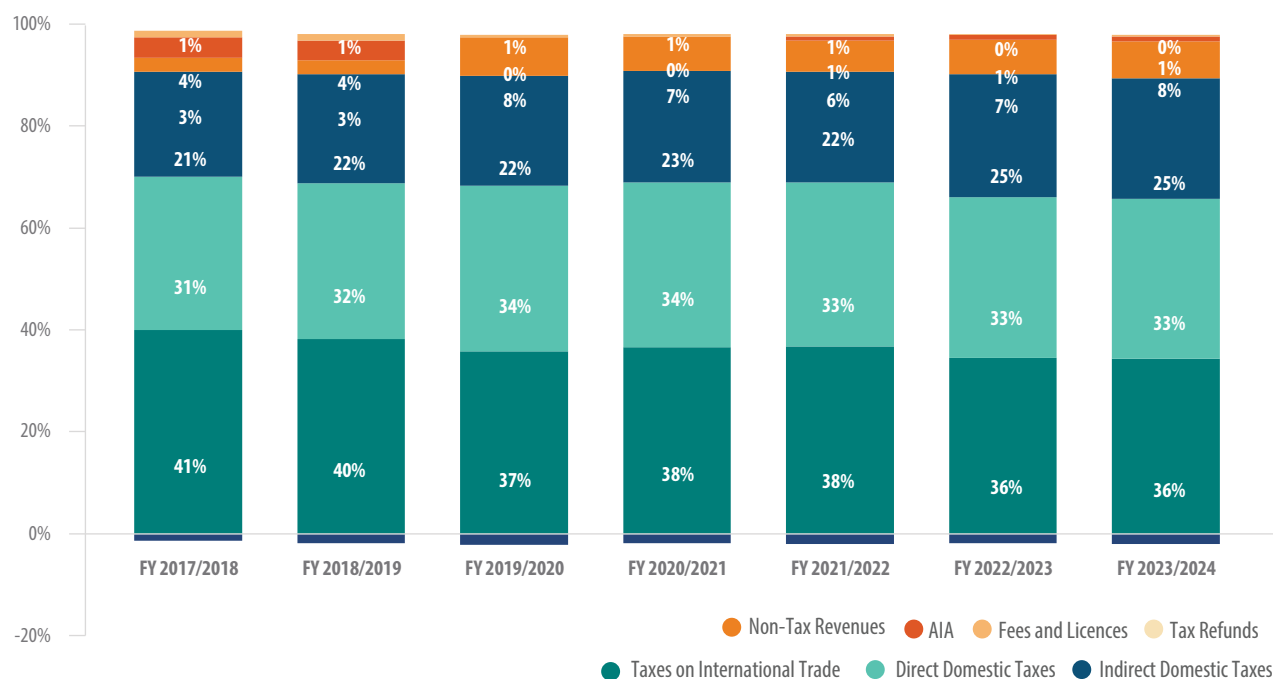


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6.2 COMPOSITION OF GOVERNMENT REVENUE

Taxes on International Trade are the biggest tax head for Uganda. Among the taxes collected, taxes on international trade account for the biggest contribution, estimated at 38% in 2021/22, the same level in 2020/21. This is followed by Direct Domestic Taxes, which accounted for 33% and 34% in 2021/22 and 2020/21 respectively (see Figure 13 below).

FIGURE 13 COMPOSITION OF GOVERNMENT REVENUE, FY2017/18-2023/24 (IN BILLIONS OF UGANDA SHILLINGS, AS % OF TOTAL AND AS % OF GDP)



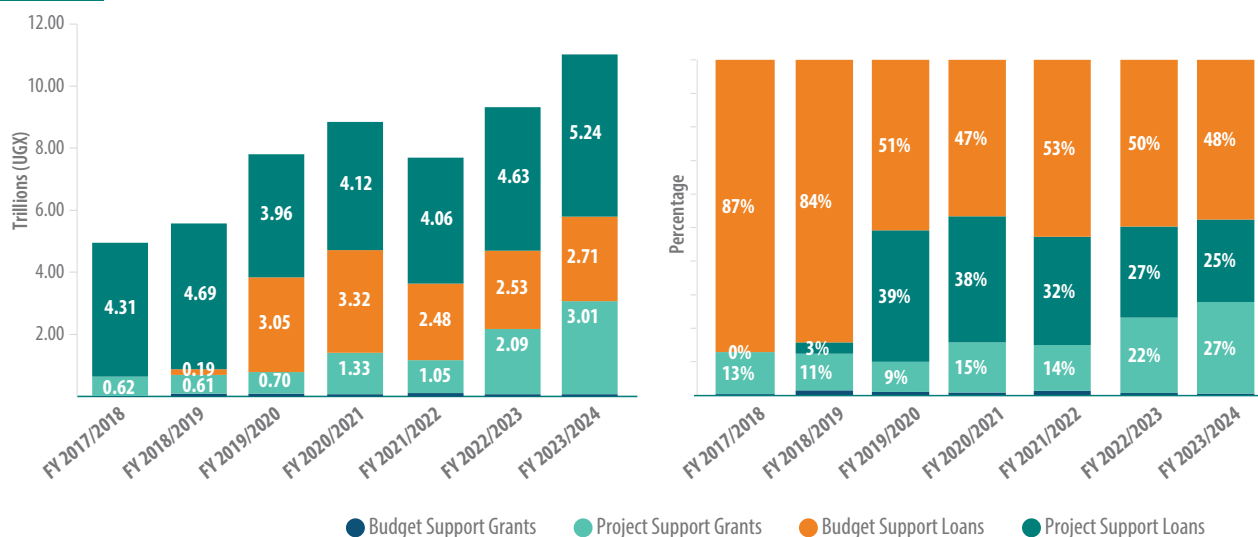
Source: Ministry of Finance, Planning and Economic Development.

On the other hand, indirect taxes, which are taxes on consumption like Value Added Tax, are the lowest tax head as shown above.

6.3 DONOR FUNDING

More than half of the external financing for the budget is through Project Loans. For Uganda, the amount of Project Support Loans has increased since 2021/22, from UGX4.06 trillion (53%) to UGX5.24 trillion (48%). Project support grants, which also increased from UGX700billion (9%) in 2020/21 to UGX3.01trillion (27%) has also complemented this.

FIGURE 14 DONOR FUNDING BY GRANTS AND CONCESSIONAL LOANS, 2017/18-2023/24 (IN UGANDA SHILLINGS AND AS % OF GDP)



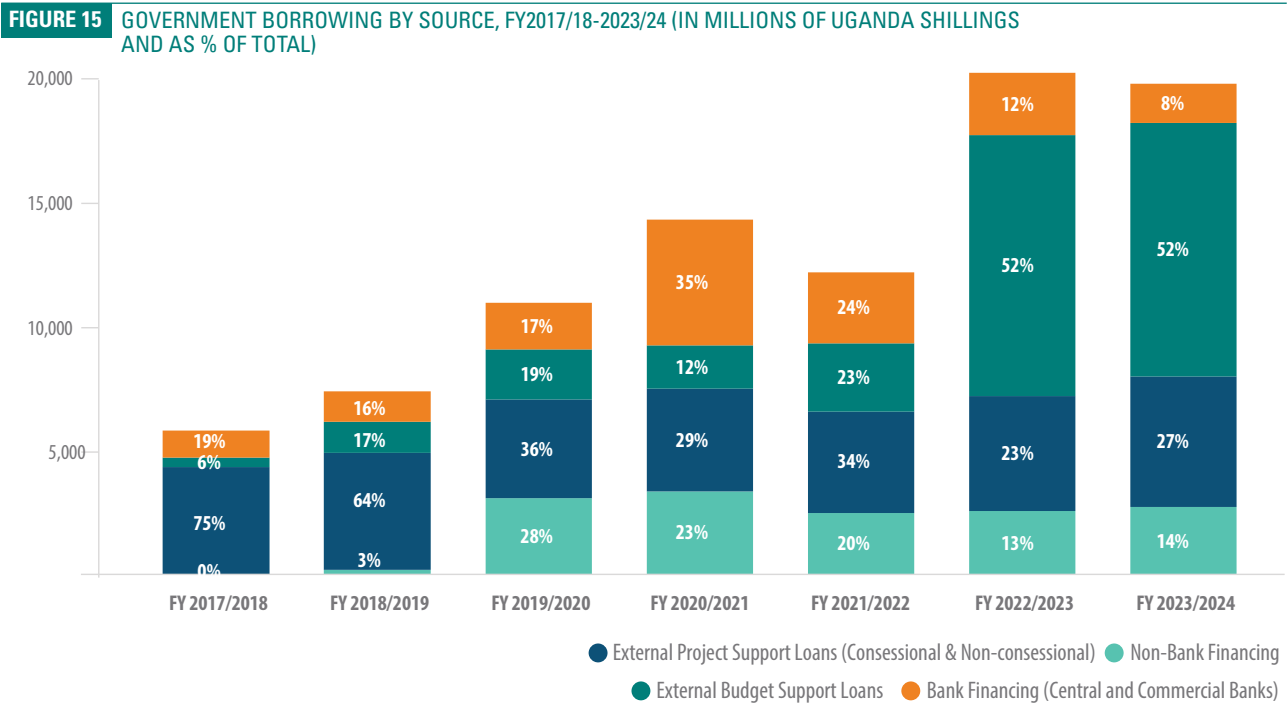
Project support loans are projected to increase. Since 2021/22, the amount of Project support loans has increased to UGX2.53 trillion and to UGX2.71 in 2022/23 and 2023/24, respectively. However, in proportion terms, Project Support Loans have been declining, from 32% in 2021/22 to 27% and projected 25% in 2022/23 and 2023/24 respectively, in line with fiscal consolidation efforts.

KEY TAKEAWAYS

- The recovery of tax revenue since 2020/21 is a step in the right direction and aligned with the National Domestic Revenue Mobilisation Strategy.
- The dependence of tax on trade for revenue needs careful rebalancing to ensure that the economy is not susceptible to external shocks related to trade flows.

07 GOVERNMENT BORROWING

Domestic borrowing has seen unprecedented growth since 2022/23. Bank financing, both from Central banks and from commercial banks, has seen unprecedented growth over the past 2 years, growing from 24% of total borrowing to 52% in 2022/23 and projected at 52% in 2023/24. This is offsetting non-bank financing, which has been declining over the same period, from 24% of total borrowing in 2021/22 to 12% in 2022/23 and 8% projected for 2023/24, respectively (see Figure 15 below).



Source: Ministry of Finance, Planning and Economic Development

The growth in bank financing may be a step in the wrong direction as it will crowd out private-sector borrowing, impacting overall private-sector growth by increasing the cost of credit.

KEY TAKEAWAYS

- The growth in bank financing poses a massive risk to local financial markets, potentially pushing interest rates up, crowding out private sector borrowing. This may drag on potential economic growth in the short to medium term

ANNEX: KEY BUDGET EVENTS CALENDAR

MONTH	ACTIVITIES
July 2023	Compilation of Government Fiscal Position as at end FY 2021/2022
August 2023	<ol style="list-style-type: none"> 1. Top Management Meeting on the current Revenue Measures 2. Consultations with members of the Private Sector Working Group on the Budget Strategy for FY 2023/2024 3. Update on the Economic Development Strategy 4. Consultation with the Economic Management Group on the Budget Strategy for FY 2023/2024 5. Permanent Secretaries' Meeting on the Budget Strategy for FY 2023/2024 6. Provision of Macro Framework and Provisional Resource Envelope for FY 2023/2024 7. Engagement with the PDM Secretariat 8. Draft Budget Strategy Paper for Financial Year 2023/2024 9. Top Management Meeting on the Budget Strategy FY 2023/2024 10. Economic Growth Forum
September 2023	<ol style="list-style-type: none"> 1. Top Management Retreat 2. Consultation with H.E. The President on the Budget Strategy for FY 2023/2024 3. Cabinet Meeting on the Budget Strategy for FY 2023/2024 4. Cabinet Retreat on the Annual Government Performance Report FY 2021/22 5. The National Budget Conference for FY 2023/2024 PFMA, 2015 (Amended) Section 9 (1-5) 6. The First Budget Call Circular for FY 2023/2024 PFM Regulations, 2016 Amended Sec. 7 (1 – 2); and PFMA, 2015 (Amended) Section 9 (1 - 5). 7. Regional Consultations with Local Governments on the Budget Process for FY 23/24. Refer to PFM Regulations, 2016 Amended Sec. 7 (1 – 2); and PFMA, 2015 (Amended) Section 9 (1 - 5).
October 2023	Final Review of New Projects for inclusion in the PIP for FY 2023/2024 and Consolidated Main DC Report. Final Clean Up of PIP. Consolidated Multi-Year Statement and Report on DC Appeals.
November 2023	<ol style="list-style-type: none"> 1. Submission of Program Budget Framework Papers for FY 2023/24 to MoFPED [Section 9 (2)] 2. Top Management Meeting on the Draft NBFP for FY 2023/2024 3. Inter-Ministerial Review on the Budget Priorities (NBFP) for FY 2023/2024 4. Meeting with H.E. the President on the National Budget Framework Paper FY 2023/2024 5. Cabinet Meeting on the NBFP for FY 2023/2024
December	Submission of the NBFP FY 2023/2024 to Parliament
January	
February	<ol style="list-style-type: none"> 1. Meeting with the PDM Secretariat 2. Top Management Meeting on Revenue Measures and Tax Administration 3. Issue the Second Budget Call Circular FY 2023/2024 4. First BTTB Draft (Global and Regional Development Issues; Development Cooperation; Update on National Development Outcomes and Investment Performance; Sectoral Developments)
March	<ol style="list-style-type: none"> 1. Meeting with HE The President on the Detailed Budget Estimates for FY 2023/2024 2. Submit Ministerial Policy Statements to Parliament 3. Medium Term Debt Management Strategy. Report on Loans, Grants and Other Guarantees. Financing Report. Compliance of Public Debt with the Charter for Fiscal Responsibility. 4. Top Management Meeting on the Final Resource Envelope FY 23/24 5. Cabinet Meeting on the Final Detailed Budget Estimates for FY 2023/2024 6. Presentation of Annual Budget for FY 2023/2024 by Hon. MoFPED, accompanied by the Legal Requirements in line with Section 13 (8), (9), (10) and (11)
April	
May	Approval of the Budget for FY 2023/2024 (Appropriation Bill) - Section 14 (1)
June	Reading of the Budget Speech for FY 2023/2024 in Parliament



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