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UGANDA

May 2020

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR UGANDA

In the context of the Request for Disbursement under the Rapid Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 6, 2020, following discussions that ended on April 27, 2020 with the officials of Uganda on economic developments and policies underpinning the IMF disbursement under the Rapid Credit Facility. Based on information available at the time of these discussions, the staff report was completed on April 28, 2020.
- A **Debt Sustainability Analysis** prepared by the staff of the IMF and the International Development Association (IDA).
- A **Statement by the Executive Director** for Uganda.

The document listed below has been or will be separately released.

Letter of Intent sent to the IMF by the authorities of the Uganda

*Also included in the Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

IMF Executive Board Approves a US$491.5 Million Disbursement to Uganda to Address the COVID-19 Pandemic

FOR IMMEDIATE RELEASE

- The Ugandan economy is severely affected by the COVID-19 pandemic.
- To address the urgent balance-of-payments and fiscal needs, the IMF approved US$491.5 million emergency assistance for Uganda under the Rapid Credit Facility.
- The authorities have timely scaled up health spending and put in place bold measures to help contain and mitigate the spread of the disease, as well as to cushion the impact on the most vulnerable and the private sector.

WASHINGTON, DC – **May 6, 2020** The Executive Board of the International Monetary Fund (IMF) approved today a disbursement of SDR361 million (about US$491.5 million or 100 percent of quota) for Uganda under the Rapid Credit Facility (RCF). It will help finance the health, social protection and macroeconomic stabilization measures, meet the urgent balance-of-payments and fiscal needs arising from the COVID-19 outbreak and catalyze additional support from the international community.

The Ugandan economy is being severely hit by the COVID-19 pandemic and, in particular, such key sectors as services (tourism), transport, construction, manufacturing and agriculture. The challenging external environment is curtailing remittances and foreign direct investments. The pandemic has also exacerbated the challenges posed by heavy rains in early 2020 and the ongoing locust invasion.

To contain the impact of the pandemic, the authorities have increased health spending, strengthened social protection to the most vulnerable, and enhanced their support to the private sector. The Bank of Uganda has appropriately reduced interest rates and provided liquidity to safeguard financial stability, while maintaining exchange rate flexibility.

The weakening economic conditions emanating from the Covid-19 pandemic have put significant pressures on revenue collection, expenditure, reserves and the exchange rate, creating urgent large external and fiscal financing needs.

The IMF continues to monitor Uganda's situation closely and stands ready to provide policy advice and further support as needed. The authorities have also committed to put in place targeted transparency and accountability measures to ensure the appropriate use of emergency financing.

Following the Executive Board's discussion on Uganda, Mr. Tao Zhang, Deputy Managing Director and Acting Chair, issued the following statement:

"The global COVID-19 pandemic is expected to severely hit the Ugandan economy through several channels, with detrimental effects on economic activity and social indicators. The external and fiscal accounts are expected to deteriorate, creating substantial urgent external and fiscal financing needs.

"To limit the pandemic's human and economic impact, the authorities have promptly adopted bold preventive measures to contain the spread of the virus, and scaled up health spending to strengthen the health system's capacity. Interventions to support the more vulnerable have also been introduced. In addition, the Bank of Uganda has swiftly introduced policy measures to support liquidity, preserve financial stability and support economic activity. The authorities are encouraged to continue to step up social protection programs to cushion the impact on the vulnerable population and to protect health spending allocations over the medium term.

"A temporary widening of the fiscal deficit is warranted in the short term to allow for the implementation of the response plan. Despite a temporary worsening of debt indicators and heightened vulnerabilities, public debt is expected to remain sustainable. The authorities remain committed to ensuring debt sustainability, including through their efforts to enhance revenue collection and strengthen public investment management.

"The authorities are committed to managing transparently the resources received and will strengthen transparency and accountability. They plan to report separately on the use of the funds, undertake and publish an independent audit of crisis-mitigation spending and publish large procurement contracts.

"The IMF's emergency financial support under the Rapid Credit Facility, along with the additional donor financing it is expected to help catalyze, will help address Uganda's urgent balance of payments and budget support needs."

More information

IMF Lending Tracker (emergency financing request approved by the IMF Executive Board)
https://www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker

IMF Executive Board calendar
https://www.imf.org/external/NP/SEC/bc/eng/index.aspx

UGANDA

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY

April 29, 2020

EXECUTIVE SUMMARY

Context. The Ugandan economy is being severely affected by the covid pandemic, although the number of confirmed cases has so far remained relatively low, at 79 on April 27. The economic impact of the pandemic started to be felt even before the first case was reported on March 21, through supply chain disruptions. The authorities' policy response has been timely, scaling up health spending and putting in place bold measures to help contain and mitigate the spread of the disease. The pandemic is exacerbating the economic difficulties caused by heavy rains at the beginning of the year, and the locust infection in the northern part of the country—whose full impact is still unfolding. The pandemic and the related response are dampening revenue collection and putting pressure on the exchange rate and foreign exchange reserves.

Request for Fund support. The authorities are seeking financial assistance under the Rapid Credit Facility (RCF) to address the urgent balance of payments and fiscal needs posed by the pandemic. The authorities request a disbursement of 100 percent of their quota (SDR361 million, or about US$490 million), with the full amount to become available upon Board approval of the request. They plan to devote 70 percent of the Fund's support to support the central bank's reserve position, with the rest for budget support. Staff supports the request, as Uganda meets the RCF qualification criteria. Debt is sustainable, with a low risk of external and overall debt distress, and the capacity to repay the Fund is strong. The authorities are also pursuing support from the World Bank, the African Development Bank and other development partners to cover the remaining financing needs.

Policy response. The authorities' plans to accommodate the covid-related fiscal measures and mobilize additional financing are welcome. The authorities should strengthen the existing social protection tools to protect the most vulnerable during the crisis and continue increasing health spending over the medium term. The authorities have agreed to revisit and postpone some of the planned lower-priority expenditure if they do not mobilize sufficient financing; and to ensure that the revenue measures adopted to respond to the crisis will be temporary. Bank of Uganda's (BoU) accommodative monetary policy has a critical complementary role to play to cushion the macroeconomic and financial impact of the crisis. BoU will continue tracking developments closely, allowing the exchange rate to act as a shock absorber and keeping a reasonable reserve buffer. BoU's measures to provide liquidity support to the financial sector are welcome.

Approved By
Annalisa Fedelino (AFR) and Chris Lane (SPR)

An IMF team consisting of C. Mira (head), A. Abdychev, A. Touré (all AFR), L. Samula (local economist) held discussions with the Ugandan authorities by teleconferences led by the Permanent Secretary and Secretary to the Treasury of the Ministry of Finance, Planning and Economic Development Muhakanizi, the Acting Deputy Governor of Bank of Uganda, Dr. Mugume, and other senior government officials on April 25-27, 2020. M. Ismail (OED) also participated in discussions. Y. Kalfa provided excellent research support. Ms. Attey and Mr. Ouattara's help with the production of the staff report is gratefully acknowledged.

CONTENTS

CONTEXT

1. **The coronavirus outbreak is affecting Uganda and resulting in a severe contraction of economic activity.** The first case was reported on March 21 and followed by 78 more. So far there has been limited evidence of local transmission of the disease and no covid-related deaths have been reported. The measures initially adopted included the closure of schools and universities, the restriction of public gatherings, and the banning of public transport. They were later expanded with the closure of all borders and the airport, the suspension of refugee reception services, and the introduction of a 14-day full country lockdown—later extended by 21 days—with a night curfew. During this period, private transport was also banned, and the movement of people severely limited. The impact of the lockdown and containment measures is reducing domestic demand and disrupting supply. The economy is also severely affected by a decline in FDI and remittances.

2. **The pandemic is also inflicting large social costs.** The confinement measures are posing a challenge for vulnerable households, which depend on their daily work as a source of livelihood. Unemployment and poverty are expected to increase. The Ministry of Finance estimates that between 780,000 and 2.6 million Ugandans could move into poverty as incomes decline, threating to erode the impressive progress in poverty reduction achieved over the last decade. The informal sector workers are particularly at risk—a group in which women make up the majority. In addition, the large refugee population—around 1.4 million, the largest refugee presence in Africa—represents an additional challenge, as settlements are at heightened risk of pandemics. Finally, the outbreak comes at an uncertain time, when the country is also dealing with a locust invasion and had earlier suffered torrential rains and floods.

3. **As a first immediate emergency response, the authorities are prioritizing health spending to fight the pandemic.** Uganda's health system does not have adequate resources to face this health emergency. There are less than 7 health professionals per 10,000 citizens, and there is a shortage of essential equipment and materials, including oxygen supply. The Ministry of Health, working jointly with key development partners, has prepared a plan to respond to covid, with an initial cost of about US$125 million over the next six months. The plan includes measures such as the urgent recruitment of additional health personnel, the upgrading of equipment, and the mobilization of medical supplies and key health commodities such as test kits, personal protective equipment, oxygen, ventilators and ICU beds. To finance the plan, the authorities have already used US$1.3 million from their Contingency Fund in the FY2019/20 budget and passed a supplementary budget. Furthermore, since funds are being reallocated from other health programs to the covid response, essential health services are also under strain and require financing.

4. **Before the outbreak, the economy was performing well, with growth projected at 6 percent for FY2019/20.** The rebasing of the national accounts in October 2019 depicted an increase in the size of the economy by 11.6 percent, and some structural transformation, with a

significant increase in the share of industry in GDP.[1] Both annual headline and core inflation were hovering around 3 percent. The current account deficit had widened to 8.6 percent of GDP in FY2018/19, largely due to one-off private sector-related imports financed by FDI. As at end February 2020, the Ugandan shilling remained stable on account of FDI and capital inflows; reserves remained adequate at US$3.2 billion, equivalent to 4.4 months of imports, and private sector credit was growing at 12 percent.

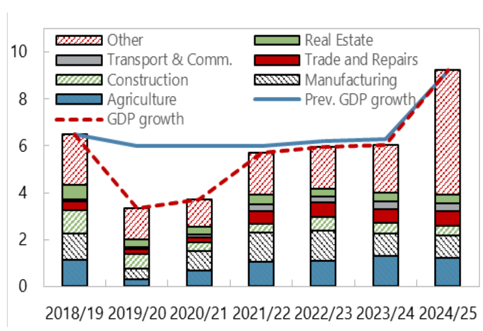
5. **At the same time, the implementation of the FY2019/20 budget was already proving challenging due to revenue and financing shortfalls and large spending pressures.** Revenue collections had been short of the FY2019/20 budget target by about Ush 600 billion (0.4 percent of annualized GDP) in the first half of the fiscal year, due partly to the non-implementation of some of the planned revenue-generating measures and delays in expected oil-sector related revenues. Together with large spending pressures arising mostly from wages, the preparation for elections, and security needs, the authorities had issued a supplementary budget and negotiated a commercial loan from the banking sector to cover some of the gap.

IMPACT OF THE PANDEMIC

6. **The pandemic and its global repercussions are weighing heavily on economic activity.** Global supply chain disruptions, particularly from China—Uganda's largest source of imports—have affected local manufacturers, construction companies, exporters, logistics firms, tourism companies and other service providers. The national lockdown accentuated the challenges in the private sector. Short-term indicators based on private sector surveys in March show a pronounced deterioration in economic activity (Text Figure 1). Growth is now projected at 3.3 percent in FY2019/20 (2.7 percentage points below the previous forecast) and begin to recover in FY2020/21, with a 3.7 percent projection. The most affected sectors include services (particularly tourism,

Text Figure 1. Real Sector Developments

Sectoral contribution to growth
(annual percent change)



Sources: Ugandan authorities and IMF staff estimates.

Purchasing Managers' Index (PMI)
(50= no change on previous month)

Source: IHS Markit and Stanbic Uganda.

[1] The base year changed from FY2009/10 to FY2016/17, and activities that were previously missing were included. The industry's share increased from 20.6 percent to 27 percent, mostly as a result of the doubling in the manufacturing sector. The share of the services sector declined.

transport, and trade), manufacturing and construction. The agricultural sector is also affected by the fall in external demand.

7. **The pandemic is also resulting in a significant deterioration in the balance of payments compared to the pre-shock projections**:

- Imports are expected to decline by 12 percent in FY2019/20 and 17 percent in FY2020/21. Supply chain disruptions from Asian and European suppliers—some of Uganda's key trading partners—global lockdowns and the expected deceleration in FDI is likely to significantly reduce import volumes. Furthermore, the lower oil prices have contributed to reducing the import bill.

- Exports will also moderate by 13 percent in FY2019/20, and 19 percent in FY2020/21, with lower domestic production, weak global demand, scarcity of some intermediary and capital imports, and lower export commodity prices.

Text Table 1. Projected External Financing Requirements, FY2018/19–FY2020/21

	FY2018/19		FY2019/20				FY2020/21			
			Pre shock (March 2020)		After shock (April 2020)		Pre shock (March 2020)		After shock (April 2020)	
	USD Million	% of GDP	USD Million	% of GDP	USD Million	% of GDP	USD Million	% of GDP	USD Million	% of GDP
Current account	**-2966**	**-8.6**	**-2,911**	**-7.7**	**-3,613**	**-10.1**	**-3,230**	**-7.9**	**-3,200**	**-8.7**
Coffee exports	416	1.2	438	1.2	412	1.2	504	1.2	458	1.2
Oil imports	980	2.9	956	2.5	793	2.2	956	2.3	649	1.8
Government imports	707	2.1	903	2.4	770	2.2	882	2.2	837	2.3
Tourism	541	1.6	1,189	3.1	541	1.5	1,268	3.1	611	1.7
Remittances	1,369	4.0	1,422	3.7	812	2.3	1,479	3.6	725	2.0
Capital and financial account	**2,912**	**8.5**	**3,214**	**8.5**	**2,405**	**6.7**	**3,333**	**8.2**	**2,283**	**6.2**
Direct investment (net)	-1,447	-4.2	-1,878	-4.9	-980	-2.7	-2,236	-5.5	-1,063	-2.9
Public sector (net)	-1,145	-3.3	-1,294	-3.4	-1,390	-3.9	-1,139	-2.8	-1,087	-2.9
Financing	**-69**	**-0.2**	**-303**	**-0.8**	**702**	**2.0**	**-103**	**-0.3**	**105**	**0.3**
Financing gap	…	**…**	…	…	506	1.4	…	…	813	2.2

Sources: Ugandan authorities and IMF staff estimates and projections.

- Tourism receipts are expected to decline by 54 percent in FY2019/20 and 52 percent in FY2020/21.

- Remittances would decline by 43 percent in FY2019/20 and 51 percent in FY2020/21.

- FDI is expected to drop by 48 percent in FY2019/20 and 52 percent in FY2020/21, in a context of uncertainty. FDI in Uganda has been largely related to the start of oil production, and that start date is now more uncertain.

- Some capital outflows from offshore investors in government securities have already materialized, resulting in exchange rate depreciating against the dollar by about 5.7 percent in the month of March. Such pressures could be compounded by a likely slowdown in project loans disbursements. Public sector disbursements would decline by 33 percent in FY2019/20 and 18 percent in FY2020/21.

8. **The resulting urgent balance of payments needs will require external support**. The pandemic is opening a financing gap of about US$1.3 billion in 2020, of which US$0.5 billion (1.4 percent of GPD) would happen in FY2019/20 and US$0.8 (2.2 percent of GDP) in FY2020/21 (Text Table 1 and Text Table 2). Absent external support, the expected deterioration in the current, capital and financial accounts would result in a sharp decline of the Bank of Uganda's (BoU) reserve buffer from 4.4 months of imports in FY2018/19 to below 2 months of future imports at the end of FY2020/21. This would be below the adequate level of reserves for Uganda[2], and would leave the country in a vulnerable position. The resources provided by the IMF under the proposed RCF disbursement would contribute to filling the financing gap, with financing from other development partners also necessary (Text Table 2). Therefore, Uganda would respond to the balance of payments shock through a combination of reserve drawdown (with reserves declining from 4.4 to 3.5 months of imports in FY2019/20 and FY2020/21) and external financing.

Text Table 2. Financing Gaps, 2020

	2020	
	In millions of US$	In percent of GDP[1]
Fiscal financing gap	1,790	4.9
Prospective RCF	150	0.4
Prospective financing from World Bank	394	1.1
Prospective financing from AfDB		
Residual financing gap	1,246	3.4
BOP financing gap	1,318	3.6
Prospective RCF	490	1.3
Prospective financing from World Bank	394	1.1
Prospective financing from AfDB	0	
Residual financing gap	434	1.2

Sources: Ugandan authorities and IMF staff estimates

[1] Percent of post-shock GDP

OUTLOOK AND RISKS

9. **The outlook remains highly uncertain**. Growth is expected to decline sharply to 3.3 percent in FY2019/20, with several sectors experiencing a slowdown, including tourism, transport, trade, manufacturing, construction and agriculture. The effects of the shock will continue to persist in FY2020/21, though with some mild rebound expected, so the economy is projected to grow by 3.7 percent. Despite uncertainties surrounding the near-term inflation outlook—with deflationary pressures competing with inflationary ones—headline inflation is projected at 3.2 percent in FY2019/20, increasing to 4.7 in FY2020/21, with core inflation gradually converging to its 5 percent target over the medium term. The current account deficit is projected at 10.1 percent of

[2] Although the IMF's metric to assess reserve adequacy in credit-constrained economies indicates that a reserve coverage of 2 months of imports would be adequate for Uganda, staff still considers, in line with the latest Article IV assessment, that this level is too low considering external vulnerability. Thus, from an external vulnerability perspective, reserves should be maintained at least above the rules of thumb of 3 months of imports, and ideally above 4 months of imports with the EAC convergence criterion of 4½ months of imports as the anchor (Article IV 2019, IMF Country Report No. 19/125, Annex III). Furthermore, as a small open economy, Uganda is vulnerable to capital outflows. Historically, Bank of Uganda has kept reserves higher than 4 months of import cover, and therefore a significant decline (below 3.5 months of imports) would increase Uganda's risk premium.

GDP in FY2019/20, due to the sharp decline in exports, income from tourism and remittances, and despite the mitigating impact of declining imports, with some improvement to 8.7 percent of GDP in FY2020/21 (Text Table 3). Private sector credit growth is expected to decline to 8.9 percent in FY2019/20 and gradually pick up to support the economic recovery over the medium term.

10. **Over the medium term, the outlook is positive, provided the covid-crisis toll is contained and the infrastructure and oil sector investments can proceed as planned.** The economy is expected to stabilize and continue growing as some of the large investment projects are completed and start yielding a growth dividend. Growth could reach 9.2 percent with the start of oil production in FY2024/25—though uncertainty given current low oil prices is high. The oil-related investments necessary to start production are expected to raise the budget deficit, public debt, and the current account deficit, but these developments would be temporary.

Text Table 3. Medium-Term Macroeconomic Outlook, FY2018/19–FY2024/25

	2018/19 Est.	2019/20 Proj.	2020/21 Proj.	2021/22 Proj.	2022/23 Proj.	2023/24 Proj.	2024/25 Proj.
	ınnual percentage change, unless otherwise indicate						
Real GDP	6.5	3.3	3.7	5.7	6.0	6.0	9.2
Headline inflation (period average)	3.1	3.2	4.7	5.0	5.0	5.0	5.0
Credit to private sector	12.7	8.9	10.2	14.8	13.9	14.0	14.0
	(Percent of GDP, unless otherwise indicated)						
Fiscal overall balance	-5.0	-7.7	-8.9	-5.5	-5.7	-5.0	-3.8
of which Capital expenditure	9.0	8.8	9.5	8.2	8.5	8.3	8.1
Public debt	42.2	45.7	49.0	50.7	50.4	48.9	48.9
of which External debt	28.8	31.3	34.1	36.2	36.2	35.8	35.8
Current account	-8.6	-10.1	-8.7	-5.5	-5.0	-3.8	-2.0
of which Oil exports	...	...	...	...	...	...	3.1
Reserves (in months of imports)	4.4	3.5	3.5	3.9	4.5	4.5	6.1

Sources: Ugandan authorities and IMF staff estimates and projections.

11. **The fiscal position is expected to deteriorate temporarily but the debt would remain sustainable.** The impact of lower growth and tax incentives together with additional health expenditure, social protection and economic stimulus measures is expected to widen the fiscal deficit in FY2020/21. In FY2019/20, the significantly lower-than-expected externally-financed development spending would more than compensate for the covid-related deterioration in the deficit. Nonetheless, the deficit excluding externally-financed projects and project grants would increase by 1.1 percent of GDP. Although the debt stock would increase to respond to the emerging financing needs, debt dynamics would remain sustainable and Uganda would remain at low risk of debt distress, with public debt projected to rise above 54 percent of GDP in FY2021/22 and peak at 59.6 percent of GDP in FY2023/24 (Annex I).

12. **The authorities largely agree with staff's projections, though they are more optimistic about the growth outlook, particularly concerning the rebound for next fiscal year**. The Ministry of Finance expects that the economy could recover somewhat faster than projected by staff, with growth at 4.5 percent in FY2020/21, supported by the measures in their response package, though acknowledging great downside risks in the current circumstances. Over the medium term, the authorities expect the recovery to happen at a similar pace to that of partners in the region, given the high dependence on exports to neighboring countries. They are however concerned that

the low oil price environment could affect demand for Ugandan exports by some key trading partners.

13. **Overall, risks remain tilted to the downside.** The assumptions behind staff's projections consider the pandemic a temporary shock, from which the global economy and the Ugandan economy would start recovering in the second half of FY2020/21. If the outbreak proves to be more severe, the fiscal costs could be significantly higher, and the recovery could be delayed. A less favorable external environment could also delay the recovery, causing a slower pick-up in external demand and affecting tourism, remittances, exports and FDI. Civil unrest could also increase as the population deals with the difficult consequences of the containment measures. Besides the covid-related risks, the evolution of the oil price is a key risk factor for Uganda as it may contribute to further delay the start of oil production. Indeed, the already delayed and protracted discussions between Uganda and its oil sector partners to reach Final Investment Decision is not favored by the pandemic and the current low oil price environment[3]. Furthermore, Uganda is suffering from a locust invasion that could potentially become very damaging. The proximity of the early 2021 general elections also brings considerable uncertainty, which could affect sentiment and economic activity and lead to high spending pressures.

POLICY ISSUES AND DISCUSSIONS

A. Fiscal Policy

14. **The authorities are taking measures to mitigate the impact of the pandemic on the economy and to support the most vulnerable groups (Text Table 4).** Key measures include (i) shielding the most vulnerable affected by the lockdown and containment measures via a food distribution campaign; and (ii) introducing an economic stimulus package to support the severely affected private sector. The details of the package are still under discussion, but there is already agreement that key measures will include expedited repayment of domestic government arrears to private sector suppliers; boosting the lending capacity of the state-owned Uganda Development Bank (UDB) to provide affordable credit to support private sector companies to reorient their production towards covid response related items; the deferment of tax payment obligations for the most

Text Table 4. Authorities' response to Covid

	2020	
	In billions of Ush	In percent of GDP[1]
Covid-related expenditure	2,469	1.7
Health	704	0.5
Support to vulnerable populations; food and utilities relief, social protection	537	0.4
Security	74	0.1
Support to the private sector (UDB)	755	0.5
Other expenditure (points of entry; communications; clearance of arrears)	398	0.3
Revenue shortfall [2]	-3,984	-2.8
Total covid impact	6,389	4.5

Sources: Ugandan authorities and IMF staff estimates
[1] In percent of post-shock GDP
[2] Compared to January projections

[3] Nonetheless, the authorities and the oil companies have just reported progress in their discussions towards agreeing on a fiscal regime, and Total and Tullow have announced that they have reached a deal for Total to acquire Tullow's share in the oil project. These developments could pave the way for progress leading to a Final Investment Decision.

affected sectors; the introduction of tax exemptions for items used for medical use; the support with water and electricity utilities; and the expansion of labor-intensive public works programs.

15. **The pandemic and related measures will result in a widening of the fiscal deficits in FY2019/20 (excluding externally financed projects) and FY2020/21 (Text Table 5).** The lower projected economic activity coupled with the tax exemptions are projected to result in a domestic revenue shortfall of 1 percent of GDP in FY2019/20 and 1.7 percent of GDP in FY2020/21 compared to the latest projections from January. Covid-related expenditure is expected to be 1.7 percent of GDP for the calendar year 2020, of which 0.6 percent of GDP in FY2019/20 and 1.1 percent in FY2020/21. Parliament has already approved a supplementary budget providing Ush 304 bn shillings to respond to the pandemic, with the bulk of it devoted to the health sector, followed by security, disaster management and protection of the vulnerable population. The pandemic is also expected to lead to a worsening in the already weak absorption of externally-financed investment projects, affected by disruptions in the supply chains and in project financing. Furthermore, government has prioritized covid-related sectors and postponed plans for additional supplementary spending, while reducing capital expenditure in the last quarter of the year. All in all, the FY2019/20 deficit excluding externally-financed projects and project grants is projected to increase by 1.1 percent of GDP, with the overall deficit projected at 7.7 percent, from 5 percent in FY2018/19. The FY2020/21 budget has just been endorsed by Parliament. However, it does not include the impact of the pandemic. Since the Covid-crisis started when the Ministry of Finance was in the last stages of the budget preparation process, and given the high degree of uncertainty, the authorities decided to proceed with a budget without the impact of Covid, and plan to revise it in the coming weeks. Staff currently projects a deficit at 8.9 percent of GDP and anticipates that government would have to reorient some of their spending from lower priority areas to respond to the pandemic.

Text Table 5. Uganda: Central Government Fiscal Operations FY2018/19–FY2020/2021

	2018/19	2019/20			2020/21		
	Proj.	Pre-shock (January 2020)	Proj.	difference (% GDP[1])	Pre-shock (January 2020)	Proj.	difference (% GDP[1])
	(In billion of Ugandan Shillings)						
Revenue and grants	**17840**	**20,306**	**18,468**	**-1.3**	**22,808**	**20,511**	**-1.6**
of which: Tax and non-tax revenue	16,638	18,945	17,589	-1.0	21,968	19,391	-1.7
Expenditure	**24,268**	**31,300**	**28,904**	**-1.8**	**33,088**	**33,624**	**0.4**
of which: Coronavirus related spending			887	0.7		1,192	0.8
Overal balance	**-6428**	**-10,995**	**-10,436**	**0.4**	**-10,279**	**-13,112**	**-1.9**
Overall balance (excl. externally financed projects and project grants)	-2280	-6158	-7666	-1.1	-4575	-8362	-2.6
Financing	**6,403**	**10,995**	**8,343**	**-1.9**	**10,279**	**8,219**	**-1.4**
Financing gap	0	0	**2,093**	**1.5**	0	**4,893**	**3.3**
Prospective RCF			571	0.4		0	0.0
Prospective financing from World Bank			1,143	0.8		376	0.3
Residual financing gap			379	0.3		4,518	3.1

Sources: Ugandan authorities and IMF staff estimates

[1] Percent of post-shock GDP

16. **The government is working with development partners to mobilize financing.** With limited room for additional issuances—and the intention to limit them to avoid contributing to crowding out a struggling private sector—the proposed RCF on-lending (worth 0.4 percent of GDP) would be instrumental in closing the fiscal financing gap in FY2019/20. Work is also ongoing with the World Bank to put together a budget support operation and other financing through existing

and new projects to address key covid response needs (particularly for health), boost growth and preserve jobs, and support the most vulnerable; with the African Development Bank; the United Nations (UN) organizations, that are just launching a Flash Appeal to support and complement government's efforts in the response to Covid, and other bilateral development partners. Furthermore, the Ugandan authorities are interested in seeking debt service relief under the G-20 Covid-19 debt relief initiative and are working on contacting bilateral creditors. According to the information shared with staff, US$94 million worth of debt service falling due could benefit from the moratorium and contribute to reducing the financing gap resulting from the Covid-related crisis. The authorities have noted their intention to adhere to the needed commitments. The Covid crisis is also generating a large wave of solidarity from the private sector, institutions and individuals, who are responding to the authorities' call to make donations, both in cash and in kind, to the crisis response team. The residual fiscal gap—after adjusting for the expected pledges—is estimated at 0.3 percent of GDP in FY2019/20 and at about 3.1 percent of GDP in FY2020/21.

17. **Over the medium term, Uganda plans to continue work to introduce a fiscal anchor, as recommended at the time of the 2019 Article IV**. Preparations are advanced to design a fiscal rule to manage future oil revenues. In the meantime, the authorities are committed to respecting an interim debt ceiling of 50 percent in NPV terms, as established in their Charter for Fiscal Responsibility and in line with the EAC convergence criteria. They also monitor closely debt developments looking not only at the debt stock, but also at a broader range of indicators, including the interest to revenue ratio, that points to increasing vulnerabilities. The authorities also remain committed to continue their work to enhance revenue mobilization by implementing their recently concluded Domestic Revenue Mobilization Strategy and to continue strengthening their public investment management framework.

18. **Staff agrees that the covid-related fiscal measures are critical in addressing the impact of the health, economic and social crisis and should be accommodated.** The external shock is large and temporary, and Uganda can afford to increase health spending and cushion the impact on the vulnerable, the private sector and the population as a whole. Uganda also has a good track record maintaining macroeconomic stability and implementing good policies. Staff emphasized the importance of careful cash management to avoid domestic arrears. Staff also emphasized the usefulness of social protection packages to cushion the impact of the shock on the most vulnerable; Uganda could strengthen some of the existing social protection mechanisms, considering a temporary expansion to reach vulnerable people in need, as the interventions under consideration so far could be insufficient.[4] The authorities explained that work is ongoing with the Ministry of Gender, Labor and Social Protection and development partners in that direction. Staff also highlighted the importance of ensuring transparency and accountability in the management of the emergency response, and was reassured by the authorities' commitment to introduce targeted measures including the publication of the large procurement contracts and of an independent audit of the Covid-19 emergency expenditure. Going forward, staff also emphasized the need to ensure the covid-related tax exemptions are temporary. There was agreement that budget allocations for

[4] Uganda has a Senior Citizens Grant and developed a National Social Protection Policy. Nonetheless, less than 4.5 per cent of Ugandans has access to any form of social protection.

health need to continue to be increased and sustained over the medium term—the pandemic has shown in the hard way how important it is to ensure that the health sector gets sufficient allocations. The authorities also confirmed their intention to continue to recapitalize Bank of Uganda.

19. **Staff cautioned the authorities about the financing risks emanating from the large fiscal financing gap for FY2020/21.** With the banking sector already significantly exposed to government and the private sector in need of credit, additional domestic debt issuances would not be advisable, as it would contribute to crowding out the private sector. The authorities agreed that if sufficient external financing cannot be mobilized under reasonable conditions, they would reprioritize expenditure, including by postponing some lower priority development projects, and consider potential new revenue measures. Staff also recommended preparing a contingency plan to deal with a potential deepening of the shock. Although Uganda is focusing its efforts on prevention of a large outbreak, if the situation deteriorated, additional required health and social protection expenditure would need to be accommodated by budget adjustments—reducing nonpriority spending or introducing new revenue measures.

B. Monetary, Exchange Rate and Financial Sector Policies

20. **The BoU reduced the Central Bank Rate by 100 basis points to respond to the crisis on April 6.** March figures showed subdued inflation, with headline and core at 3 and 2.5 percent respectively, due to lower fuel prices and despite rising food prices. In this context, staff agrees that the monetary policy stance should be accommodative to minimize the negative impact of the shock on the economy and speed up a recovery. Looking forward, there are significant uncertainties surrounding inflation projections; lower domestic demand and lower oil prices could keep inflation low, but other factors such as rising food prices, a delayed and pronounced impact of the supply chain disruptions, and a further depreciation of the shilling could flare up prices quickly. The BoU should continue to monitor developments closely and stand ready to adjust its policy stance accordingly.

21. **The authorities remain committed to maintaining exchange rate flexibility as a shock absorber and preserving an adequate international reserve cover.** The BoU has announced that it stands ready to intervene in the foreign exchange market to smooth out excess volatility of the exchange rate. They agree that the interventions should be limited to such circumstances and be fully sterilized. In the month of March, Bank of Uganda's intervention in the context of capital outflows and some speculative purchases succeeded in calming down the markets, though it resulted in a loss of nearly US$200 million. In such a volatile context, staff agrees with the BoU's intention to ensure that the reserve buffer covers at least 3.5 months of imports for precautionary motives.

22. **The BoU is committed to protecting the soundness of the financial system.** Among the package of measures announced, the BoU has directed supervised financial institutions (SFIs) to defer the payments of all discretionary distributions such as dividends and bonus payments for at least 90 days to protect their capital buffers. In supporting private sector businesses, the BoU has

introduced measures aimed at minimizing insolvency due to lack of credit, waiving limitations on restructuring of credit facilities at financial institutions that may be at risk of going into distress, and granting exceptional permission to SFIs to restructure corporates and individuals loans, including a moratorium on loan repayment for borrowers that have been affected by the pandemic.

23. **While the financial sector remains healthy, risks have increased resulting from the pandemic.** The December 2019 financial soundness indicators show banks with a stable capital position, improved profitability and comfortable liquidity, though a deteriorated asset quality. However, the pandemic could alter financial sector health and tighten financial conditions. Rising NPLs from the private sector in severely affected sectors such as trade, tourism and agriculture, could deteriorate asset quality, increase borrowing costs and ultimately affect banks' liquidity and ability to extend new loans and rollover existing credit.

24. **The package of measures announced by the BoU to protect the financial sector goes in the right direction and needs to be carefully implemented.** The measures are geared at ensuring that banks maintain an adequate capital position, protecting their asset quality, and supporting liquidity. BoU should encourage prudent loan restructuring by banks and loan classification and provisioning rules should not be relaxed. Staff emphasized the need for close monitoring of NPLs and regular reassessment of the level of provisioning as the current crisis evolves. The BoU has also worked with mobile money providers and commercial banks to ensure they reduce charges on mobile money transactions and other digital payment charges—a welcome move which would help foster financial inclusion.

ACCESS AND CAPACITY TO REPAY

A. Access Level and Modalities

25. **The authorities are requesting a disbursement under the RCF equivalent to 100 percent of quota (SDR 361 million, or about US$490 million).** Based on the urgent and temporary balance of payments needs caused by a sudden exogenous shock, Uganda qualifies for a disbursement under the "exogenous shocks" window. This emergency financing would help the authorities weather the shock while at the same time keeping reserves at precautionary levels and thus safeguard macroeconomic stability. The disbursement is expected to play a catalytic role in securing additional budget support. The authorities plan to devote 70 percent of the RCF disbursement to preserve precautionary reserves buffers of the BoU. The remainder would be made available as budget support, to finance their response to the covid pandemic. In particular, the authorities have expressed their interest in using the resources allocated to the budget to support purchases of urgent health supplies; support their efforts to protect the most vulnerable; and boost the lending capacity of the UDB to allow it to provide affordable credit to private sector companies that will reorient their production towards much needed covid related response items. These interventions are expected to contribute to finance the response plan by providing necessary inputs and cushion the crisis' impact on the most vulnerable. The support to private sector companies channeled through UDB is expected to alleviate pressures in the balance of payments by reducing

imports and mitigate the impact of the pandemic in the private sector by generating employment. The authorities have agreed to place UDB under the supervision and regulation of the Bank of Uganda. A memorandum of understanding will be signed between the Ministry of Finance and Bank of Uganda to (i) commit to maintaining funds received from the IMF in a government account at the central bank, pending their use, (ii) require the government to hold foreign exchange balances only with the BoU, and (iii) clarify the responsibilities for repaying Fund resources.

B. Capacity to Repay and Safeguards Assessment

26. **Uganda's capacity to repay its obligations to the Fund is adequate (Table 7).** Uganda's debt is sustainable. Obligations to the Fund would remain below 0.8 percent of exports of goods and services, and up to 2.3 percent of net international reserves.

27. **The authorities are committed to undertake an update of the safeguard's assessment.** An update assessment of the BoU was completed on April 10, 2007 and concluded that the BoU had strengthened its safeguards framework since the previous assessment. The BoU commits to undergo an update of the safeguards assessment, which would need to be completed before Executive Board approval of any subsequent arrangement and authorize the central bank's external auditors to hold discussions with staff.

STAFF APPRAISAL

28. **The impact of the covid pandemic is severely hitting the Ugandan economy**. Growth is expected to reduce to half, with a severe contraction in manufacturing, tourism and transportation; poverty is expected to increase; the fiscal accounts would deteriorate with additional spending and shortfall in revenue collections, and large external financing needs would arise.

29. **Staff welcomes the Ugandan authorities' prompt reaction and adoption of measures to contain the dissemination of the disease, while cushioning the impact on the most vulnerable and the private sector.** The World Health Organization singled out Uganda as an example of countries that quickly responded to the pandemic. The response measures to increase health spending and support the impact of the shock on the households and private sector are welcome.

30. **The temporary deterioration in the fiscal position is appropriate, and debt is expected to remain sustainable.** The worsening of the debt indicators is projected to be temporary, as after the shock the authorities remain committed to ensuring debt sustainability. They plan to continue their efforts to enhance revenue collection and strengthen public investment management. The authorities will also need to consider reprioritizing non-essential expenditure if sufficient financing to fill in the fiscal gap is not mobilized and consider potential new revenue measures. Staff encourage the authorities to continue to step up social protection programs, which can cushion the impact on the vulnerable population both during the current emergency and the recovery phase,

and to continue protecting health allocations over the medium term. Ensuring transparency and accountability in the delivery of the emergency response is also essential.

31. **In this context, staff supports the authorities request for a disbursement under the RCF of SDR 361 million (100 percent of quota).** The RCF is expected to play a key role in mitigating the impact of the pandemic, while preserving macroeconomic stability. The authorities are putting together reasonable policies to address the external shock and securing additional external support from development partners. They are also committed to sound safeguards to manage transparently the resources received. The authorities remain committed to sound macroeconomic policies targeted at ensuring sustained and inclusive growth.

Table 1. Uganda: Selected Economic and Financial Indicators, FY2017/18–2024/25[1,2]

	2017/18 Est.	2018/19 Est.	2019/20 Proj.	2020/21	2021/22	2022/23	2023/24	2024/25
	(Annual percentage change, unless otherwise indicated)							
Output, prices, and exchange rate								
Real GDP	6.2	6.5	3.3	3.7	5.7	6.0	6.0	9.2
Non-Oil real GDP	6.2	6.5	3.3	3.7	5.7	6.0	6.0	5.8
GDP deflator	4.2	0.6	2.8	4.6	5.3	4.6	5.2	6.6
Headline inflation (period average)	3.4	3.1	3.2	4.7	5.0	5.0	5.0	5.0
Core inflation (period average)	2.7	3.8	4.0	4.1	5.0	5.0	5.0	5.0
Terms of trade ("–" = deterioration)	0.7	-3.3	4.0	4.1	-1.2	-1.2	-0.6	0.0
Exchange Rate (Ugandan Shilling/US$)[3]	3.7	2.1	...	...	...	...	...	...
Real effective exchange rate ("–" = depreciation)[3]	-4.9	1.3	...	...	...	...	...	...
Money and credit								
Broad money (M3)	14.1	7.3	8.3	8.5	11.4	10.9	10.0	15.7
Credit to non-government sector	10.5	12.7	8.9	10.2	14.8	13.9	14.0	14.0
Bank of Uganda policy rate[3]	9.0	10.0	8.0	...	...	...	...	...
M3/GDP (percent)	19.0	19.0	19.4	19.4	19.4	19.4	19.1	19.0
NPLs (percent of total loans)[3]	4.4	3.8	4.7	...	...	...	...	...
	(Percent of GDP, unless otherwise indicated)							
Central government budget								
Revenue and grants	12.8	13.9	13.6	13.9	14.1	14.1	14.5	15.2
Of which: grants	0.6	0.9	0.6	0.8	0.8	0.2	0.2	0.1
Of which: oil revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2
Expenditure	16.9	18.9	21.2	22.8	19.7	19.8	19.5	19.0
Current	9.1	9.7	11.5	12.4	11.2	11.1	11.0	10.8
Capital[4]	7.5	9.0	8.8	9.5	8.2	8.5	8.3	8.1
Primary balance	-2.2	-3.0	-5.0	-6.2	-3.0	-3.2	-2.5	-1.6
Overall balance	-4.2	-5.0	-7.7	-8.9	-5.5	-5.7	-5.0	-3.8
Excluding grants	-4.7	-6.0	-8.3	-9.6	-6.3	-5.9	-5.1	-4.0
Of which: Net domestic borrowing	1.1	2.2	2.2	2.4	3.0	2.3	1.9	1.6
Public debt								
Public gross debt	35.0	37.3	45.1	51.5	54.4	57.9	59.6	58.4
External	24.4	26.0	32.0	33.9	34.5	34.7	33.1	31.1
Domestic	10.6	11.2	13.1	17.6	19.9	23.2	26.5	27.3
Investment and savings								
Investment	24.8	26.5	27.4	28.2	27.6	28.1	27.0	27.1
Public	7.5	9.0	8.8	9.5	8.2	8.5	8.3	8.1
Private	17.3	17.6	18.6	18.7	19.4	19.6	18.7	18.9
Savings	19.2	17.4	17.0	19.1	21.8	23.0	23.2	25.0
Public	3.0	3.5	0.8	0.1	2.3	2.7	3.2	4.2
Private	16.2	13.9	16.2	18.9	19.5	20.3	19.9	20.8
External sector								
Current account balance (including grants)	-5.4	-8.6	-10.1	-8.7	-5.5	-5.0	-3.8	-2.0
Current account balance (excluding grants)	-5.6	-9.1	-10.5	-9.1	-5.9	-5.1	-3.9	-2.1
Exports (goods and services)	15.2	19.4	13.6	14.1	15.8	16.1	16.1	19.2
Imports (goods and services)	21.8	26.7	24.2	23.3	21.4	21.1	20.4	20.9
Gross international reserves								
In billions of US$	3.1	3.2	2.5	2.5	2.9	3.6	4.3	6.4
In months of next year's imports of goods and services	3.9	4.4	3.5	3.5	3.9	4.5	4.5	6.1
Memorandum items:								
GDP at current market prices								
Ush. billion	119,642	128,181	136,177	147,751	164,553	182,464	203,583	237,006
US$ billion	32.7	34.3	35.7	37.0	39.7	42.7	46.9	54.3
GDP per capita (Nominal US$)	862	904	880	884	923	962	1,026	1,154
Population (million)[5]	37.8	...	...	...	...	...	...	...
Interest payments (in percent of revenue)	15.6	15.2	20.8	20.7	19.1	17.6	16.9	15.2

Sources: Ugandan authorities and IMF staff estimates and

[1] Fiscal year runs from July 1 to June 30.

[2] All figures are based on the 2016/17 rebased GDP.

[3] Latest available data. Exchange rate: Jun-2019; REER: Jun-2019; NPLs: Dec-2019; BoU policy rate: reduced from 10 to 9 percent in Oct-2019, and to 8 in Apr 2020. Period Average.

[4] Capital expenditures include net lending and investment on hydropower projects, and exclude BoU recapitalization.

[5] Based on revised figures after the 2014 census by the Uganda Bureau of Statistics.

Table 2a. Uganda: Fiscal Operations of the Central Government, FY2017/18–2024/25[1]

(Billions of Ugandan Shillings)

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
		Est.	Proj.					
Total revenue and grants	15,281	17,840	18,468	20,511	23,277	25,674	29,592	35,924
Revenue	14,507	16,638	17,589	19,391	22,002	25,332	29,245	35,607
Tax	13,782	15,938	15,845	17,492	19,951	23,056	26,716	32,287
International trade taxes	1,434	1,688	1,728	1,907	2,186	2,593	3,066	3,706
Income taxes	4,850	5,706	5,665	6,300	7,205	8,197	9,565	11,559
Excises	2,963	3,572	3,510	3,814	4,352	5,001	5,745	6,943
Value-added tax	4,448	4,879	4,852	5,355	6,071	7,103	8,154	9,854
Infrastructure levy	88	93	91	115	137	162	187	226
Nontax	725	700	1,743	1,900	2,051	2,276	2,529	3,320
Oil revenue	0	0	0	0	0	0	0	383
Grants	774	1,202	879	1,120	1,275	342	347	318
Budget support[2]	155	595	45	134	0	0	0	0
Project grants	620	607	834	986	1,275	342	347	318
Expenditures and net lending[3]	20,183	24,268	28,904	33,624	32,345	36,043	39,707	45,020
Current expenditures	10,916	12,374	15,640	18,360	18,423	20,168	22,340	25,715
Of which : Coronavirus-related spending			309	610				
Wages and salaries	3,463	4,213	4,870	5,290	5,785	6,542	7,253	8,444
Interest payments	2,260	2,526	3,652	4,022	4,212	4,455	4,955	5,416
Other current	5,192	5,635	7,118	9,048	8,427	9,171	10,133	11,855
Development expenditures	7,566	10,047	11,440	13,170	13,522	15,475	16,921	19,306
Of which : Coronavirus-related spending				582				
Externally-financed projects	3,268	4,148	3,604	5,736	6,761	7,961	8,610	7,968
Of which: Non-concessional borrowing	409	214	920	1,888	2,393	4,002	4,818	3,646
Government of Uganda investment	4,298	5,899	7,836	7,434	6,761	7,514	8,311	11,337
Net lending and investment	1,396	1,428	1,366	1,304	0	0	0	0
Of which : Coronavirus-related spending			578	…	…	…	…	…
Of which: Hydro-power projects	1,346	1,340	558	822	0	0	0	0
Recapitalization	0	0	230	482	0	0	0	0
Of which: Bank of Uganda[4]	0	0	200	482	0	0	0	0
Other spending (arrears clearance)	305	419	458	790	400	400	446	0
Of which : Coronavirus-related spending				390				
Float	107	-25	…	…	0	0	0	0
Overall balance	-4,902	-6,428	-10,436	-13,112	-9,067	-10,370	-10,115	-9,096
Financing	5,009	6,403	8,343	8,219	9,067	10,370	10,115	9,096
External financing (net)	3,635	3,521	5,288	4,663	4,209	6,195	6,228	5,281
Disbursement	4,448	4,415	5,963	5,572	5,875	8,019	8,263	7,651
Budget support	141	187	2,635	0	390	400	0	0
Concessional project loans	2,420	2,334	1,850	2,863	3,092	3,617	3,445	4,005
Non-concessional borrowing	1,746	1,894	1,478	2,709	2,393	4,002	4,818	3,646
Revolving Credit	141	…	…	…	…	…	…	…
Amortization (–)	-813	-894	-723	-1,230	-1,666	-1,824	-2,035	-2,369
Exceptional financing	0	0	48	321	0	0	0	0
Domestic financing (net)	1,374	2,882	3,055	3,556	4,858	4,175	3,887	3,815
Bank financing	262	1,799	1,796	2,026	1,430	1,680	1,945	1,719
Bank of Uganda[5]	-110	717	485	502	0	0	3	-376
Commercial banks	372	1,082	1,311	1,524	1,430	1,680	1,942	2,095
Nonbank financing	1,112	1,083	1,260	1,531	3,429	2,496	1,942	2,096
Financing gap			**2,093**	**4,893**				
Prospective RCF			571	0				
Prospective financing from World Bank			1143	376				
Prospective financing from AfDB								
Residual financing gap			379	4518				

Sources: Ugandan authorities and IMF staff estimates and projections.

[1] Fiscal year runs from July 1 to June 30.

[2] Include mainly HIPC-related grants from FY 2013/14 onwards.

[3] Expenditure categories in FY2013/14 include clearance of arrears totaling Shs. 544 billion, mainly in Government of Uganda investment and other current spending.

[4] Reflects actual and projected issuances for the recapitalization of Bank of Uganda.

[5] Net financing from the Bank of Uganda includes resources freed by MDRI relief.

Table 2b. Uganda: Fiscal Operations of the Central Government, FY2017/18–2024/25[1]

(Percent of GDP)

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	Est.	Est.	Proj.					
Total revenue and grants	12.8	13.9	13.6	13.9	14.1	14.1	14.5	15.2
Revenue	12.1	13.0	12.9	13.1	13.4	13.9	14.4	15.0
Tax	11.5	12.4	11.6	11.8	12.1	12.6	13.1	13.6
International trade taxes	1.2	1.3	1.3	1.3	1.3	1.4	1.5	1.6
Income taxes	4.1	4.5	4.2	4.3	4.4	4.5	4.7	4.9
Excises	2.5	2.8	2.6	2.6	2.6	2.7	2.8	2.9
Value-added tax	3.7	3.8	3.6	3.6	3.7	3.9	4.0	4.2
Infrastructure levy	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Nontax	0.6	0.5	1.3	1.3	1.2	1.2	1.2	1.4
Oil revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2
Grants	0.6	0.9	0.6	0.8	0.8	0.2	0.2	0.1
Budget support[2]	0.1	0.5	0.0	0.1	0.0	0.0	0.0	0.0
Project grants	0.5	0.5	0.6	0.7	0.8	0.2	0.2	0.1
Expenditures and net lending[3]	16.9	18.9	21.2	22.8	19.7	19.8	19.5	19.0
Current expenditures	9.1	9.7	11.5	12.4	11.2	11.1	11.0	10.8
Of which : Coronavirus-related spending	...	...	0.2	0.4	0.0	0.0	0.0	0.0
Wages and salaries	2.9	3.3	3.6	3.6	3.5	3.6	3.6	3.6
Interest payments	1.9	2.0	2.7	2.7	2.6	2.4	2.4	2.3
Other current	4.3	4.4	5.2	6.1	5.1	5.0	5.0	5.0
Development expenditures	6.3	7.8	8.4	8.9	8.2	8.5	8.3	8.1
Of which : Coronavirus-related spending	...	...	...	0.4	0.0	0.0	0.0	0.0
Externally-financed projects	2.7	3.2	2.6	3.9	4.1	4.4	4.2	3.4
Of which: Non-concessional borrowing	0.3	0.2	0.7	1.3	1.5	2.2	2.4	1.5
Government of Uganda investment	3.6	4.6	5.8	5.0	4.1	4.1	4.1	4.8
Net lending and investment	1.2	1.1	1.0	0.9	0.0	0.0	0.0	0.0
Of which : Coronavirus-related spending	...	...	0.4	...	...	...	...	...
Of which: Hydro-power projects	1.1	1.0	0.4	0.6	0.0	0.0	0.0	0.0
Recapitalization	0.0	0.0	0.2	0.3	0.0	0.0	0.0	0.0
Of which: Bank of Uganda	0.0	0.0	0.1	0.3	0.0	0.0	0.0	0.0
Other spending (arrears clearance)	0.3	0.3	0.3	0.5	0.2	0.2	0.2	0.0
Of which : Coronavirus-related spending				0.3				
Additional supplementary spending			0.0	0.0	0.0	0	0	0
Float	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-4.1	-5.0	-7.7	-8.9	-5.5	-5.7	-5.0	-3.8
Financing	4.2	5.0	6.1	5.6	5.5	5.7	5.0	3.8
External financing (net)	3.0	2.7	3.9	3.2	2.6	3.4	3.1	2.2
Disbursement	3.7	3.4	4.4	3.8	3.6	4.4	4.1	3.2
Budget support	0.1	0.1	1.9	0.0	0.2	0.2	0.0	0.0
Concessional project loans	2.0	1.8	1.4	1.9	1.9	2.0	1.7	1.7
Non-concessional borrowing	1.5	1.5	1.1	1.8	1.5	2.2	2.4	1.5
Revolving Credit	0.1	...	...	...	...	...	...	...
Amortization (–)	-0.7	-0.7	-0.5	-0.8	-1.0	-1.0	-1.0	-1.0
Exceptional financing	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0
Domestic financing (net)	1.1	2.2	2.2	2.4	3.0	2.3	1.9	1.6
Bank financing	0.2	1.4	1.3	1.4	0.9	0.9	1.0	0.7
Bank of Uganda[4]	-0.1	0.6	0.4	0.3	0.0	0.0	0.0	-0.2
Commercial banks	0.3	0.8	1.0	1.0	0.9	0.9	1.0	0.9
Nonbank financing	0.9	0.8	0.9	1.0	2.1	1.4	1.0	0.9
Financing gap			1.5	3.3	0.0	0.0	0.0	0.0
Prospective RCF			0.4	0.0	0.0	0.0	0.0	0.0
Prospective financing from World Bank			0.8	0.3	0.0	0.0	0.0	0.0
Prospective financing from AfDB								
Residual financing gap			0.3	3.1	0.0	0.0	0.0	0.0

Sources: Ugandan authorities and IMF staff estimates and projections.

[1] Fiscal year runs from July 1 to June 30.

[2] Include mainly HIPC-related grants from FY 2013/14 onwards.

[3] Expenditure categories in FY2013/14 include clearance of arrears totaling 0.8 percent of GDP, mainly in Government of Uganda investment and other current spending.

[4] Net financing from the Bank of Uganda includes resources freed by MDRI relief.

Table 3. Uganda: Monetary Accounts, FY2017/18–FY2024/25[1]

(Billions of Ugandan Shillings unless otherwise indicated)

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
		Est.			Proj.			
					Depository Corporations Survey[2]			
Net foreign assets	14,953	13,870	11,827	11,652	14,482	18,468	42,103	41,651
Bank of Uganda	13,362	13,407	10,838	10,895	13,785	17,258	40,271	39,494
Commercial banks	1,592	464	988	757	697	1,210	1,832	2,157
Net domestic assets	7,081	8,277	12,176	15,488	17,536	18,501	23,751	29,339
Claims on public sector (net)[3]	2,782	4,117	5,542	7,086	8,652	10,474	11,384	10,661
Claims on central government (net)	2,716	3,973	5,347	6,891	8,458	10,280	11,384	10,661
Claims on the private sector	13,341	15,036	16,375	18,051	20,718	23,589	26,892	30,657
Other items (net)[4,5]	-9,041	-10,875	-9,741	-9,649	-10,459	-10,865	-10,884	-10,982
Money and quasi-money (M3)	22,749	24,405	26,431	28,677	31,938	35,414	38,972	45,081
Foreign exchange deposits	6,780	7,126	7,565	8,208	9,141	10,136	11,544	11,956
					Bank of Uganda			
Net foreign assets	13,362	13,407	10,838	10,895	13,785	17,258	40,271	39,494
Net domestic assets	-7,146	-6,638	-3,468	-3,213	-4,572	-6,801	-28,413	-25,864
Claims on public sector (net)[3]	-2,420	-2,077	-2,013	-1,993	-2,701	-2,996	-3,342	-3,891
Claims on central government (net)	-2,420	-2,077	-2,013	-1,993	-2,701	-2,996	-3,342	-3,891
Claims on commercial banks	-1,256	-1,887	-781	454	772	1,308	3,680	8,113
Other items (net)[4,5]	-3,470	-2,675	-2,753	-3,251	-3,370	-3,410	-28,751	-30,087
Base money	6,216	6,768	7,370	7,682	9,213	10,457	11,858	13,629
Currency in circulation	4,315	4,592	5,034	5,503	6,128	6,795	7,373	8,905
Commercial bank deposits[6]	1,902	2,176	2,336	2,179	3,085	3,662	4,485	4,725
					Other Depository Corporations			
Net foreign assets	1,592	464	988	757	697	1,210	1,832	2,157
Net domestic assets	17,397	19,948	21,122	23,190	25,973	28,363	30,801	35,269
Of which Claims on central government (net)	5,136	6,049	7,360	8,884	10,314	11,994	13,936	16,032
Of which Claims on private sector	13,287	14,975	16,320	17,997	20,664	23,535	26,892	30,657
Deposit liabilities to the non-bank public	18,988	20,412	22,110	23,947	26,670	29,573	32,633	37,425
Shilling deposits	12,208	13,286	14,546	15,739	17,529	19,436	21,089	25,469
Foreign exchange accounts	6,780	7,126	7,565	8,208	9,141	10,136	11,544	11,956
Memorandum items:								
(Annual percentage change)								
Base money	5.3	8.9	8.9	4.2	19.9	13.5	13.4	14.9
M3	14.1	7.3	8.3	8.5	11.4	10.9	10.0	15.7
Credit to the private sector	10.5	12.7	8.9	10.2	14.8	13.9	14.0	14.0
Memorandum items:								
Base money-to-GDP ratio (percent)	5.2	5.3	5.4	5.2	5.6	5.7	5.8	5.8
M3-to-GDP ratio (percent)	19.0	19.0	19.4	19.4	19.4	19.4	19.1	19.0
Base money multiplier (M2/base money)	2.6	2.6	2.6	2.7	2.5	2.4	2.3	2.4
Credit to the private sector (percent of GDP)	11.2	11.7	12.0	12.2	12.6	12.9	13.2	12.9
Velocity (M3)	5.3	5.3	5.2	5.2	5.2	5.2	5.2	5.3
Exchange rate (Ush/US$, eop)	3,835	…	…	…	…	…	…	…

Sources: Ugandan authorities and IMF staff estimates and projections.

[1] Fiscal year runs from July 1 to June 30.

[2] Starting on June 2013, the Bank of Uganda expanded the reporting coverage from Monetary Survey to Depository Corporations Survey.

[3] Interest payments (in percent of revenue)

[4] Including valuation effects, the Bank of Uganda's claims on the private sector and Claims on Other Financial Corporations.

[5] Reflects actual and projected issuances for the recapitalization of Bank of Uganda.

[6] Inclusive of foreign currency clearing balances.

Table 4. Uganda: Balance of Payments, FY2017/18–2024/25[1]

(Millions of US dollars unless otherwise indicated)

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
		Est.				Proj.		
Current account	-1,776	-2,966	-3,613	-3,200	-2,169	-2,137	-1,765	-1,082
Trade balance	-2,083	-2,867	-2,378	-2,230	-1,606	-1,715	-1,551	-396
Exports, f.o.b.	3,537	3,961	3,782	3,936	4,525	4,778	5,252	7,768
Of which: coffee	492	416	412	458	492	528	581	672
Imports, f.o.b.	5,619	6,828	6,160	6,166	6,130	6,494	6,803	8,164
Of which: oil	911	980	793	649	647	717	788	516
Of which: government	595	707	770	837	841	898	943	1,019
Services (net)	-388	-720	-1,412	-1,153	-621	-418	-460	-533
Credit	1,854	2,066	1,091	1,288	1,775	2,091	2,298	2,661
Debit	-2,242	-2,786	-2,503	-2,442	-2,396	-2,509	-2,758	-3,194
Primary income (net)	-876	-1,203	-1,092	-1,055	-1,558	-1,647	-1,451	-1,908
Of which: interest on public debt (debit)	-93	-114	-90	-120	-239	-262	-297	-328
Secondary income (net)	1,570	1,824	1,268	1,238	1,615	1,644	1,697	1,754
Private transfers	1,439	1,674	1,135	1,070	1,450	1,587	1,641	1,701
Of which: workers' remittances (credit)	1,245	1,369	812	725	1,161	1,312	1,364	1,422
Official transfers	131	150	133	168	165	57	56	53
Of which: budget support (including HIPC)	53	72	12	34	0	0	0	0
capital gains tax	0	15	15	16	17	18	18	18
Capital account	105	100	113	128	160	41	42	38
Of which: project grants	105	100	113	128	160	41	42	38
Net lending (+) / net borrowing (–) (balance from current and capital accounts)	-1,671	-2,866	-3,500	-3,072	-2,010	-2,095	-1,723	-1,044
Financial account	-1,090	-2,812	-2,292	-2,155	-2,429	-2,804	-2,393	-3,125
Direct investment (net)	-971	-1,447	-980	-1,063	-1,543	-1,769	-1,526	-1,981
Portfolio investment and financial derivatives (net)	339	171	123	127	136	145	159	182
Other investment (net)	-457	-1,536	-1,436	-1,219	-1,021	-1,181	-1,025	-1,326
Public sector (net)	-1,028	-1,145	-1,390	-1,087	-1,017	-1,449	-1,476	-1,659
SDR allocation	0	0	0	0	0	0	0	0
Build-up (-)/drawdown (+) of petroleum fund	-24	-15	14	0	0	0	0	0
Loan disbursements (net incurrence of liabilities)	1,281	1,399	1,565	1,395	1,419	1,876	1,945	2,202
Project support (loans)	609	849	485	717	747	846	794	918
Budget support (loans)	56	50	692	0	94	94	41	41
Non-concessional borrowing	615	500	388	678	578	936	1,110	1,243
Amortization due	-229	-239	-190	-308	-402	-427	-469	-543
Commercial banks (net)	395	-285	126	-66	-21	114	148	63
Other private (net)	176	-105	-172	-66	16	154	302	269
Net errors and omissions	421	123	0	0	0	0	0	0
Overall balance	-161	69	-1,208	-917	419	709	670	2,081
Financing	161	-69	702	105	-419	-709	-670	-2,081
Central bank net reserves (increase = –)	164	-65	689	24	-419	-709	-670	-2,081
Exceptional Financing	-3	-3	13	81	0	0	0	0
Financing gap	…	…	506	813	0	0	0	0
Prospective financing			790	378				
IMF RCF			490					
World Bank			300	94				
AfDB								
Financing from previous fiscal year				284				
Residual financing gap [2]			-284	434				
Memorandum items:								
Gross international reserves								
In US$ billions	3.1	3.2	2.5	2.5	2.9	3.6	4.3	6.4
In months of next year's imports of goods and services	3.9	4.4	3.5	3.5	3.9	4.5	4.5	6.1
Donor support								
Of which: budget support (loans and grants)	110	123	703	34	94	94	41	41
Of which: project support (loans and grants)	714	948	598	845	907	887	835	956
Current account balance (percent of GDP)	-5.4	-8.6	-10.1	-8.7	-5.5	-5.0	-3.8	-2.0
Current account balance (excluding grants)	-5.6	-9.1	-10.5	-9.1	-5.9	-5.1	-3.9	-2.1
Trade balance (percent of GDP)	-6.4	-8.4	-6.7	-6.0	-4.0	-4.0	-3.3	-0.7
Interest payments (in percent of revenue)	0	0	0	0	0	0	0	0
Imports of goods (percent of GDP)	17.2	19.9	17.2	16.7	15.4	15.2	14.5	15.0

Sources: Ugandan authorities and IMF staff estimates and projections.

[1] Fiscal year runs from July 1 to June 30. Based on BPM6, including sign conventions.

[2] Excess prospective financing in 2019/20 is assumed to be deposited in reserves FY20/21, reducing the financing gap in FY20/21.

Table 5. Uganda: Banking Sector Indicators, March 2015–December 2019

	2015				2016				2017				2018				2019			
	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
Capital adequacy																				
Regulatory capital to risk-weighted assets	23.2	21.2	19.7	21.0	21.8	21.7	22.5	19.8	22.9	23.6	23.8	23.2	23.8	21.8	21.6	21.6	22.2	22.1	22.1	21.8
Regulatory tier 1 capital to risk-weighted assets[1]	20.8	18.8	17.3	18.6	19.1	19.0	19.8	17.3	20.4	21.4	21.5	20.9	21.5	19.7	19.8	19.8	20.4	20.3	20.3	20.1
Asset quality																				
NPLs to total gross loans	4.2	4.0	3.9	5.3	6.9	8.3	7.7	10.5	6.3	6.2	7.2	5.6	5.3	4.4	4.7	3.4	3.8	3.8	4.4	4.7
NPLs to total deposits	3.1	2.9	2.9	3.9	4.9	5.8	5.4	7.4	4.1	4.0	4.6	3.6	3.4	2.8	3.1	2.3	2.5	2.5	2.8	3.0
Specific provisions to NPLs	53.7	51.9	45.4	41.6	47.2	54.3	51.8	60.4	43.4	43.6	45.0	54.9	53.4	50.1	50.1	54.1	47.5	49.3	48.3	44.4
Earning assets to total assets	70.4	69.5	69.6	69.2	70.1	68.0	69.2	67.3	67.5	69.2	70.9	71.9	72.2	68.2	69.0	69.1	73.2	71.7	72.5	69.8
Large exposures to gross loans	35.2	40.0	43.5	40.9	42.2	41.5	42.7	42.4	37.8	37.4	37.3	38.0	36.4	43.2	44.5	42.9	42.6	44.3	45.0	42.8
Large exposures to total capital	104.5	126.4	140.8	123.5	123.9	121.5	118.7	133.2	99.8	97.5	95.2	94.8	90.6	113.7	116.9	112.5	110.5	116.7	116.7	110.0
Earnings and profitability																				
Return on assets	2.5	2.8	2.7	2.6	2.8	2.2	2.5	1.3	1.4	1.7	1.5	2.7	2.6	2.8	2.8	2.5	2.8	2.7	2.8	2.9
Return on equity	15.6	17.7	17.2	16.0	16.8	13.8	14.9	8.3	8.3	10.2	8.7	16.4	15.0	16.7	16.3	14.4	15.9	15.8	16.1	16.8
Net interest margin	11.0	10.9	11.0	11.3	11.6	11.9	12.3	12.8	12.7	12.3	11.8	11.6	11.6	11.5	11.3	11.1	11.0	11.2	11.2	11.3
Cost of deposits	3.4	3.3	3.3	3.3	3.4	3.4	3.4	3.5	3.3	3.1	3.0	2.8	16.2	2.5	2.4	2.3	2.4	2.3	2.5	2.5
Cost to income[2]	76.4	73.8	68.5	69.2	75.3	78.4	77.0	84.8	84.1	81.6	82.9	73.9	2.7	72.8	72.6	73.9	72.1	72.9	72.2	71.9
Overhead to income[2]	47.9	48.1	48.2	48.7	48.0	47.9	47.5	47.5	47.7	48.4	49.1	48.9	74.8	51.2	52.3	53.7	53.0	52.2	51.4	51.6
Liquidity																				
Liquid assets to total deposits	44.2	46.4	46.0	46.4	42.5	43.4	45.4	51.5	48.8	50.1	48.3	54.6	52.9	46.6	43.9	45.5	44.1	45.5	50.3	48.6
Market sensitivity																				
Foreign currency exposure to regulatory tier 1 capita	-5.4	-5.7	-3.4	-5.9	-7.6	-6.2	-7.1	8.5	-8.1	-7.0	-5.5	-5.4	-7.9	-5.2	-5.0	-7.5	-4.3	-3.6	-2.4	8.1
Foreign currency loans to foreign currency deposits[2]	79.6	79.8	78.0	77.6	77.8	77.5	75.6	79.3	73.4	72.1	70.8	71.5	70.6	62.9	67.8	63.0	68.2	61.8	62.8	60.1
Foreign currency assets to foreign currency liabilities	102.9	101.4	102.0	101.8	97.4	96.7	96.0	99.2	96.7	91.8	90.6	92.4	98.3	99.9	98.4	94.1	91.3	88.2	86.5	92.3

Source: Bank of Uganda.

[1] Under new rules, effective in December 2016, designed to ensure compliance with Basel III financial standards, tier one capital requirements were raised to 10. 5 percent from 8 percent, while the total regulatory capital ratio was raised to 14.5 percent from 12 percent. However, Systemically Important Banks (SIBs) will be required to maintain tier one capital of 11.5 per cent and a total regulatory capital ratio of 15.5 percent respectively. The cash reserve requirement for banks is 5.25 percent, and the liquidity coverage ratio is at 20 percent.

[2] Historical numbers are revised by the Bank of Uganda, data as of February 2018.

Table 6. Uganda: External Financing Requirements, FY2017/18–2020/21
(In millions of US dollars)

	2017/18	2018/19	2019/20	2020/21
Financing needs	**1,612**	**3,031**	**2,924**	**3,177**
Current account deficit	1,776	2,966	3,613	3,200
Net payment to the IMF	-1	0	0	0
Reserve accumulation (+=increase)	-164	65	-689	-24
Financing sources	**1,192**	**2,908**	**2,418**	**2,364**
Capital account	105	100	113	128
Financial account	1,090	2,812	2,292	2,155
FDI (net)	971	1,447	980	1,063
Public sector (net)	1,028	1,145	1,390	1,087
Exceptional financing	-3	-3	13	81
Errors and omissions	**420**	**123**	**0**	**0**
Financing gap	**0**	**0**	**506**	**813**
Prospective financing			**790**	**378**
IMF-RCF			490	0
World Bank			300	94
AfDB				
Financing from previous fiscal year				284
Residual financing gap			**-284**	**434**

Sources: Authorities and IMF staff estimates and projections.

Table 7. Uganda: Indicators of Capacity to Repay the IMF, 2020–30[1]

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
IMF obligations based on existing credit (in millions of SDRs)											
Principal	...	...	...	...	...	...	...	...	...	...	...
Charges and interest	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
IMF obligations based on existing and prospective credit (in millions of SDRs)											
Principal	0.0	0.0	0.0	0.0	0.0	36.1	72.2	72.2	72.2	72.2	36.1
Charges and interest	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total IMF obligations based on existing and prospective credit											
In millions of SDRs	0.2	0.1	0.1	0.1	0.1	36.2	72.3	72.3	72.3	72.3	36.2
In millions of U.S. dollars	0.2	0.2	0.2	0.2	0.2	50.9	101.6	101.6	101.6	101.6	50.9
In percent of GDP	0.0	0.0	0.0	0.0	0.0	0.1	0.2	0.1	0.1	0.1	0.1
In percent of exports of goods and services	0.0	0.0	0.0	0.0	0.0	0.5	0.8	0.7	0.6	0.6	0.3
In percent of government revenue	0.0	0.0	0.0	0.0	0.0	0.6	0.9	0.8	0.7	0.7	0.3
In percent of gross international reserves	0.0	0.0	0.0	0.0	0.0	0.8	2.3	1.6	1.5	1.4	0.6
In percent of IMF quota	0.0	0.0	0.0	0.0	0.0	10.0	20.0	20.0	20.0	20.0	10.0
IMF credit outstanding (end-of-period)											
In millions of SDRs	361.0	361.0	361.0	361.0	361.0	324.9	252.7	180.5	108.3	36.1	0.0
In millions of U.S. dollars	490.0	501.7	503.3	504.5	506.2	457.2	355.6	254.0	152.4	50.8	0.0
In percent of GDP	1.4	1.4	1.3	1.2	1.1	0.8	0.5	0.3		0.1	0.0
In percent of exports of goods and services	10.1	9.6	8.0	7.3	6.7	4.4	2.7	1.7	0.9	0.3	0.0
In percent of government revenue	10.6	10.3	9.5	8.5	7.5	5.6	3.1	1.9	1.1	0.3	0.0
In percent of gross international reserves	21.6	22.3	19.0	15.0	12.6	7.5	8.1	4.0	2.3	0.7	0.0
In percent of IMF quota	100.0	100.0	100.0	100.0	100.0	90.0	70.0	50.0	30.0	10.0	0.0
Memorandum items											
Nominal GDP (in millions of U.S. dollars)	35,743	36,982	39,749	42,681	46,911	54,320	67,366	73,748	79,309	84,928	90,659
Exports of goods and services (in millions of U.S. dollars)	4,873	5,224	6,300	6,869	7,550	10,429	12,939	14,727	16,412	17,876	18,929
Government revenue (in millions of U.S. dollars)	4,617	4,854	5,315	5,925	6,739	8,161	11,478	13,183	14,201	15,065	15,836
Gross international reserves (in millions of U.S. dollars)	2,268	2,250	2,653	3,362	4,032	6,113	4,368	6,282	6,763	7,338	7,928
IMF quota (in millions of SDRs)	361.0	361.0	361.0	361.0	361.0	361.0	361.0	361.0	361.0	361.0	361.0
SDRs per U.S. dollars	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7

Source: Ugandan authorities, and IMF staff estimates and projections.

1/ Assumes access of 100 percent of the quota in April 2020 as one-time disbursement.

Appendix I. Letter of Intent

30th April, 2020

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431

Dear Ms. Georgieva,

1. The economic and financial impact of the Coronavirus pandemic continues to be felt globally, as the disease spreads rapidly across many countries. The outbreak has severely curtailed output, created uncertainty and threatens near-term economic prospects. While, to-date, the number of coronavirus cases in Uganda is relatively small, the impact on our economy is already severe. To curb further spread of the virus within the country, government instituted stringent measures including closure of all borders and a partial domestic lockdown which has resulted in supply disruptions and a slow-down in economic activities. Moreover, the virus outbreak comes at a time the economy is faced with a locust invasion that further threatens agricultural production. The consequences of both are severe, with significant additional public resources required for health spending to contain the spread of the pandemic and to mitigate the economic impact.

2. The short-term economic impact of the Covid pandemic is expected to be significant. Our preliminary estimates indicate the economy will slow-down to 3.9 percent in FY2019/20 and 4.5 percent during FY2020/21, down from pre-pandemic projections of 6.0 percent for both financial years—as global and domestic supply chain disruptions together with travel restrictions have affected the manufacturing, construction, trade and tourism activities.

3. Our fiscal situation will be affected by a shortfall in tax revenue due to the impact of a fall in domestic demand and imports (international trade taxes account for about 40 percent of tax revenues). We need significant budget resources to address critical spending, including health spending and increased social assistance to the most vulnerable, to help contain, manage, and handle the pandemic while mitigating its negative financial consequences. As a result, we have immediate fiscal needs for the remainder of FY2019/20 estimated at US$565.5 million or 1.5 percent of GDP, and at close to US$1.5 billion for FY2020/21.

4. The covid outbreak is expected to worsen our external accounts. The current account deficit is projected to widen to 8.7 percent and 10.3 percent of GDP during FY2019/20 and FY2020/21 respectively, due to a sharp decline in inflows from tourism, remittances and exports. In addition,

Foreign Direct Investment (FDI) flows are now projected to decline by one-third and two-thirds during FY2019/20 and FY2020/21, respectively as compared to the pre-pandemic projection levels. The deterioration in the external accounts is expected to result to pressures in the domestic foreign exchange market. Additional government foreign expenditure requirements and the foreign exchange market stabilization measures taken by Bank of Uganda will require significant draw-down in foreign reserves.

5. The government is committed to continue its efforts to address the economic and health damage caused by the COVID outbreak. In addition to making available—through a supplementary budget—additional public resources for health spending, we have prioritized providing support to the vulnerable population and taken remedial measures in support of the private sector.

6. We are determined to do everything in our powers to offset inevitable economic hardship, especially for poor and vulnerable communities. Vulnerable households will be hit hard and without decisive action it could take entire generations to re-emerge from economic adversity. To support such vulnerable population, government has embarked on providing basic food items and has guaranteed continued supply and access to key utilities - water and electricity for all until the situation normalizes. We are also planning to extend our public work programs. Furthermore, we are working closely with the Ministry of Gender, Labor and Social Development and our development partners to strengthen existing social protection mechanisms and, provide one-off targeted cash transfers and cash for work aimed at shortening the window of economic vulnerability swung wide open by the pandemic. Work is on-going to define the key parameters and operational modalities to roll out this mitigation mechanism across the most vulnerable groups.

7. To support the private sector, measures include temporarily deferring PAYE tax payments by the most affected sectors, like manufacturing and tourism. This is expected to help the businesses to sustain a level of cash-flow in order to remain operational and not to lay off staff. Payment of corporation tax for qualifying companies and Small, Medium Enterprises (SMEs) in the most affected sectors with a turnover of less than Shs 500 million per annum has been delayed by six months without attracting interest. Government will waive interest on tax arrears to lessen businesses' tax liability obligations to government. This is intended to benefit taxpayers who voluntarily comply with their tax obligations. Payment of outstanding VAT refunds due to businesses will be expedited and this will be accompanied by measures to limit fraud risks. For a limited period, medical items required in the fight against Covid will be exempted from tax. These include; medical face masks, boots, impermeable aprons/overall suits, protective goggles, indirect side ventilation, infra-red thermometers, motorized fumigation pumps, oxygen cylinders, biohazard bags, body bags, disinfectants including sanitizers, plastics/rubber gloves, gas masks with mechanical parts and paper bed sheets.

8. On a strategic front, government is to make available investment finance through an additional liquidity injection into Uganda Development Bank (UDB) to support local manufacturing. To further strengthen UDB, we shall amend the necessary legislation to place it under the regulation and supervision of Bank of Uganda. Government will increase funding to industrial research in order

to strengthen the domestic technological base of the economy to support the growing manufacturing sector. In addition, we will be expanding Business Development Services, including establishment of industrial business shelters to help integrate both SMEs in both the informal and formal economy into the country's industrialization process to meet domestic demand and take advantage of the regional market.

9. The Bank of Uganda (BoU) will continue to implement monetary policy in a prudent manner. Owing to the weakening of the exchange rate and the lagged-effects of the supply disruptions on prices, it will accommodate a temporary increase in inflation and closely monitor second-round effects of the exchange rate depreciation. It will adjust the monetary policy stance if there is substantial risk of sustained price increases above the target range. BoU will continue implementing a flexible foreign exchange regime and limit foreign exchange interventions to smoothen volatilities in the market. The BoU will implement measures to reverse the deterioration of international reserves position once confidence is restored over the medium term.

10. The BoU has put in place measures to ensure that the financial sector remains resilient in the face of vulnerabilities from the economic disruption caused by COVID. It will stand ready to provide liquidity to the financial system for a period of up to one year if needed. BoU will continue to ensure that all financial institutions under its supervision have adequate capital buffers to operate effectively. It has accordingly instructed these institutions to defer payments of all discretionary distributions such as dividends and bonus payments for at least 90 days effective March 24, 2020. The BoU has waived limitations on restructuring of credit facilities. Supervised Financial Institutions (SFIs) have been granted relief to restructure loans and provide loan repayment holidays to companies and individuals affected by COVID. Furthermore, the BoU will continue to engage with Mobile Network Operators and commercial banks to facilitate and promote the use of digital payments in order to limit the use of cash and bank branch visits.

11. In order to face the immediate financing needs, the Government of Uganda requests emergency financing from the IMF under the Rapid Credit Facility (RCF) in the amount of 361 million SDRs—equivalent to about US$490 million (100 percent of quota)—to support our efforts to respond to the negative impact of the pandemic. Of this, US$340 million will help Bank of Uganda in bridging the gap in the balance of payments position and US$150 million will be used as budget support to finance Government's response plan to the pandemic, including by acquiring necessary health supplies (diagnostic kits, masks, personal protective equipment); supporting the vulnerable population, and supporting the private sector that has been affected by the adverse effects of Covid by boosting the lending capacity of Uganda Development Bank. As we intend to use part of the RCF disbursement to help fill the projected fiscal financing gap, this amount will be on-lent by the BoU to the Treasury. The Bank of Uganda and the Ministry of Finance, Planning and Economic Development will sign a Memorandum of Understanding (MoU) to specify the conditions of this operation, and to clarify the respective responsibilities for repaying Fund resources.

12. Alongside the IMF, we are also working with other development partners, including the World Bank and African Development Bank, to fill the projected fiscal and external gaps.

Government plans to seek US$300 million from the World Bank to fund part of the health interventions in response to the COVID this financial year, US$50 million towards dealing with the locust invasion. Government has also requested US$350 million from the African Development Bank towards supporting the budget for next financial year, though the amounts to be received are still unclear.

13. Uganda is also interested in participating in the G-20 led debt service suspension. We are grateful for such initiative that is expected to open up some fiscal space to respond to the crisis. In that regard, we are in the process of reaching out to our bilateral creditors. In line with the terms of the initiative, we commit to spending the freed resources on Covid-related health, social or economic relief. We also agree to monitor this expenditure and identify it in budget monitoring reports. We commit to disclose all public sector financial commitments (debt), respecting commercially sensitive information, within 3 months, and not later than September 1, and are willing to request technical assistance from the IFIs to achieve this. We also commit to contract no new non-concessional debt during the suspension period, other than agreements under this initiative or in compliance with limits agreed under the IMF Debt Limit Policy (DLP) or WBG policy on non-concessional borrowing.

14. Uganda has been able to maintain macroeconomic stability for over 20 years with assistance of the IMF through programs like the Policy Support Instrument (PSI). While our fiscal deficit will widen in response to the challenges of dealing with the impacts of the COVID pandemic, we are mindful of the need to avoid fiscal imbalances that could jeopardize the hard-earned gains in macroeconomic stability. Our policy intentions for the medium-term remain guided by the need to maintain this stability, underpinned by fiscal sustainability and inclusive economic growth. In particular, we are working to adjust our FY2020/21 budget by September 2020, since the version just endorsed by Parliament does not include the impact of the covid-related crisis. We are however mindful that projections show a large residual financing gap in the expected revised budget for FY2020/21. If we fail in mobilizing sufficient external financing, we commit to readjust expenditures and consider additional revenue measures. We are also committed to ensure that the health sector continues to receive adequate financing going forward. We will also continue to recapitalize Bank of Uganda.

15. In line with IMF safeguards policy, we commit to undergoing a new safeguards assessment conducted by the Fund. We will authorize BoU's external auditors to hold discussions with IMF staff, and provide access to the BoU's most recently completed audit reports. To foster transparency of accounting and management of resources, we will provide a separate reporting mechanism for COVID-19 expenditures in the context of our Program Based Budgeting that will allow for clear tracking of the support received by partners. UDB will also report on the use of the funds received. We are also committed to continuing to adhere to the best fiscal management practices and to ensuring that the best possible use is made of the funds provided by the IMF, and we commit to anti-corruption safeguards. To that effect, we commit to (i) publishing, once they are signed, documentation on the government's website of large procurement contracts—defined as contracts above Ush500 million for works contracts, and above Ush200 million for goods and services—of

COVID-19 expenditures, together with the names of awarded companies and their beneficial owners and (ii) undertaking an independent audit of COVID-19 expenditures in about a year's time, which will include an ex-post validation of delivery of the large procurement contracts, and publishing the results. Uganda's capital account remains open and we do not intend to introduce any exchange measures, multiple currency practices, trade restrictions or policies that would compound the BoP difficulties.

16. Finally, we authorize the IMF to publish this Letter and the staff report for the request for disbursement under the RCF.

Sincerely yours,

/s/	/s/
Matia Kasaija (M.P) Minister of Finance, Planning and Economic Development	Adam Mugume Acting Deputy Governor For: Professor Emmanuel Tumuusime-Mutebile Governor Bank of Uganda

UGANDA

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY—DEBT SUSTAINABILITY ANALYSIS

April 29, 2020

Approved By
Annalisa Fedelino (IMF, AFR), Chris Lane (IMF, SPR), and Marcello Estevão (IDA)

Prepared by the staff of the International Monetary Fund (IMF) and the International Development Association (IDA).

Risk of external debt distress:	**Low[1]**
Overall risk of debt distress	**Low**
Granularity in the risk rating	**Not applicable**
Application of judgment	**No**

Uganda's debt is sustainable, with a low risk of external and overall debt distress under the Covid pandemic macro-framework.[2] So far, the impact of the pandemic on Uganda's economy is felt through supply chain disruptions; and lower commodity export prices, remittances, tourism, and capital inflows leading to a deterioration in the current and financial accounts. In addition, as a response to the crisis, the fiscal position is expected to deteriorate and be financed with debt. Updates with respect to the economic impact of Covid are rapidly evolving, and risks are tilted to the downside. As a result, the debt-to-GDP burden trajectories are higher than anticipated in the last Debt Sustainability Analysis (DSA) despite the recent rebasing of the national accounts that have increased nominal GDP. All external debt and total public debt burden trajectories remain below their respective indicative thresholds under the baseline scenarios. However, the higher debt burden has let multiple indicators to nearly breach their indicative thresholds under the stress test scenario. Debt service-to-revenue remains elevated and indicate heightened vulnerabilities, especially as budget revenues decline due to the pandemic. In FY2019/20, financing needs are expected to be fully met through reserves drawdown, use of Fund credit under the Rapid Credit Facility (RCF), and World Bank financial support. In addition, the Ugandan authorities are interested in seeking debt service relief under the G-20 Covid debt service relief initiative. They have initiated steps to contact their bilateral creditors, and have noted their intention to adhere to the needed commitments. Large near-term external financing needs are assumed to be covered by drawing down existing reserve buffers, IMF resources, World Bank resources, and resources from other development partners still under discussion. Considering the country's significant vulnerability to shocks, sound fiscal management over the medium term remains critical to ensure fiscal sustainability.

[1] Uganda's Composite Indicator signals a strong debt-carrying capacity based on the October 2019 WEO and CPIA 2019.

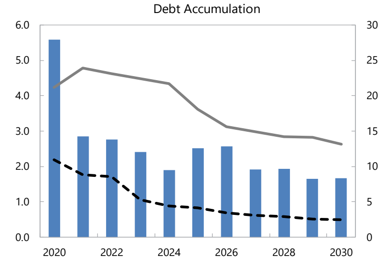
[2] This DSA updates the joint World Bank-IMF analysis of May 2019 (2019 Article IV consultation) using the post COVID pandemic macro-framework as the new baseline. The debt coverage remains the same as in the 2019 DSA, and includes central, state and local governments plus social security, central bank and government guaranteed debt.

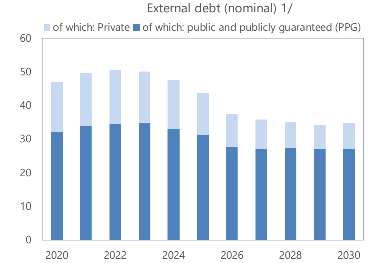
Table 1. Uganda: External Debt Sustainability Framework, Baseline Scenario, 2016/17–2029/30

(In percent of GDP, unless otherwise indicated)

	Actual			Projections							Average 8/	
	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2029/30	Historical	Projections
External debt (nominal) 1/	35.9	37.6	39.8	46.9	49.6	50.4	50.0	47.4	43.8	34.8	31.0	42.3
of which: public and publicly guaranteed (PPG)	21.8	24.4	26.0	32.0	33.9	34.5	34.7	33.1	31.1	27.1	18.2	30.8
Change in external debt	1.6	1.7	2.2	7.1	2.7	0.8	-0.4	-2.6	-3.6	0.6		
Identified net debt-creating flows	-0.9	0.2	2.6	6.1	4.1	-1.1	-1.9	-2.2	-5.4	-0.4	0.8	-0.9
Non-interest current account deficit	2.6	4.7	7.6	8.9	6.9	3.5	2.9	1.6	0.0	0.0	5.9	2.2
Deficit in balance of goods and services	-0.6	0.7	2.3	3.6	2.5	-0.4	-0.9	-1.6	-4.2	-7.8	1.4	-2.8
Exports	16.2	16.5	17.6	13.6	14.1	15.8	16.1	16.1	19.2	20.9		
Imports	15.6	17.2	19.9	17.2	16.7	15.4	15.2	14.5	15.0	13.1		
Net current transfers (negative = inflow)	-4.8	-4.8	-5.3	-3.5	-3.3	-4.1	-3.9	-3.6	-3.2	-2.3	-5.3	-3.2
of which: official	-0.6	-0.4	-0.4	-0.4	-0.5	-0.4	-0.1	-0.1	-0.1	0.0		
Other current account flows (negative = net inflow)	8.0	8.8	10.6	8.9	7.7	8.0	7.6	6.8	7.4	10.0	9.8	8.2
Net FDI (negative = inflow)	-2.3	-3.0	-4.2	-2.7	-2.9	-3.9	-4.1	-3.3	-3.6	-0.3	-3.3	-2.3
Endogenous debt dynamics 2/	-1.2	-1.6	-0.7	-0.1	0.0	-0.7	-0.7	-0.6	-1.8	-0.1		
Contribution from nominal interest rate	0.7	0.7	1.1	1.2	1.7	1.9	2.1	2.2	2.0	1.4		
Contribution from real GDP growth	-1.3	-2.1	-2.3	-1.3	-1.7	-2.6	-2.8	-2.7	-3.8	-1.6		
Contribution from price and exchange rate changes	-0.7	-0.2	0.6	...	...	...	...	...	...	...		
Residual 3/	2.5	1.5	-0.5	1.0	-1.4	1.8	1.6	-0.4	1.8	1.1	0.5	0.3
of which: exceptional financing	0.0	0.0	0.0	0.0	-0.2	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators												
PV of PPG external debt-to-GDP ratio	...	...	17.9	22.5	24.5	25.4	25.9	25.3	24.0	22.0		
PV of PPG external debt-to-exports ratio	...	...	101.9	165.3	173.7	160.3	160.9	157.2	125.1	105.2		
PPG debt service-to-exports ratio	14.4	14.8	9.4	9.7	13.1	12.2	14.4	15.6	13.4	13.9		
PPG debt service-to-revenue ratio	19.5	19.9	12.7	10.2	14.1	14.5	16.7	17.4	17.2	16.6		
Gross external financing need (Million of U.S. dollars)	1345.5	1790.9	2709.2	4101.6 13900.1	3605.4	2223.7	1926.6	2042.8	916.0	3487.6		
Key macroeconomic assumptions												
Real GDP growth (in percent)	3.9	6.2	6.5	3.3	3.7	5.7	6.0	6.0	9.2	4.9	4.6	5.7
GDP deflator in US dollar terms (change in percent)	2.0	0.5	-1.5	0.8	-0.2	1.7	1.3	3.7	6.0	1.7	6.7	2.2
Effective interest rate (percent) 4/	2.2	2.1	3.0	3.1	3.8	4.1	4.5	4.7	4.8	4.5	1.9	4.2
Growth of exports of G&S (US dollar terms, in percent)	6.3	8.5	11.8	-19.1	7.2	20.6	9.0	9.9	38.1	5.9	7.0	11.0
Growth of imports of G&S (US dollar terms, in percent)	1.6	17.9	21.5	-9.8	0.1	-0.6	5.9	4.8	20.0	5.1	5.7	3.4
Grant element of new public sector borrowing (in percent)	...	...	...	21.2	23.9	23.1	22.4	21.7	18.1	13.2	...	21.7
Government revenues (excluding grants, in percent of GDP)	12.0	12.2	13.0	12.9	13.1	13.4	13.9	14.4	15.0	17.5	11.6	13.8
Aid flows (in Million of US dollars) 5/	519.8	261.2	566.9	910.9	950.0	975.2	760.4	695.1	760.6	764.5		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	2.2	1.8	1.7	1.1	0.9	0.8	0.5	...	1.4
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	27.6	35.6	35.5	26.0	25.6	20.8	14.2	...	28.5
Nominal GDP (Million of US dollars)	30,654	32,697	34,307	35,743	36,982	39,749	42,681	46,911	54,320	90,659		
Nominal dollar GDP growth	5.9	6.7	4.9	4.2	3.5	7.5	7.4	9.9	15.8	6.7	11.5	8.0
Memorandum items:												
PV of external debt 7/	...	...	31.6	37.4	40.3	41.3	41.3	39.6	36.7	29.6		
In percent of exports	...	...	180.1	274.3	285.4	260.4	256.4	246.1	191.2	141.8		
Total external debt service-to-exports ratio	23.1	21.5	25.9	34.4	39.6	36.4	34.7	36.0	26.5	18.8		
PV of PPG external debt (in Million of US dollars)			6140.4	8057.2	9073.9	10095.7	11053.3	11867.4	13049.8	19911.9		
(PVt-PVt-1)/GDPt-1 (in percent)				5.6	2.8	2.8	2.4	1.9	2.5	1.7		
Non-interest current account deficit that stabilizes debt ratio	1.0	3.0	5.4	1.8	4.2	2.8	3.3	4.3	3.6	-0.7		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**Yes**





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g) + Ɛα (1+r)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ɛ=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

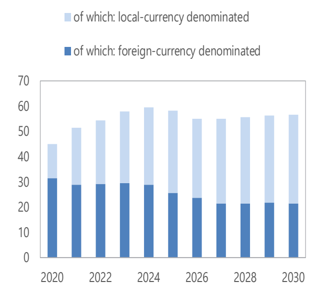
Table 2. Uganda: Public Sector Debt Sustainability Framework, Baseline Scenario, 2016/17–2029/30

(In percent of GDP, unless otherwise indicated)

	Actual			Projections							Average 6/	
	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2029/30	Historical	Projections
Public sector debt 1/	**32.0**	**35.0**	**37.3**	**45.1**	**51.5**	**54.4**	**57.9**	**59.6**	**58.4**	**56.7**	**27.7**	**54.9**
of which: external debt	**21.8**	**24.4**	**26.0**	**32.0**	**33.9**	**34.5**	**34.7**	**33.1**	**31.1**	**27.1**	**18.2**	**30.8**
Change in public sector debt	1.8	3.0	2.3	7.9	6.4	2.9	3.4	1.7	-1.2	0.4		
Identified debt-creating flows	**2.1**	**2.8**	**2.0**	**7.3**	**7.5**	**3.7**	**4.2**	**2.7**	**-0.6**	**1.3**	**1.2**	**2.6**
Primary deficit	**1.1**	**2.1**	**3.1**	**5.0**	**6.2**	**3.0**	**3.2**	**2.5**	**1.6**	**-1.5**	**2.3**	**2.1**
Revenue and grants	12.8	12.8	13.5	13.6	13.9	14.1	14.1	14.5	15.2	17.5	**12.8**	**15.6**
of which: grants	0.9	0.6	0.5	0.6	0.8	0.8	0.2	0.2	0.1	0.0		
Primary (noninterest) expenditure	13.9	15.0	16.6	18.5	20.0	17.1	17.3	17.1	16.7	16.0	**15.1**	**17.7**
Automatic debt dynamics	**1.0**	**0.7**	**-1.1**	**2.2**	**1.0**	**0.7**	**1.0**	**0.1**	**-2.2**	**2.8**		
Contribution from interest rate/growth differential	0.5	-0.5	-0.3	1.0	1.0	0.6	0.9	1.0	-1.2	3.0		
of which: contribution from average real interest rate	1.7	1.3	1.8	2.3	2.6	3.4	3.9	4.2	3.8	5.6		
of which: contribution from real GDP growth	-1.1	-1.9	-2.1	-1.2	-1.6	-2.8	-3.1	-3.3	-5.0	-2.6		
Contribution from real exchange rate depreciation	0.4	1.2	-0.7	...	...	...	...	...	...	...		
Other identified debt-creating flows	**0.1**	**0.0**	**0.0**	**0.2**	**0.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.1**	**0.0**
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.1	0.0	0.0	0.2	0.3	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	**-0.4**	**0.2**	**0.3**	**0.5**	**-1.2**	**-0.7**	**-0.8**	**-0.9**	**-0.6**	**-0.9**	**-0.1**	**-1.0**
Sustainability indicators												
PV of public debt-to-GDP ratio 2/	**...**	**...**	**28.9**	**36.3**	**42.6**	**45.8**	**49.5**	**51.8**	**51.4**	**51.8**		
PV of public debt-to-revenue and grants ratio	**...**	**...**	**214.8**	**267.7**	**306.9**	**323.5**	**351.5**	**356.6**	**339.3**	**295.8**		
Debt service-to-revenue and grants ratio 3/	**45.5**	**44.5**	**41.3**	**40.2**	**53.2**	**70.0**	**80.9**	**86.4**	**91.8**	**92.8**		
Gross financing need 4/	5.1	6.0	8.7	10.6	13.9	12.9	14.6	15.1	15.5	14.7		
Key macroeconomic and fiscal assumptions												
Real GDP growth (in percent)	3.9	6.2	6.5	3.3	3.7	5.7	6.0	6.0	9.2	4.9	**4.6**	**6.2**
Average nominal interest rate on external debt (in percent)	2.3	2.0	2.4	1.9	2.5	2.4	2.7	3.0	3.3	4.0	**1.7**	**3.1**
Average real interest rate on domestic debt (in percent)	0.8	-0.2	0.3	0.7	1.2	0.5	0.7	1.0	1.3	3.0	**0.0**	**1.6**
Real exchange rate depreciation (in percent, + indicates depreciation)	2.4	6.0	-3.3	...	...	...	...	...	...	...	**-1.9**	**...**
Inflation rate (GDP deflator, in percent)	4.5	4.2	0.6	2.8	4.6	5.3	4.6	5.2	6.6	4.3	**14.1**	**4.9**
Growth of real primary spending (deflated by GDP deflator, in percent)	-4.1	14.1	17.9	15.5	12.1	-9.8	7.3	4.5	6.9	0.0	**5.5**	**6.6**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-0.7	-0.9	0.8	-2.9	-0.2	0.0	-0.2	0.8	2.8	-1.9	**-0.2**	**0.2**
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**Yes**

Public sector debt 1/



Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central, state, and local governments plus social security, central bank, government-guaranteed debt. Definition of external debt is Residency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 3. Uganda: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2019/20–2029/30

(In percent)

	Projections										
	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
PV of debt-to GDP ratio											
Baseline	**22.5**	**24.5**	**25.4**	**25.9**	**25.3**	**24.0**	**21.4**	**21.3**	**21.7**	**21.8**	**22.0**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2040 1/	22.5	22.1	23.8	25.6	26.8	29.7	31.3	32.0	32.8	33.4	33.4
A2. Alternative Scenario: Oil price shock	22.5	22.5	23.9	24.5	22.9	21.9	17.4	12.7	8.4	5.6	3.4
B. Bound Tests											
B1. Real GDP growth	22.5	25.9	28.3	28.9	28.2	26.8	23.9	23.8	24.2	24.3	24.5
B2. Primary balance	22.5	24.8	26.0	26.6	26.0	24.8	22.2	22.1	22.5	22.6	22.8
B3. Exports	22.5	25.1	28.1	28.5	27.8	26.3	23.3	23.1	23.4	23.4	23.4
B4. Other flows 2/	22.5	25.8	27.8	28.2	27.5	26.0	23.1	22.9	23.1	23.1	23.2
B6. One-time 30 percent nominal depreciation	22.5	30.9	30.7	31.4	30.7	29.2	26.2	26.1	26.5	26.7	27.0
B6. Combination of B1-B5	22.5	27.1	29.1	29.6	28.9	27.4	24.4	24.2	24.5	24.6	24.7
C. Tailored Tests											
C1. Combined contingent liabilities	22.5	29.5	31.7	32.6	32.1	31.9	29.1	29.3	29.8	30.5	31.1
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**55**	**55**	**55**	**55**	**55**	**55**	**55**	**55**	**55**	**55**	**55**
PV of debt-to-exports ratio											
Baseline	**165.3**	**173.7**	**160.3**	**160.9**	**157.2**	**125.1**	**111.6**	**106.9**	**104.6**	**103.4**	**105.2**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2040 1/	165.3	156.1	150.4	158.8	166.8	154.7	162.7	160.3	158.4	158.5	159.9
A2. Alternative Scenario: Oil price shock	165.3	159.4	150.6	152.4	142.1	117.0	94.5	65.8	41.5	27.0	16.4
B. Bound Tests											
B1. Real GDP growth	165.3	173.7	160.3	160.9	157.2	125.1	111.6	106.9	104.6	103.4	105.2
B2. Primary balance	165.3	175.5	163.9	165.1	161.5	129.0	115.6	110.8	108.5	107.4	109.4
B3. Exports	165.3	192.3	232.9	232.7	226.6	179.5	159.4	152.0	148.2	145.6	147.4
B4. Other flows 2/	165.3	182.4	175.5	175.4	170.9	135.4	120.3	114.8	111.8	110.0	111.3
B6. One-time 30 percent nominal depreciation	165.3	172.6	153.1	154.1	150.7	120.3	107.5	103.2	101.2	100.3	102.2
B6. Combination of B1-B5	165.3	188.2	168.7	205.6	200.5	159.2	141.7	135.4	132.1	130.2	132.1
C. Tailored Tests											
C1. Combined contingent liabilities	165.3	208.7	199.8	202.7	199.5	166.3	151.6	146.6	144.0	144.8	149.1
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**240**	**240**	**240**	**240**	**240**	**240**	**240**	**240**	**240**	**240**	**240**
Debt service-to-exports ratio											
Baseline	**9.7**	**13.1**	**12.2**	**14.4**	**15.6**	**13.4**	**14.0**	**13.8**	**13.1**	**13.4**	**13.9**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2040 1/	9.7	12.2	10.8	12.6	13.7	12.5	14.7	14.5	13.3	13.4	13.7
A2. Alternative Scenario: Oil price shock	9.7	12.7	11.6	13.7	14.8	13.5	15.5	13.3	10.5	9.3	**8.5**
B. Bound Tests											
B1. Real GDP growth	9.7	13.1	12.2	14.4	15.6	13.4	14.0	13.8	13.1	13.4	13.9
B2. Primary balance	9.7	13.1	12.3	14.6	15.8	13.6	14.2	14.1	13.4	13.7	14.2
B3. Exports	9.7	14.2	16.2	19.5	20.9	18.1	18.7	18.4	17.6	18.3	18.8
B4. Other flows 2/	9.7	13.1	12.4	14.8	15.9	13.7	14.2	14.0	13.4	13.8	14.3
B6. One-time 30 percent nominal depreciation	9.7	13.1	12.2	14.3	15.4	13.3	13.9	13.7	13.0	13.2	13.7
B6. Combination of B1-B5	9.7	13.7	15.1	17.8	19.2	16.5	17.2	16.9	16.2	16.6	17.1
C. Tailored Tests											
C1. Combined contingent liabilities	9.7	13.1	13.8	16.5	17.7	15.1	15.8	15.8	15.1	15.4	16.0
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**21**	**21**	**21**	**21**	**21**	**21**	**21**	**21**	**21**	**21**	**21**
Debt service-to-revenue ratio											
Baseline	**10.2**	**14.1**	**14.5**	**16.7**	**17.4**	**17.2**	**15.8**	**15.4**	**15.1**	**15.9**	**16.6**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2040 1/	10.2	13.1	12.8	14.6	15.3	16.0	16.6	16.2	15.4	15.9	16.4
A2. Alternative Scenario: Oil price shock	10.2	13.6	13.7	15.8	16.6	16.9	16.7	14.3	12.0	10.9	**10.1**
B. Bound Tests	10.2	13.6	13.7	15.8	16.6	16.9	16.7	14.3	12.0	10.9	**10.1**
B1. Real GDP growth	10.2	14.9	16.2	18.7	19.4	19.2	17.6	17.2	16.9	17.7	18.5
B2. Primary balance	10.2	14.1	14.6	17.0	17.7	17.4	16.0	15.8	15.5	16.3	17.0
B3. Exports	10.2	14.1	14.6	17.3	17.9	17.6	16.1	15.7	15.5	16.5	17.2
B4. Other flows 2/	10.2	14.1	14.7	17.2	17.8	17.5	16.0	15.6	15.5	16.4	17.1
B6. One-time 30 percent nominal depreciation	10.2	17.9	18.3	20.9	21.8	21.6	19.8	19.4	19.0	19.8	20.7
B6. Combination of B1-B5	10.2	15.0	16.0	18.5	19.2	18.9	17.3	16.9	16.8	17.6	18.4
C. Tailored Tests											
C1. Combined contingent liabilities	10.2	14.1	16.4	19.1	19.8	19.4	17.8	17.6	17.4	18.3	19.2
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**23**	**23**	**23**	**23**	**23**	**23**	**23**	**23**	**23**	**23**	**23**

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Includes official and private transfers and FDI.

Table 4. Uganda: Sensitivity Analysis for Key Indicators of Public Debt 2019/20–2029/30

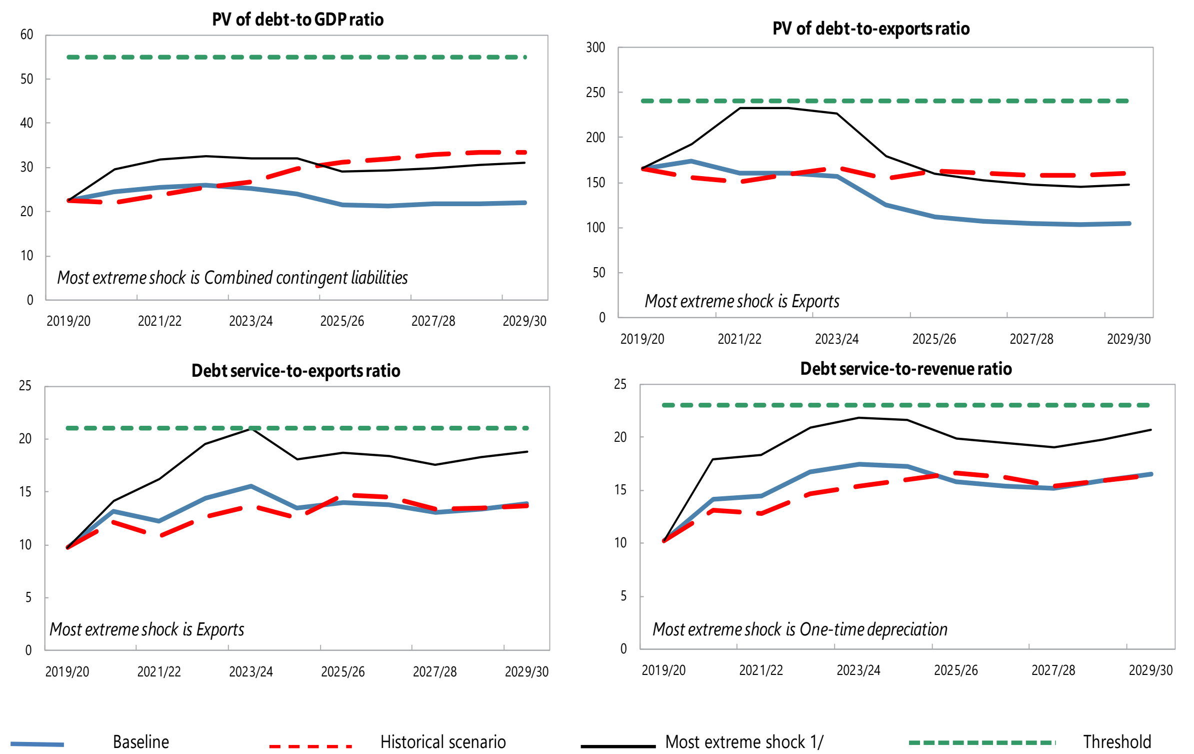
	Projections										
	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
PV of Debt-to-GDP Ratio											
Baseline	**36.3**	**42.6**	**45.8**	**49.5**	**51.8**	**51.4**	**49.0**	**49.4**	**50.4**	**51.2**	**51.8**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2040 1/	36	35	35	35	34	34	33	34	34	35	35
B. Bound Tests											
B1. Real GDP growth	36	46	52	57	61	62	60	62	65	67	70
B2. Primary balance	36	43	47	50	51	51	48	48	48	49	49
B3. Exports	36	43	48	52	54	54	51	51	52	53	53
B4. Other flows 2/	36	44	48	52	54	53	51	51	52	53	53
B6. One-time 30 percent nominal depreciation	36	46	47	48	49	46	42	41	41	40	39
B6. Combination of B1-B5	36	42	45	47	49	48	46	46	46	47	47
C. Tailored Tests											
C1. Combined contingent liabilities	36	59	62	65	67	65	61	61	62	62	63
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Public debt benchmark	**70**	**70**	**70**	**70**	**70**	**70**	**70**	**70**	**70**	**70**	**70**
PV of Debt-to-Revenue Ratio											
Baseline	**267.7**	**306.9**	**323.5**	**351.5**	**356.6**	**339.3**	**285.9**	**275.5**	**280.4**	**288.0**	**295.8**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2040 1/	268	256	249	247	236	227	194	189	191	195	200
B. Bound Tests											
B1. Real GDP growth	268	327	368	407	418	406	349	346	360	379	399
B2. Primary balance	268	312	330	354	354	335	278	267	270	275	281
B3. Exports	268	311	343	370	373	354	297	285	290	297	304
B4. Other flows 2/	268	316	341	368	372	352	296	284	289	296	303
B6. One-time 30 percent nominal depreciation	268	334	333	344	334	307	246	230	226	225	225
B6. Combination of B1-B5	268	303	319	337	338	320	266	255	258	263	268
C. Tailored Tests											
C1. Combined contingent liabilities	268	428	438	463	459	432	357	341	344	351	358
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	**40.2**	**53.2**	**70.0**	**80.9**	**86.4**	**91.8**	**80.7**	**81.0**	**84.4**	**87.4**	**92.8**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2040 1/	40	49	53	62	62	60	57	54	53	51	51
B. Bound Tests											
B1. Real GDP growth	40	56	79	95	102	111	100	103	109	115	125
B2. Primary balance	40	53	72	84	88	95	84	83	86	89	95
B3. Exports	40	53	70	81	87	92	81	81	85	88	93
B4. Other flows 2/	40	53	70	81	87	92	81	81	85	88	93
B6. One-time 30 percent nominal depreciation	40	52	68	78	85	88	79	79	82	85	89
B6. Combination of B1-B5	40	52	69	80	86	91	80	80	84	87	92
C. Tailored Tests											
C1. Combined contingent liabilities	40	53	110	102	103	137	107	98	99	109	113
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

2/ Includes official and private transfers and FDI.

Figure 1. Uganda: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2019/20–2029/30 [1/]



Customization of Default Settings		
	Size	Interactions
Tailored Tests		
Combined CLs	Yes	
Natural Disasters	n.a.	n.a.
Commodity Prices [2/]	n.a.	n.a.
Market Financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing Assumptions for Stress Tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	5.5%	1.5%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	18	38
Avg. grace period	4	6

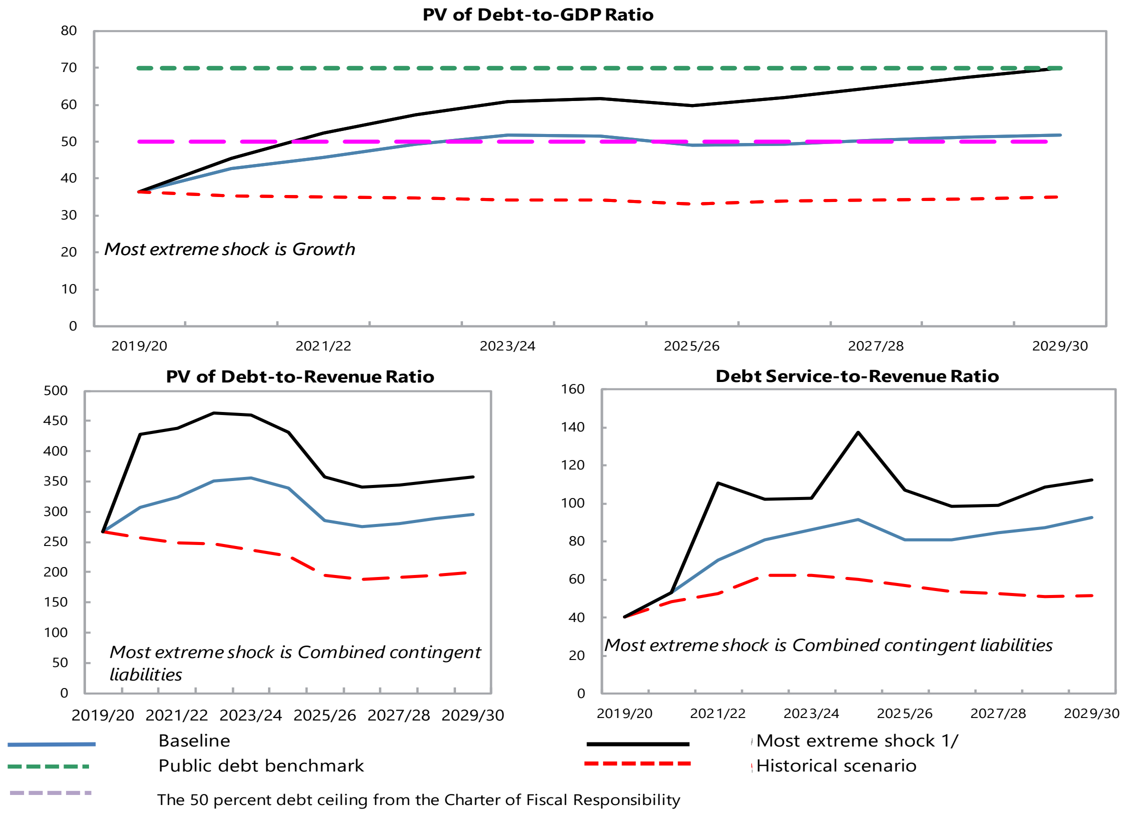
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2030. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Uganda: Indicators of Public Debt Under Alternative Scenarios, 2019/20–2029/30



Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	29%	29%
Domestic medium and long-term	44%	44%
Domestic short-term	25%	27%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	5.5%	5.5%
Avg. maturity (incl. grace period)	18	18
Avg. grace period	4	4
Domestic MLT debt		
Avg. real interest rate on new borrowing	9.2%	9.2%
Avg. maturity (incl. grace period)	4	4
Avg. grace period	3	3
Domestic short-term debt		
Avg. real interest rate	6%	6.0%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2030. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Statement by Mr. Mahlinza, Executive Director for Uganda, and Mr. Ismail, Advisor to the Executive Director

May 6, 2020

I. Introduction

1. On behalf of our Ugandan authorities, we thank management and staff for their timely response to the request for emergency financial assistance under the Rapid Credit Facility (RCF).

2. The Ugandan economy has been severely affected by the COVID-19 pandemic, aggravating economic challenges posed by the heavy rains that fell in early 2020 and the current locust invasion. In response, the authorities have implemented containment measures to curb the spread of the virus, scaled up health care expenditures, and increased social assistance to the most vulnerable households. As a result, huge external and fiscal financing needs have emerged. The authorities request emergency financing under the Rapid Credit Facility (RCF) in the amount of SDR 361 million, equivalent to 100 percent of quota to address urgent balance of payments (BOP) and fiscal needs precipitated by the pandemic. They intend to allocate 70 percent of these resources to bolster the Bank of Uganda (BoU) reserve buffers, with the remainder used for budget support.

3. To fill the fiscal and external gaps caused by the pandemic, the authorities are working with other development partners including the World Bank, African Development Bank, and the United Nations. They are also seeking debt service relief under the G-20 Covid-19 Debt Relief initiative and are engaging bilateral creditors for that purpose. Further, they will continue to monitor the pandemic and stand ready to implement additional measures as necessary.

4. To ensure that Covid-related resources are used in a transparent and accountable manner, the authorities commit to undertake targeted measures, including the publication of large procurement contracts. A separate reporting mechanism for Covid-related expenditures will be established under program-based budget, and an independent audit of the Covid-19 emergency expenditure will be instituted. The authorities are also committed to undertake an update of the safeguards assessment before Executive Board approval of any subsequent arrangements.

II. Impact of the COVID-19 Pandemic

5. Since the first confirmed case of Covid-19 was reported on March 21, 2020, the cases had risen to seventy-nine as at April 27, 2020, with no reported fatalities. While the number of coronavirus cases appears relatively low, the impact on the economy has been severe, with confinement measures posing huge challenges for the large informal sector and vulnerable households. The Ministry of Finance estimates that between 780,000 and 2.6 million Ugandans could be pushed into poverty as incomes decline. Further, the large refugee population has put additional pressures on the weak health system, while the huge decline in remittances is expected to significantly affect household incomes.

6. Global and regional spillovers from the COVID-19 pandemic and the implementation of domestic containment measures have sparked large economic and social disruptions. As a result, GDP growth is expected to decline by 2.7 percentage points in FY2019/20 compared to pre-pandemic forecasts, reflecting weaker manufacturing, construction, trade and tourism activities. At the same time, the balance of payments is projected to deteriorate substantially, with significant declines in FDI, exports, remittances, and capital flows, creating a BOP financing gap of $1.3 billion in 2020, equivalent to 3.4 percent of GDP.

7. The overall fiscal deficit, excluding externally financed projects and project grants, is expected to widen by 1.1 percent of GDP and 2.6 percent of GDP in FY2019/20 and FY2020/21, respectively, due to revenue shortfalls and additional spending to mitigate the impact of the pandemic on vulnerable households and businesses. The pandemic also threatens to reverse the hard-earned social gains made over the past years.

III. Policy Responses to the Pandemic

8. Uganda has been singled out by the World Health Organization as an example of a country that quickly responded to the pandemic. Immediate measures to contain the spread of the virus, included the closure of schools and universities, restrictions on public gatherings, and a ban on public transport. In addition, a health preparedness plan was developed jointly with key development partners, with an initial cost of about $125 million over a six months period. To finance the preparedness plan, the authorities have used the Contingency Fund in the FY2019/20 budget and passed a supplementary budget, which has been approved by the parliament.

9. The authorities are finalizing additional measures to support the economy and the most vulnerable groups. These measures include strengthening social protection mechanisms, provision of targeted cash transfers and cash for work, and the distribution of food to vulnerable households together with a stimulus package to support severely affected businesses. The stimulus package to support the private sector will include measures to accelerate repayment of government arrears to suppliers, temporary deferral of tax payments, extension of tax exemptions on medical equipment, and the provision of affordable credit through the state-owned Uganda Development Bank (UDB). The authorities also plan to provide support to water and electricity utilities to ensure continued supply and expand labor-intensive public works programs.

10. The Bank of Uganda (BoU) will continue to implement prudent monetary policy to ensure price stability. They will continue to maintain exchange rate flexibility as the first line of defense against external shocks and limit interventions to smoothen market conditions. In response to the pandemic, the BoU has introduced measures to address credit related insolvency, including relaxation of limitations on restructuring of credit facilities, and the introduction of a moratorium on loan repayments for borrowers affected by the pandemic crisis. These measures are also geared towards strengthening banks' asset quality and supporting liquidity positions. In parallel, work is underway to reduce charges on mobile money transactions and other digital payment charges to promote the use of digital payments and limit the use of cash and bank branch visits.

IV. Post-crisis Measures

11. Over the medium term, the authorities plan to pursue sound macroeconomic policies to ensure fiscal and debt sustainability. They plan to introduce a fiscal anchor, including a fiscal rule to manage future oil revenues. They also plan to implement their recently concluded medium-term Domestic Revenue Mobilization Strategy, which aims to increase revenue by 2.5 percent of GDP over five years. Work on strengthening public investment management will continue to bring the fiscal deficit and public debt to a downward trajectory once the crisis abates. In the interim, the debt ceiling of 50 percent in NPV terms will continue to guide fiscal operations in line with the East African Community criteria. At the same time, the authorities will continue to use a set of indicators to closely monitor debt developments, including the interest to revenue ratio.

V. Conclusion

12. Our authorities remain committed to implementing sound macroeconomic policies that would help restore macroeconomic stability and bolster inclusive growth, once the crisis fades. They look forward to the support of the Executive Board for a disbursement under the RCF to sustain their efforts to address the negative impact of the Covid-19 pandemic. Our authorities consider the RCF instrumental to catalyze additional resources from development partners to strengthen efforts to contain the pandemic.