INTERNATIONAL MONETARY FUND

IMF Country Report No. 21/141

UGANDA

June 2021

REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR UGANDA

In the context of the Request for a Three-Year Arrangement Under the Extended 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 June 28, 2021, following discussions that ended on May 28, 2021, with the officials of Uganda on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on June 15, 2021.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Supplementary Information** of the Staff Report prepared by the IMF.
- A **Statement by the Executive Director** for Uganda.

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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PRESS RELEASE

PR21/197

IMF Executive Board Approves US$1 billion ECF Arrangement for Uganda

FOR IMMEDIATE RELEASE

- *The COVID-19 pandemic—which led to a global recession and domestic containment measures— has caused economic and social strife in Uganda. It has reversed poverty gains, deteriorated fiscal balances, and put pressure on external buffers.*
- *The IMF Board approved a SDR722 million (about US$1 billion) Extended Credit Facility arrangement for Uganda. Approval of the ECF arrangement enables the immediate disbursement of about US$258 million.*
- *The three-year financing package will support the short-term response to the COVID-19 crisis and help sustain a post-crisis inclusive recovery. Reforms will focus on creating fiscal space for priority social spending, preserving debt sustainability, strengthening governance, and enhancing the monetary and financial sector framework.*

Washington, DC – June 28, 2021: On June 28, 2021, the Executive Board of the International Monetary Fund (IMF) approved a 36-month arrangement under the Extended Credit Facility (ECF) for Uganda in an amount equivalent to SDR722 million (200 percent of quota or about US$1 billion) to support the post-COVID-19 recovery and the authorities' plan to increase households' incomes and inclusive growth by fostering private sector development.

Approval of the ECF arrangement enables immediate disbursement of about US$258 million, usable for budget support. This follows Fund emergency support to Uganda under the Rapid Credit Facility (RCF) in May 2020 of SDR361 million (100 percent of quota or US$491.5 million, see Press Release No 20/206).

Uganda's economy was hit hard by the COVID-19 crisis. Decade-long gains in poverty reduction were reversed, fiscal balances have deteriorated, and pressures on external buffers have intensified. A mild recovery is underway in some sectors, with economic growth in FY 21/22 expected to reach 4.3 percent before returning to pre-pandemic rates of 6-7 percent in the medium term. The outlook remains highly uncertain, with risks tilted to the downside, including from a resurgence of tighter containment measures linked to higher COVID-19 positivity rates.

The authorities' program, enshrined in the third National Development Plan (NDPIII), is built around the principles of private sector-led inclusive growth and public sector reforms to strengthen governance and transparency. It envisages multi-year fiscal consolidation while increasing priority and high-quality infrastructure spending. The program will include reforms to increase domestic revenue, foster public sector efficiency and strengthen governance while preparing the ground for sound management of oil revenues. The program will strengthen the monetary policy and financial sectors frameworks while fostering development, including through financial inclusion.

At the conclusion of the Executive Board's discussion, Mr. Tao Zhang, Deputy Managing Director and Acting Chair, made the following statement:

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USA

“Uganda’s economy has been severely impacted by the COVID-19 global pandemic, which reversed decade-long gains in poverty alleviation and opened up fiscal and external financing gaps. The authorities’ program, supported by a new arrangement under the Extended Credit Facility, focuses on keeping public debt on a sustainable path while improving the composition of spending and advancing structural reforms to create space to finance private investment, foster growth and reduce poverty.

“Fiscal consolidation, appropriately based on both revenue and expenditure measures during the first year of the authorities’ program, seeks to stabilize the public debt ratio while increasing social spending, including for vaccines. The implementation of the authorities’ Domestic Revenue Mobilization Strategy, better management of public investment, control of domestic arrears and advances in cash management will support the fiscal strategy.

“Prudent debt management is important to reduce vulnerabilities, particularly given Uganda’s moderate risk of debt distress. Every effort should continue to be made to seek concessional financing and pursue relief under the Debt Service Suspension Initiative. Contingency plans put in place would help mitigate risks.

“An accommodative monetary policy stance remains appropriate and the exchange rate should continue to function as a shock absorber. Efforts to increase central bank independence should also be sustained. Flexible use of banks’ capital buffers should be considered to address uncertainties surrounding the COVID-19 pandemic. Close attention should be paid to minimizing financial stability risks, including through strict adherence to accounting and prudential standards, and modernizing the banking resolution and emergency liquidity assistance frameworks.

“Advancing governance reforms remains crucial to support transparency and private sector development. The authorities have made progress in publishing information on audits and the use of COVID-19 funds, but further work is necessary to enhance the AML/CFT framework and strengthen the accountability of high-level officials. Promoting human capital development and financial inclusion, including through wider credit bureau coverage and collateral requirements will further support the authorities’ inclusive growth agenda. Accelerating digitalization would enhance these efforts.”

INTERNATIONAL MONETARY FUND

UGANDA

June 15, 2021

REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY

EXECUTIVE SUMMARY

Context. The Ugandan authorities reacted swiftly to the COVID-19 crisis, locking down the economy, saving lives and avoiding a public health crisis. However, the resulting economic and social costs have been high. Per capita GDP growth remains below pre-pandemic levels, poverty gains have been reversed, fiscal balances have deteriorated, and pressures on external buffers remain high.

Program objectives and modalities. The authorities have requested a three-year Extended Credit Facility (ECF) arrangement to support the short-term response to the COVID-19 crisis and help sustain post-crisis recovery through private sector development. Staff proposes a 36-month ECF, with access at 200 percent of quota (SDR 722 million), with semi-annual reviews. The ECF arrangement—including through its catalytical effect—is expected to help meet balance of payment needs estimated at about $2 billion. Uganda's risk of debt distress is moderate and its capacity to repay the Fund is adequate.

Program policies. Fiscal, monetary, and structural policies are designed to protect livelihoods and support the recovery, subject to the government's financing constraints. Fiscal consolidation will keep debt on a sustainable path and limit private sector crowding out. Improving budget composition towards higher social expenditures—supported by strengthened spending efficiency, public financial management reforms, a strengthened monetary policy and financial sector framework and an ambitious governance agenda—will help generate more inclusive growth while safeguarding public resources.

Staff views. The Letter of Intent and Memorandum of Economic and Financial Policies demonstrate program ownership and appropriate policies to reach the goals of the authorities' program. Nevertheless, the environment is highly uncertain and there are substantial risks to growth and financing from a resurgence of the COVID-19 shock and climate disasters, among others. In case risks materialize, contingency measures are envisaged to help safeguard program objectives.

Approved By
Catherine Pattillo and Bikas Joshi

The mission team consisted of Mr. Mati (head) Ms. Toure, Messrs. Bannister, Csonto (all AFR), Mr. Murara (FAD), Mr. Chen (SPR), Ms. Huang (MCM), and Mr. Markevych (LEG). The mission was assisted by Ms. Karpowicz (Resident Representative) and Ms. Samula (local economist). Executive Director Ita Mannathoko (OED) participated in the closing discussions. Discussions were held remotely from Washington DC, during January 27 - March 5, 2021 and May 25 - 28, 2021. The team met with Mr. Kasaija, Minister of Finance, Planning and Economic Development; Mr. Ocailap, acting Permanent Secretary and Secretary to the Treasury; Mr. Mutebile, Governor of the Bank of Uganda (BoU); and Mr. Atingi-Ego, Deputy Governor of the BoU and other senior officials of the government and the BoU. Staff also had productive discussions with representatives of Parliament, the private sector, civil society organizations, and development partners. Ms. Canales Munoz and Ms. Khandelwal provided excellent assistance for the preparation of this report.

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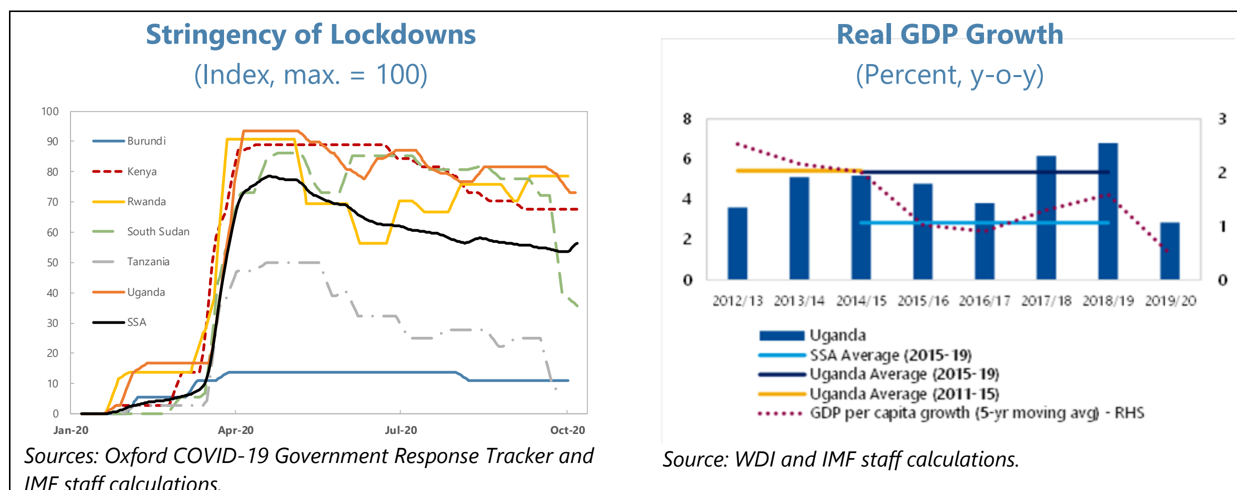
CONTEXT

1. Uganda's economy was hit hard by the COVID-19 crisis. After the first COVID-19 case was detected in March 2020, the government swiftly introduced a four-month lockdown, which kept infection and fatality rates low. This had a strong negative effect on economic activity already hit hard by disruptions in global demand and supply chains. The resulting collapse in services and manufacturing halved Uganda's real GDP growth to 3 percent in FY2019/20 (a contraction of 1.1 percent for CY 2020).



Sources: Oxford COVID-19 Government Response Tracker and IMF staff calculations.

Source: WDI and IMF staff calculations.

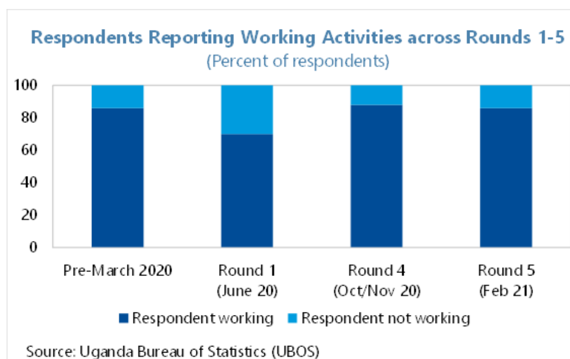
2. The crisis exacerbated Uganda's fiscal position and development needs. Uganda entered the crisis with GDP per capita growth already slowing due to very high population growth. Emergency IMF and World Bank financial assistance in June 2020 helped mitigate the impact of COVID-19 on the economy and support mitigating measures amidst high fiscal pressures. Despite the support, preliminary estimates indicate severe income losses due to the COVID-19 crisis, leading to an estimated increase in the national poverty ratio that would reverse nearly a decade of progress (Box 1). A recent increase in COVID-19 positivity rates highlights the uncertainty on the outlook and development outcomes.

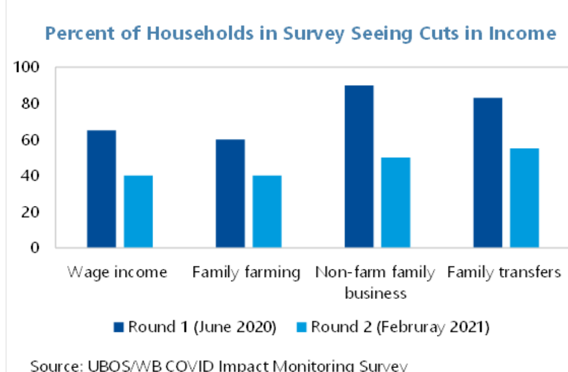
3. Against this background, the authorities have requested a three-year Extended Credit Facility (ECF). The ECF is intended to help address the impact of COVID-19 and to support post-COVID recovery at a time where BOP gaps are protracted. The arrangement will support the implementation of policies under the National Development Plan III (NDP III), which aims at safeguarding macroeconomic stability and generating more inclusive growth. The NDP III (Annex I) remains the priority of President Museveni who was reelected to a sixth term in office in January. It builds on the policy agenda of past Fund-supported programs (2006-17), whose priorities included maintaining public debt on a sustainable path, safeguarding financial stability, and implementing structural reforms to strengthen governance, boost human capital and foster private sector development.

Box 1. The Distributional Impact of the COVID-19 Crisis

A survey undertaken by the Uganda Bureau of Statistics (UBOS) indicates the extent of the crisis severity on incomes and livelihoods:

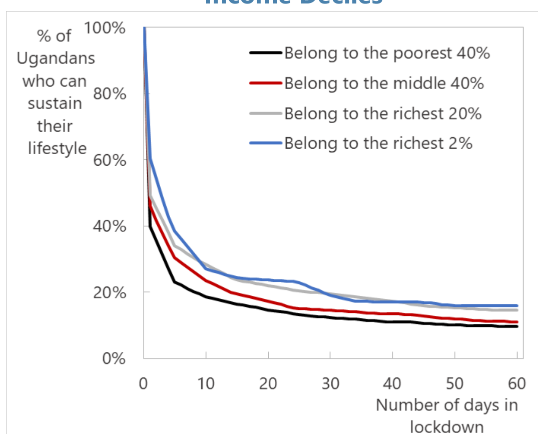
- **Employment** levels fell to 70 percent of the population and **incomes** declined most severely in non-farm family businesses. By the last round of the survey (in February 2021), 40 percent of wage earners and family farms were still seeing a decline in incomes.





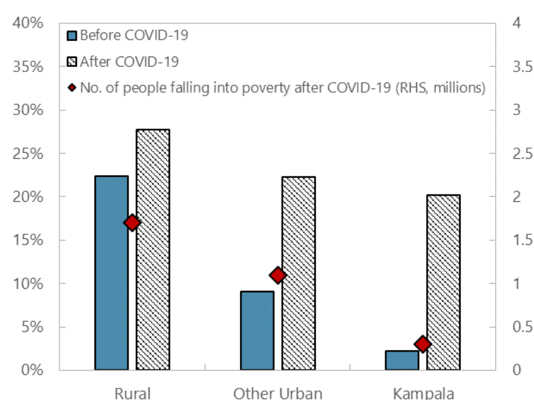
- While it is early to assess the full distributional consequences, **a simulation study performed in collaboration with the Ministry of Finance found the following impacts** [1/]: (i) the crisis impacted incomes of 61 percent of the population; (ii) **poverty** is to rise by 7.5 percent nationally, with a more than proportional effect in Kampala and other urban areas, as people there rely on wages and earnings of family businesses that are harder hit by the crisis; and (iii) the **impact on inequality** would be small, with the Gini coefficient rising only fractionally albeit the impact would be high in Kampala and urban areas.

Impact of Lockdown on Poverty by Income Deciles [2]



Source: Financial Sector Deepening (FSD) Uganda.

Uganda Poverty Rate Changes



Source: Uganda Ministry of Finance, Planning and Economic Development and International Growth Center.

[1] Younger et al. (2020) use microsimulations of income losses due to the crisis to estimate the effect of the crisis on poverty and inequality in Uganda and to explore the effects of different policy responses.

[2] N=1,230 for the poorest 40%. N-1,137 for the 40% in the middle. N=635 for the richest 20%. N=76 for the richest 2%.

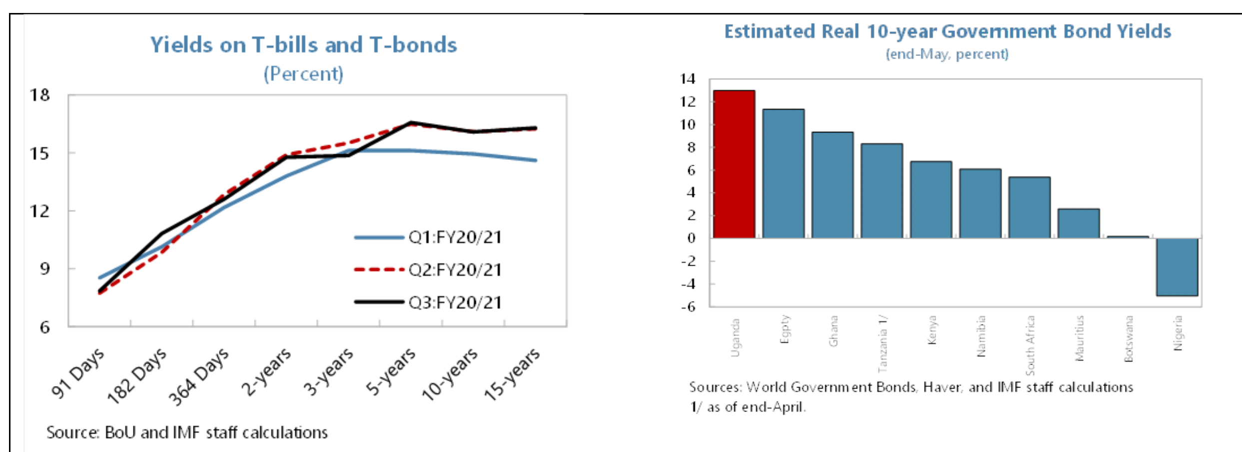
RECENT DEVELOPMENTS

4. Economic activity is slowly recovering, the current account deficit is worsening and financing pressures are rising (MEFP,¶4-10).

- **Growth**. After three quarters of zero or negative year-on-year growth in 2020 linked to stringent lockdown measures and the global recession, the economy grew by 1.6 percent in Q4 2020, driven by agriculture (particularly coffee) while services (e.g., education, hospitality and tourism) continued to contract. High frequency PMI indices and mobility indicators for the first quarter of 2021 indicate economic activity strengthening, albeit not enough to reduce poverty and high unemployment.

- Headline **inflation** rose to 4.1 percent year-on-year in March 2021 on rising food and energy prices, albeit the uptick seen in Q4 2020 has now dissipated. Core inflation was at 5.3 percent, broadly in line with the BOU's target of 5 percent.

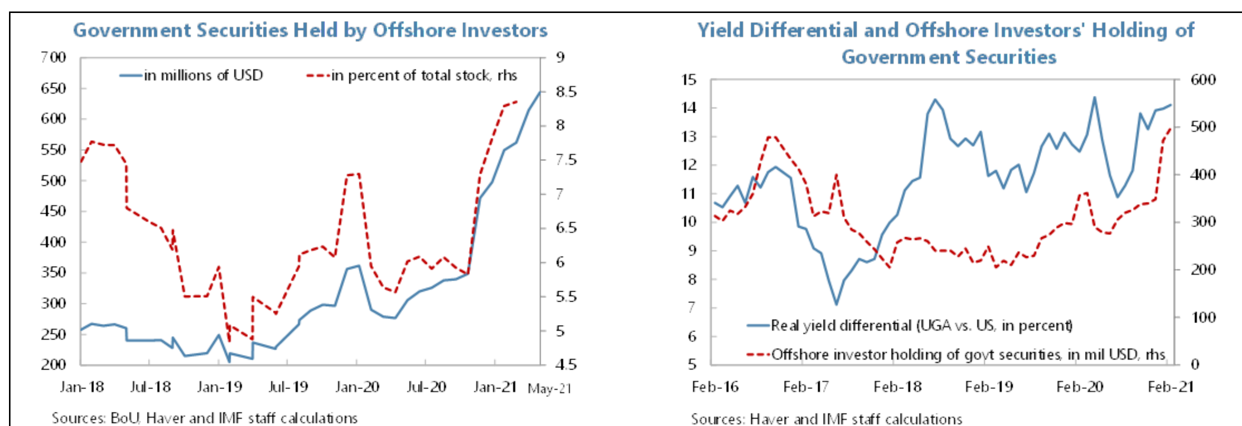
- While **T-bill yields** initially declined as a result of ample liquidity in the system, the pick-up in inflation by October 2020 and rising government financing needs have pushed up financing costs, especially at the long end of the yield curve, with 10-year T-Bond yields rising by 200 basis points in the first half of FY20/21.



- The **current account deficit** narrowed by 0.9 percentage points to 5.8 percent of GDP in FY19/20 as imports contracted more than tourism and remittance receipts. However, it widened again in the first half of FY20/21 as government spending boosted imports while tourism receipts remained weak, remittances remained 30 percent below the level recorded in 2019H2, and interest payments on public debt increased.

- Thanks to emergency IMF and WB financial support in 2020 and increased foreign investors' participation in the local bond market, where net portfolio inflows to the general government reached a record high of US$150mil in 2020Q4, **international reserves** increased to US$3.9 billion in December 2020. However, reserves have fallen to US$3.6 billion in April 2021 (about

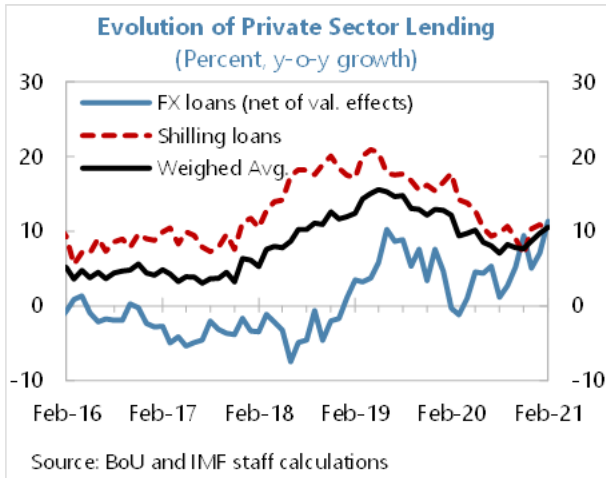
4.2 months of next year's imports) as higher portfolio inflows did not offset the continued deterioration of the current account deficit, primarily financed by donor support and FDI.

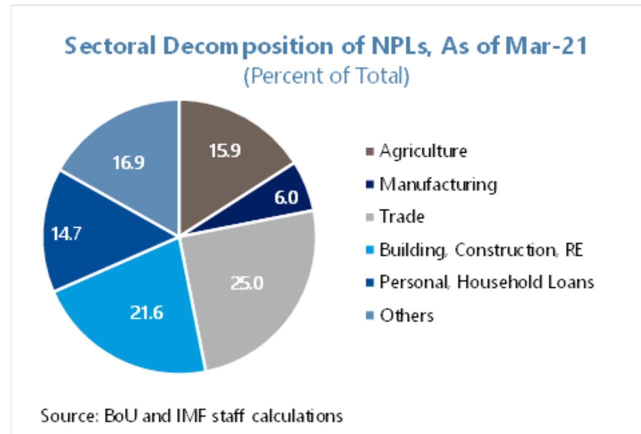


- The **shilling** remained broadly stable with a bias towards appreciation as foreign portfolio flows rose. The Bank of Uganda's FX interventions remain limited.
- Despite ample liquidity, **private sector credit growth** (Box 2) decelerated as both demand and supply of credit have been affected by the pandemic.
- With the negative output gap and contained inflation, the Bank of Uganda (BoU) adopted an **accommodative monetary policy stance**, cutting the policy rate in April and in June 2020 by a cumulative 200 bps to 7 percent (the lowest rate since the introduction of the inflation targeting framework in 2011). However, lending rates have remained sticky (Box 2).

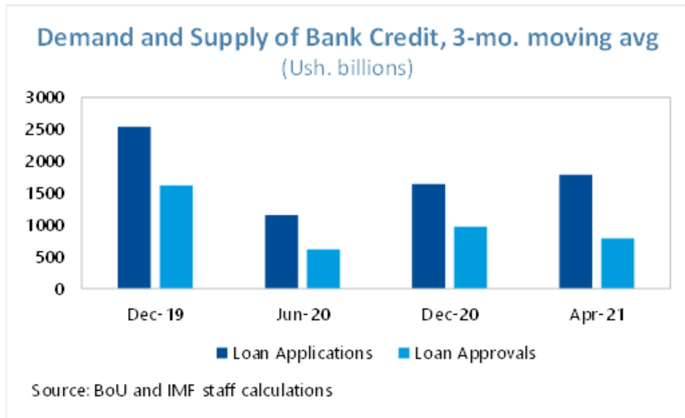
Box 2. Private Sector Credit Developments

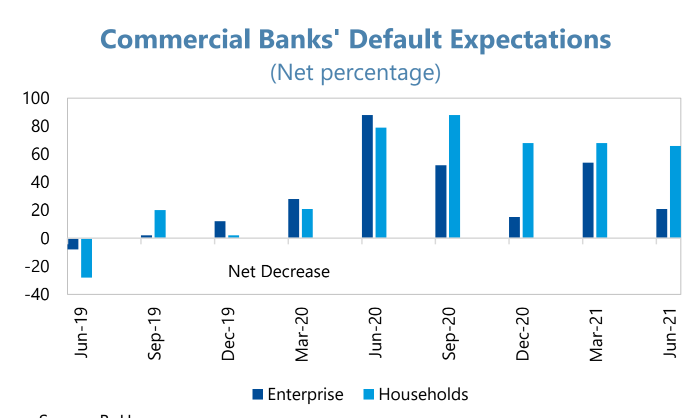
Despite accommodative monetary policy and credit relief measures, credit to the private sector has been crowded out by government debt, and growth has remained in single digits. Net of exchange rate valuation gains, annual private sector credit grew by 8.7 percent in 2020, down from 12.9 percent a year earlier. Loan growth was driven mostly by recovering economic activity. Expectation of currency appreciation and large rate differentials helped spur FX denominated loans since mid-2020. However, loans to sectors with higher NPLs (e.g., trade) have remained low and even declined.





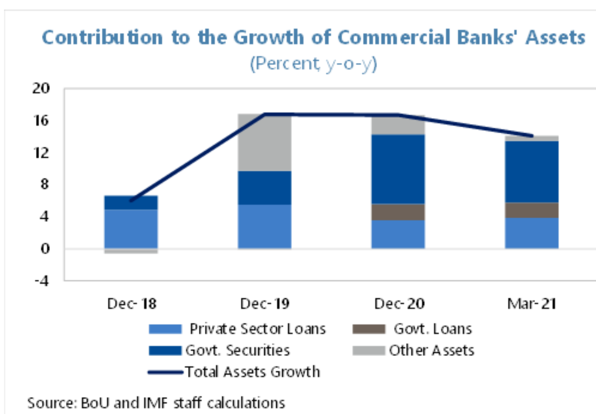
Increased risk aversion by lenders has continued to impact lending standards. The expected increase in the default rate on loans explains banks' continued tight credit standards. Credit demand (proxied by value of loan applications) and credit supply (proxied by loan approvals) has been increasing since last June but remains below pre-COVID levels. Approvals below applications continue to reflect commercial banks' risk aversion, which did not improve by April 2021.



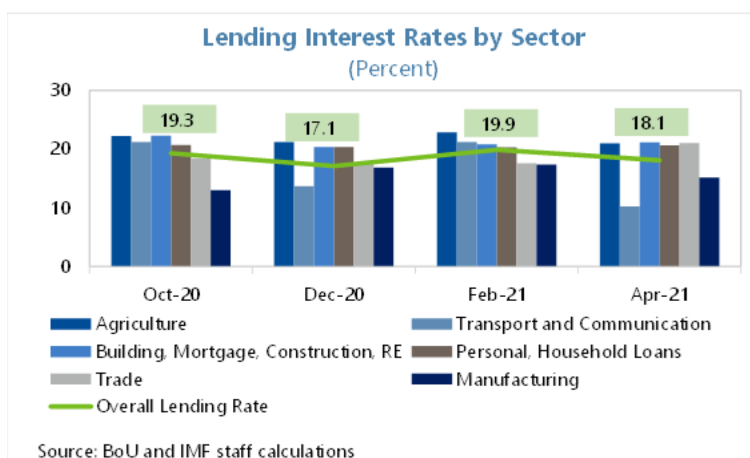


Box 2. Private Sector Credit Developments (concluded)

At the same time, driven by the record high government financing needs and preference toward safe assets, **the share of private sector loans in commercial banks' total assets has declined** from 48 percent in March 2020 to 41 percent in March 2021. During the same period, **the share of government debt increased from 20 to 25 percent,** with government bonds representing 50 percent of the year-on-year growth in banks' commercial assets. With bond yields staying high, lending rates have remained sticky, dampening further the effectiveness of the monetary policy transmission channel.

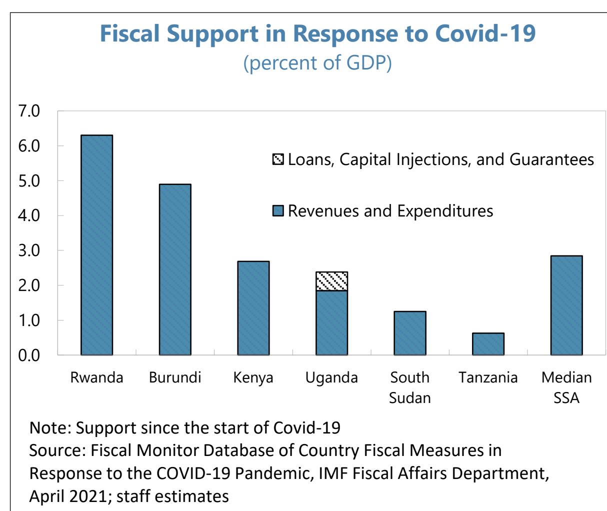


Source: BoU and IMF staff calculations



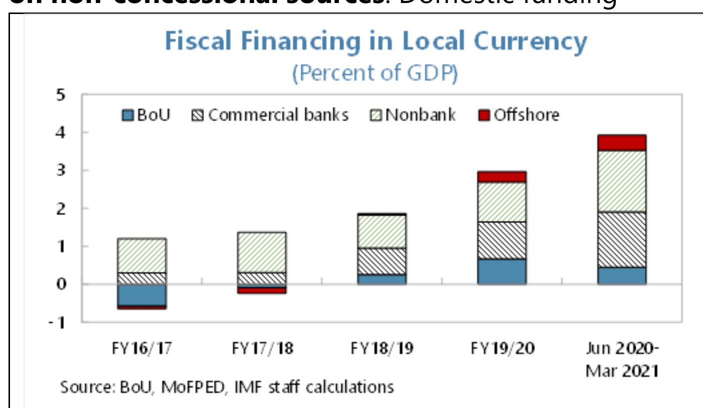
Source: BoU and IMF staff calculations

5. **Lower fiscal revenues and rising expenditure for COVID-19 support have led to wider fiscal deficits**. Tax revenue contracted in FY19/20, mostly reflecting declining economic activity associated with the pandemic, while expenditure rose to support health care, SMEs and the vulnerable (MEFP,¶8-10). As a result, the fiscal deficit in FY19/20 widened to 7.1 percent of GDP and the public debt ratio increased by almost 6 percentage points to 41.1 percent. During the first nine months of FY20/21, the fiscal deficit reached 6.4 percent of GDP as the pandemic continued to weigh on both domestic and international tax revenue, while further support to those affected by the crisis, higher security spending to replace equipment needed to face regional tensions, as well as BoU recapitalization, increased spending.



Note: Support since the start of Covid-19
Source: Fiscal Monitor Database of Country Fiscal Measures in Response to the COVID-19 Pandemic, IMF Fiscal Affairs Department, April 2021; staff estimates

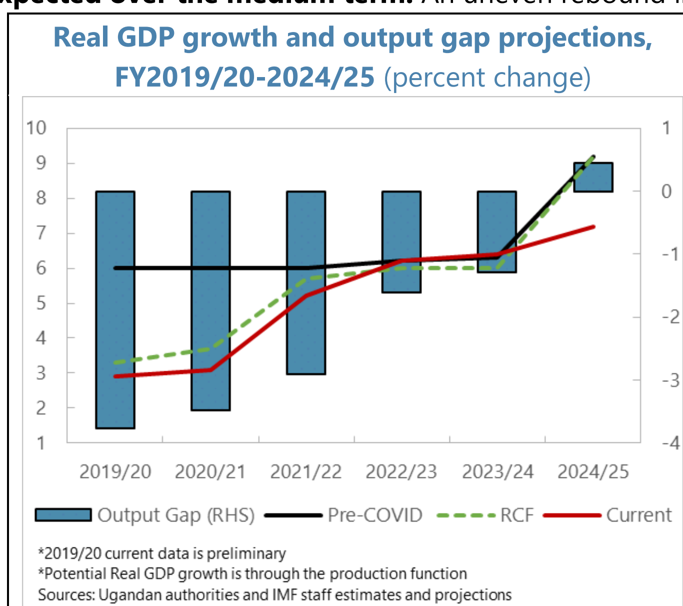
6. **Financing has increasingly relied on non-concessional sources**. Domestic funding sources include BoU loans (1.4 percent of GDP, albeit offset by a 1 percent of GDP increase in deposits) and net financing from commercial banks, nonbanks and offshore investors (3.4 percent of GDP) during the first nine months of FY20/21, with commercial bank financing already doubling relative to FY19/20 levels. In addition, a syndicated loan of $650 million (1.6 percent of GDP) is to be disbursed in June 2021.



7. **New BoU measures helped mitigate financial stability risks that emerged with the pandemic.** The BoU introduced liquidity support and credit relief, which will remain in effect until end-September 2021 (Annex II, MEFP¶10). This led to the restructuring of 21.3 percent of all loans at end-March 2021—of which about 29 percent are at risk of default, while non-performing loans (NPLs) increased to 5.4 percent of total loans during the same period. Bank solvency ratios are averaging 22.2 percent, with March 2021 BoU stress tests indicating adequate capital and liquidity buffers even if NPLs were to double from current levels; however smaller banks could face strains.

OUTLOOK AND RISKS

8. **A gradual economic recovery is expected over the medium term.** An uneven rebound in global trading partners and slow recovery in service activities will keep growth in the 3.3-4.3 percent range over the next two years, before transitioning 6-7 percent in the medium term, driven by a fuller recovery in international demand and private investments—including those generated by the Final Investment Decision on oil that will allow for first production in FY24/25. The monetary authorities are targeting core inflation of 5 percent throughout the program.



9. **The current account deficit is projected to narrow**. As exports, tourism and remittance receipts recover gradually, the current account deficit (excluding oil related flows) is expected to improve from recent record highs of 9.2 percent of GDP in FY20/21 to about 6 percent

of GDP by FY23/24, which would remain slightly higher than the historical pre-COVID average. On the financing side, FDI inflows and other private capital flows remain moderate in the short term but will strengthen in the medium term as the global recovery picks up. Program targets and financing aim to keep reserve cover—defined as reserves over next year's imports excluding oil related financing and investment imports—at 4, rising to the East Africa Community target of 4.5 in the outer years.

Uganda: Selected Economic and Financial Indicators, FY2019/20–2025/26

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	Act.			Proj.			
Real GDP growth (in percent)	3.0	3.3	4.3	6.4	7.0	7.2	7.0
Headline inflation (in percent, period average)	4.1	5.2	5.0	5.0	5.0	5.0	5.0
Private sector credit (in percent)	8.8	9.0	18.3	17.7	16.9	17.0	18.1
Current account balance (in percent) 1/	-5.8	-9.2	-8.1	-6.3	-6.2	-5.8	-5.0
Reserves (in months of imports) 1/	4.4	4.0	4.0	4.0	4.1	4.2	4.5

Sources: Ugandan authorities and IMF staff estimates and projections.

1/ Excluding oil project financing and investment related imports.

10. The outlook remains highly uncertain, with risks tilted downward (Annex III). Main short-term risks include a resurgence of lockdown measures linked to COVID-19 positivity rates that are currently rising sharply, a weaker recovery in the international economy, a rise in Uganda's international risk rating, a reversal in governance reforms, and increased social and political tensions. Delayed implementation of the fiscal reform agenda would also postpone the recovery. Slow execution of public investment projects, continued uncertainty about the timing of oil investments, and droughts/floods could further dampen the outlook. On the upside, a faster pandemic recovery, higher grants, or effective vaccine distribution would accelerate the recovery and reduce financing needs.

KEY ELEMENTS OF A FUND SUPPORTED PROGRAM

11. The authorities' reform agenda—described in the authorities' Letter of Intent and Memorandum of Economic and Financial Policies (MEFP)—aims at supporting the COVID-19 response and accelerating inclusive growth for sustainable development. A return to fiscal consolidation and improved public investment management are necessary to reduce financing constraints and preserve debt sustainability while allowing for higher priority social outlays. To support public sector reforms, an enhanced monetary and financial sector framework would accompany the implementation of the authorities' structural reform agenda—including by strengthening governance and public sector accountability.

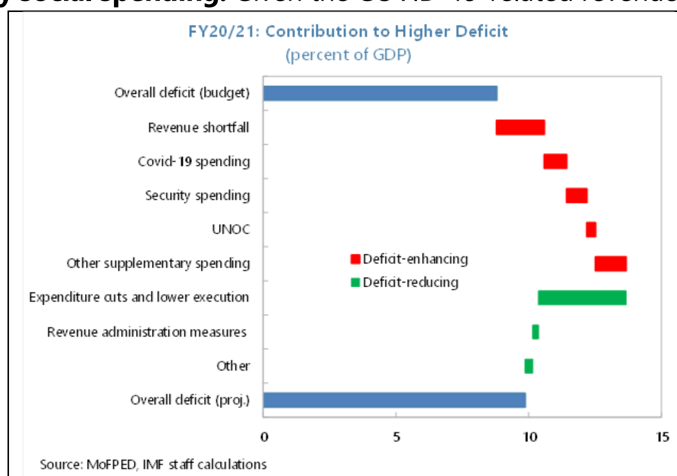
A. Policies—Protecting the Vulnerable and Supporting the Recovery

Fiscal Policy

12. Fiscal policy seeks to balance support for the recovery and sustainable public debt while reducing reliance on domestic financing to alleviate crowding out private sector financing. The near-term fiscal framework aims at improving spending composition by reducing the share of security expenditure in favor of higher social spending. Over the medium term, and starting in FY21/22, fiscal consolidation aims to bring public debt below the authorities' target of 50 percent of GDP as codified in the authorities' Charter of Fiscal Responsibility (CFR), while implementing structural reforms to improve public financial management and spending efficiency. The program also helps the authorities transition to a rules-based framework for oil revenue management.

Near-term Fiscal Policy

13. The program helps close the financing gap arising from large fiscal accommodation in FY20/21 (MEFP,¶15) without cuts in priority social spending. Given the COVID-19-related revenue shortfalls and spending, higher security outlays, little interest savings from DSSI, and the one-off capital investment related to Uganda's National Oil Company (0.3 percent of GDP), the FY20/21 fiscal deficit is expected to widen further to 9.9 percent of GDP, bringing public debt slightly above the authorities' publicly stated 50 percent of GDP target. The authorities stressed that urgent measures to enhance revenue mobilization (mostly through customs and revenue administration), as well as savings in non-priority spending and in-budget reallocation have helped contain the deterioration (text chart).

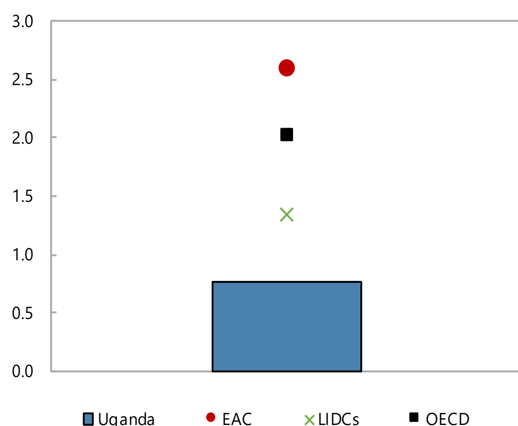


14. The fiscal target for FY21/22 reflects post-COVID-19 consolidation while prioritizing social spending. The FY21/22 budget, which has recently been approved by Parliament (prior action), appropriately targets a 6.4 percent of GDP deficit target. This 3.5 percent of GDP improvement over the previous year will help lower expensive domestic borrowing costs and create space for private sector credit. Debt will be contained at 53.5 percent of GDP. The FY21/22 budget protects health and social spending—including $122 million (0.3 percent of GDP) in vaccine costs to help complete the vaccination of 40 percent of the population by June 2022. This is supported by two indicative targets on social spending—one on health, education, and social assistance—and a more targeted one to support vulnerable groups (Box 3, MEFP¶19, TMU¶24).

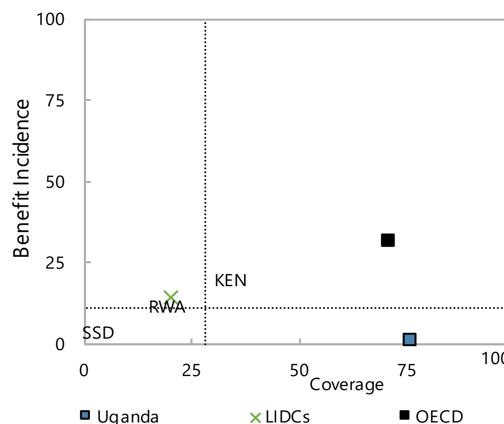
Box 3. Social Assistance Programs

At 0.8 percent of GDP, Uganda's spending on social assistance programs is lower than comparators. Moreover, while those programs cover about 76 percent of the poorest 20 percent of the population, only 1.5 percent of social assistance benefits go to the poor in Uganda, which makes it an outlier in poor targeting relative to its peers: in EAC, 11.4 percent of social assistance benefits go to the poor, compared to 14.8 percent in LIDCs. This result is explained by support for the poorest in Uganda being quite small on a per capita basis.

Social Assistance Spending [1/]
(Percent of GDP, latest value available)



Social Assistance Coverage and Benefit Share of Poorest 20 percent [2/]
(Percent of GDP, latest value available)



Sources: IMF FAD Expenditure Assessment Tool (EAT), based on World Bank's Atlas of Social Protection (ASPIRE).

1/ Latest available data for Uganda is 2016.

2/ Latest available data for Uganda is 2012, dotted lines represent the averages for SSA countries.

To help strengthen social assistance programs and improve targeting, **the authorities are working on increasing access for more vulnerable households in four existing major social assistance programs** (MEFP¶19).

15. The adjustment strategy in FY21/22 (MEFP ¶17) will be broad-based and rely on:

- **Revenue measures** of 0.8 percent of GDP, driven by: (i) tax policy measures starting July 1, 2021, which include removing some exemptions and

Tax Measures, FY21/22

	Billions of USh	Percent of GDP
Total measures	**1,255**	**0.8**
Tax policy	**461**	**0.3**
Increase excise duty on petrol and diesel	193	0.1
Intoduce a harmonised excise duty rate on airtime, VAS and internet data	60	0.0
Reduce depreciation rates for automobiles	30	0.0
Impose export levy on refined gold and other gold exports	30	0.0
Other	147	0.1
Tax administration	**795**	**0.5**
Arrears management	196	0.1
Science-facilitated audits (e.g., input-output analysis, enhanced forensic lab)	95	0.1
Data and information sharing	85	0.1
Leverage technology (e.g., use of drones, enhanced eTAX)	75	0.0
Agents managements, enhanced licensing requirements	60	0.0
Other	285	0.2

Source: MoFPED, URA, IMF staff calculations

increasing fuel excises; and (ii) tax administration efforts to collect arrears, increase registered taxpayers, and enhance tax audits and investigations.

- **Decline in primary spending** by 3.6 percent of GDP through 0.7 percent of GDP in current spending cuts while better prioritization reduces capital expenditures by 1.7 percent of GDP (including around 1 percent from security). Savings from the non-recurrence of one-off items such as BoU recapitalization and on-lending to the Uganda Development Bank (Annex IV) are partially offset by declining grants (0.4 percent of GDP) and increasing interest expenditures (0.3 percent of GDP).

16. In case downside risks materialize, including regarding financing sources, the authorities are committed to additional spending cuts, which will make use of the prioritization criteria developed with Fund TA to identify non-priority spending and investment infrastructure projects that could be dropped. Additional base-broadening tax measures identified in the Domestic Revenue Mobilization Strategy (DRMS) will also be considered.

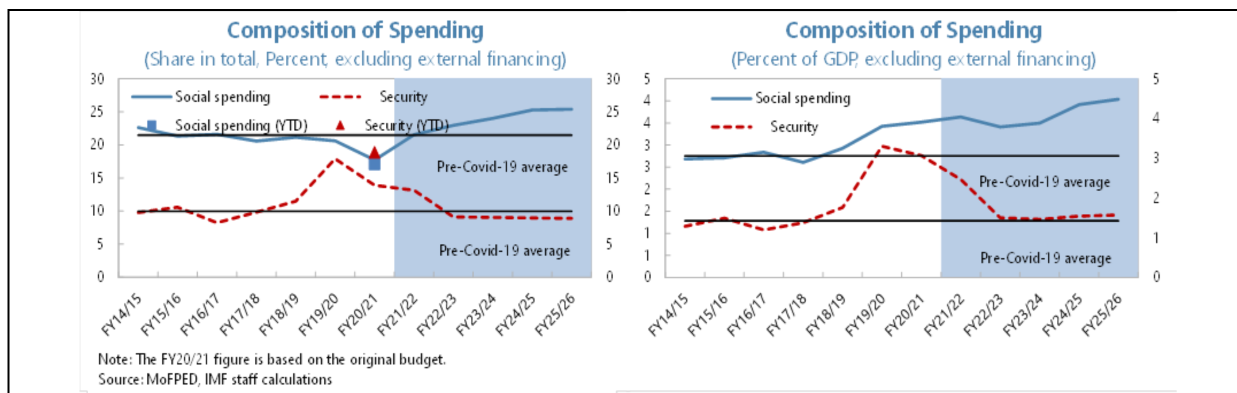
Fiscal Operations, FY2020/21 and FY2021/22
(percent of GDP)

	Jul-Mar	FY20/21	FY21/22
Total revenue and grants	**10.7**	**14.6**	**14.7**
Revenue	9.7	13.1	13.8
Tax	9.0	12.1	12.9
Nontax	0.7	1.1	1.0
Grants	1.0	1.5	0.9
o/w: vaccine	0.0	0.3	0.0
Expenditures and net lending	**17.2**	**24.5**	**21.2**
Primary current expenditures	7.1	9.8	9.1
o/w: vaccine	0.0	0.4	0.3
Interest expenditures	2.1	2.8	3.1
Development expenditures	7.1	10.4	8.7
External	2.6	3.7	4.0
Domestic	4.6	6.7	4.7
Net lending and investment	0.4	1.0	0.1
Other spending (arrears clearance)	0.5	0.5	0.2
Overall balance	**-6.5**	**-9.9**	**-6.4**
Primary balance	**-4.4**	**-7.1**	**-3.4**
Financing	**6.3**	**9.2**	**5.8**
External financing (net)	2.4	5.1	4.1
Disbursements	2.9	5.9	5.0
Budget support	0.9	2.9	1.8
Project	2.0	3.0	3.2
Amortizations	0.5	0.8	0.9
Domestic financing (net)	3.9	4.1	1.7
Bank of Uganda	0.4	-0.7	0.1
Commercial banks	1.5	3.0	0.8
Nonbank financing	2.0	1.9	0.8
Financing gap	**-0.2**	**-0.7**	**-0.6**
Prospective ECF		0.7	0.6
Debt		**50.2**	**53.5**

Source: MoFPED, IMF staff calculations.

Medium-term Fiscal Policy—Improved Spending Composition and Debt Sustainability

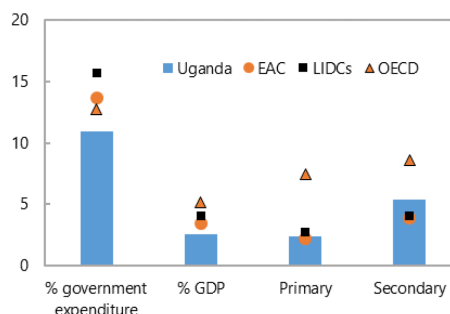
17. An important aim of the authorities' program is to improve spending composition. To that end, the share of expenditure on education, health and social development would increase from 21.5 percent of total expenditures (excluding external financing) during the pre-COVID-19 period to 24.0 percent in FY23/24, raising it by 0.7 percent of GDP over the period to 3.5 percent of GDP. Needs for additional social spending are high, with financing constrained by lower external concessional financing (Box 4). At the same time, security spending, which had sharply increased over the past three years, would revert to its historical share of total spending—i.e., 2 percentage points of GDP lower than the FY20/21 peak.



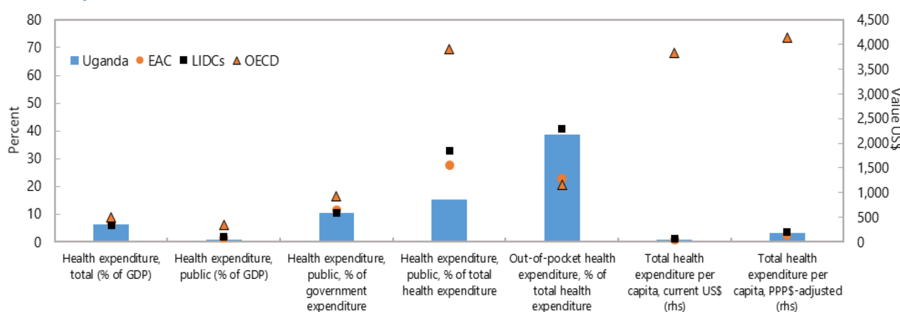
Note: The FY20/21 figure is based on the original budget.
Source: MoFPED, IMF staff calculations

Box 4. Total Social Spending

Social spending in Uganda has been declining and social outcomes lag behind comparators:



- **On education,** Uganda spends only 2.5 percent of GDP on education, which is close to half the LIDC average. It also spends less on education per capita than peers and is an outlier on tertiary education where spending is less than half the EAC average. Globally, Uganda is in the lowest quartile of the Human Capital Index (HCI) distribution.
- **On health,** Uganda's spending has been declining in recent years, from 12.1 percent of GDP in 2006 to about 6.5 percent of GDP in 2019. The public component of Uganda's health spending is small, with the private sector covering 85 percent of total health spending. Despite having per capita health spending in line with peers, Uganda's life expectancy and health-adjusted life expectancy are lower than EAC and LIDC averages and Ugandans pay higher out-of-pocket costs.

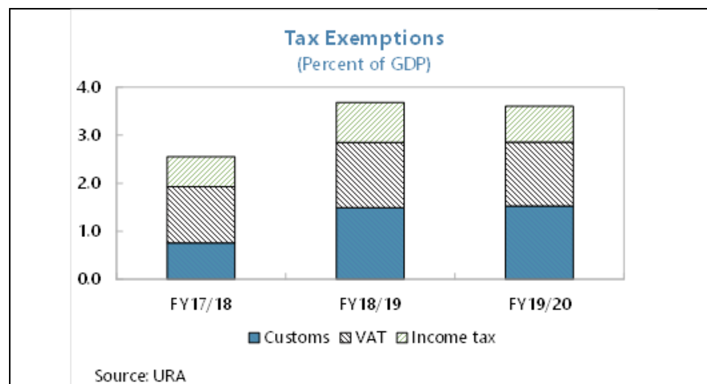


Sources: IMF FAD Expenditure Assessment Tool (EAT), based on World Bank's Atlas of Social Protection (ASPIRE).

18. Moving towards better spending composition and a debt level towards the authorities' 50 percent of GDP target requires:

- **Implementing the DRMS** (prior action)—which benefitted from extensive Fund TA— to increase revenues by at least 0.5 percent of GDP a year through tax policy and administration measures (text table). The authorities detailed that the DRMS revenue gain remains a floor as they have identified more measures to implement. This will initially be supplemented by the adoption of a new tax expenditure framework (structural benchmark) that will help create a repository of tax expenditures, institutionalize the process for quantifying revenue foregone and of undertaking cost-benefit analysis of tax and investment expenditures.

- **Improving spending efficiency,** through medium-term fiscal envelope forecasts to achieve better prioritization and capital expenditure budgeting—a key weakness of the authorities' public investment management framework. The ongoing work to finalize the project selection criteria (end-September SB) will help avoid unplanned projects and support oversight.

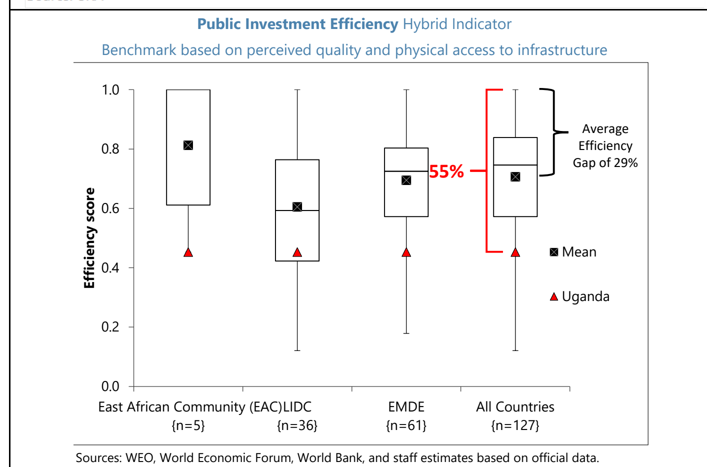


Source: URA

Text Table. DRMS - Envisaged Key Measures Over the Medium Term

Tax Policy
Improve the equity, efficiency and revenue performance of the tax system by:
Strengthening VAT productivity by reducing exemptions, reviewing the VAT registration threshold, limiting the range of zero-rated supplies, and reviewing deeming provisions
Enhancing the income tax system, including by reviewing CIT, streamlining tax incentives, reviewing the implementation of an alternative minimum tax, reviewing the capital gains tax, as well as reviewing PIT rates and streamlining PIT exemptions
Improving the excise duty regime, by reviewing the adoption of inflation indexing strategy and strengthening environmental tax policy
Improving effectiveness of non-tax revenue.
Taxation of donor funded projects.
Taxation of the digital economy.
Tax Administration
Increasing taxpayer registration;
Enhancing voluntary compliance (e.g., enhancing warehouse control, adoption of real-time digital sales)
Increasing on-time filing and payment;
Enhancing dispute resolution
Reducing the stock of arrears
Enhancing process management and strengthening risk management
Enhancing URA's corporate governance and human resource capacity
Enhancing data management
Optimizing the use of technology
Enhancing services quality

Source: URA



Sources: WEO, World Economic Forum, World Bank, and staff estimates based on official data.

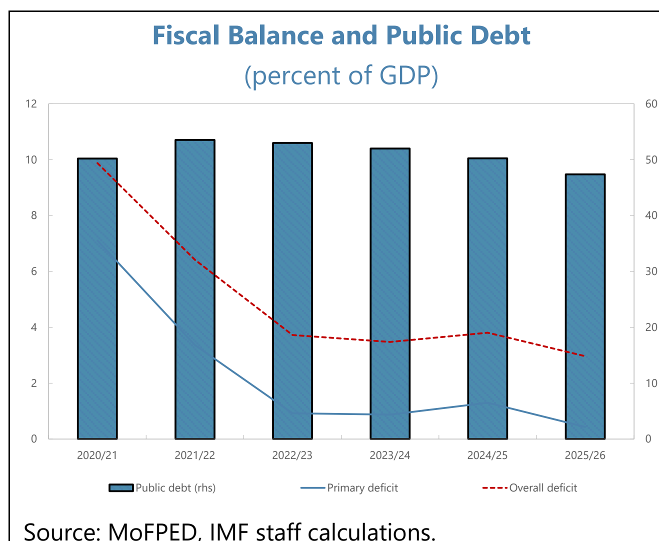
- **Limiting domestic arrears accumulation**. The publication of the international audit (prior action) has detailed a large stock of arrears, which is now being repaid. However, proper mechanisms—some of which are detailed in the newly adopted strategy (prior action, Annex V)—will need to be introduced to prevent arrear accumulation. This will also require a proper use of the authorities' Financial Management Information system, which will need to be adapted to track unpaid invoices on a quarterly basis (end-November SB). Actions to strengthen commitment controls through individual sanctions (end–November SB), automatic registration of invoices and pre-payment by government agencies, would also help.

- **Strengthening public financial management reforms**, including through extending the Treasury Single Account to extra-budgetary units and moving to a monthly cash flow forecasting. Plans to publish a statement of fiscal risks in the FY22/23 budget and move to GFSM 2014 by May 2022 (SB), will help enhance transparency and support fiscal sustainability.

19. The risk of debt distress has increased to moderate. The reduced amount of expensive domestic borrowing and the continued prioritization of concessional financing will help keep debt sustainable, despite increasing resort to non-concessional syndicated loans under the program. The Debt Sustainability Analysis (DSA) indicates that external debt burden and public debt indicators would remain moderate, even after the recent lowering of Uganda's debt-carrying capacity. However, stress tests indicate breaches of the thresholds and the benchmark, indicating a moderate risk of overall and external debt distress. Staff analysis indicates that a greater shift in the composition of financing towards non-concessional loans would increase the risk of debt distress further, hence the limit introduced under the program on the PV of new public and publicly guaranteed external debt.

20. The authorities reiterated that reducing the debt-to-GDP ratio below 50 percent remains the priority to support inclusive growth through private sector development. They aim to reduce the high interest payments to revenue ratio to ensure debt service repayments do not crowd out essential expenditures. They view prudent debt management as essential to keep risk premia low and attract long-term investment (MEFP,¶34-36). They also noted that a return to fiscal consolidation as early as FY21/22 is a proof of their commitment. Plans to adopt a new CFR that helps manage oil revenues (MEFP¶21) and to improve debt management practices (including through lengthening maturity and enhancing transparency) would reduce risks.

Fiscal Balance and Public Debt
(percent of GDP)



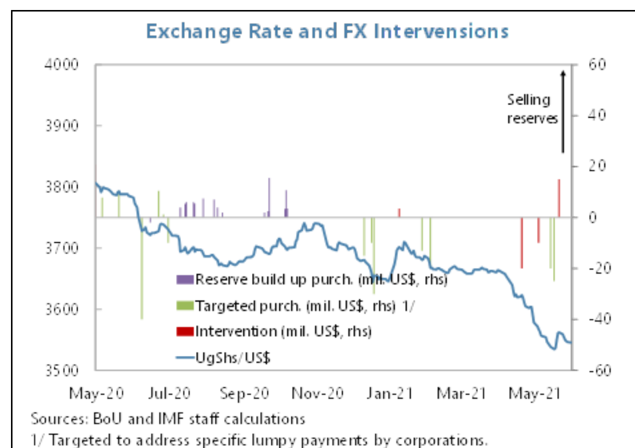
Source: MoFPED, IMF staff calculations.

Strengthening the Monetary and Exchange Rate Policy Framework

21. The BOU's accommodative monetary stance remains appropriate in view of the negative output gap and uneven recovery. Excess liquidity—including through support to solvent financial institutions and lower policy rate—remains consistent with the BoU's medium-term inflation target. The newly rebased CPI—which points to lower inflation (MEFP¶5 & 23)—also indicates there may be room for additional rate cuts, although the authorities note that monetary policy transmission has been reduced by higher domestic bonds yields and sticky lending rates. The monetary policy consultations clause remains a key pillar of the program.

22. An independent central bank remains essential to maintaining Uganda's hard-earned macroeconomic stability and monetary policy credibility. Staff welcomes the recent improvements in BoU's financial situation and its July 2020 recapitalization. Staff supports the government's intention to repay BoU advances by the end of each fiscal year. A timely repayment of the BoU advances—which will be governed in the future by a Service Level Agreement between the BoU and the Ministry of Finance (end-July SB)—together with the planned finetuning in liquidity forecasting (MEFP,¶24) will strengthen liquidity management. BoU's independence will be further strengthened by new amendments to the BoU Act (end-December 2021 SB), which include a dynamic recapitalization, safeguards for institutional autonomy, and clarification on limits for advances to the government.

23. The use of the exchange rate as a shock absorber remains appropriate. Despite the recent appreciation against the US dollar, the exchange rate has remained broadly stable in real effective terms and is estimated to be moderately overvalued (Annex VI). The authorities have reiterated their interventions are limited to smoothing out excess volatility—as was the case in March 2020. They point out that recent FX purchases have not fully offset appreciation pressures from large portfolio inflows and record coffee exports. The strengthening of reserve buffers came at a time of rising refinancing risks as portfolio inflows are more vulnerable to sudden stops.



Sources: BoU and IMF staff calculations
1/ Targeted to address specific lumpy payments by corporations.

Safeguarding Financial Sector Stability

24. The extension of loan restructurings to ease pressures on the private sector is being carefully monitored while prudential thresholds are strengthened (MEFP,¶27-28). With 29 percent of loan restructurings at risk of default, the BOU remains committed to not relaxing loan classification and provisioning rules while making sure prudential and accounting requirements are strictly adhered to. Close monitoring and regular reassessment of provisioning adequacy remain key

priorities and any further loan restructuring extension beyond September 2021 should remain targeted to viable firms and be temporary.

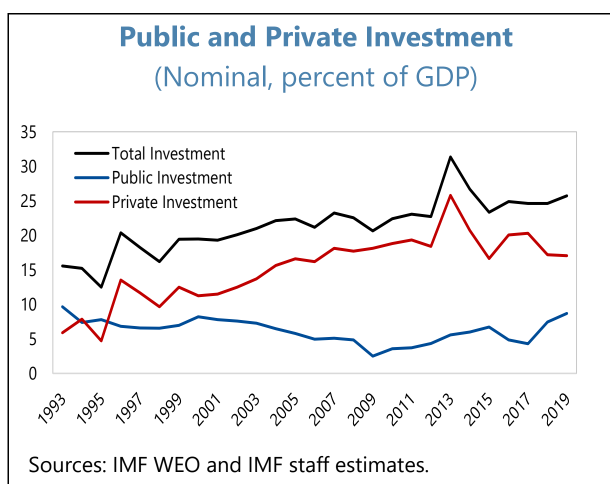
25. The planned implementation of the systemic and countercyclical buffers in December 2021 (MEFP,¶26) should be carefully assessed in view of the COVID-19 pandemic. Early implementation of the Conservative Capital Buffer (CCB) regulation could be counterproductive by discouraging bank lending and slowing economic recovery. Until uncertainties surrounding the COVID-19 pandemic dissipate, staff recommends using capital buffers to absorb any losses and support bank credit, particularly as credit relief measures are removed in September 2021. This could be supported by reviewing the effectiveness of the capital measures, with banking supervisors using stress testing and other diagnostic tools to assess whether the supervisory stance should be maintained or adjusted. Going forward, internal capital planning (ICAAP) due from all banks will help better assess risks (MEFP, ¶27).

26. Good progress is being made in addressing weaknesses identified following the failure of Crane bank in 2016 (Annex VII). With Fund TA, banks' on-site risk-based supervision, financial reporting, internal controls and governance systems are being strengthened (MEFP ¶27). The resolution framework is being significantly enhanced with new guidelines establishing the BoU's resolution powers, the creation of a resolution unit, and adoption of a new emergency liquidity framework. Staff also recommends that UDB be formally included under BoU's supervision.

27. The authorities reiterated their commitment to continue reducing financial sector stability risks. They pointed to significant progress in their regulatory oversight of systemic banks and stress testing operations. They noted that moving towards Basel II by January 2022, including by asking DSIBs to hold additional capital buffers— will help mitigate risks but remain flexible on reassessing the implementation date of the CCB regulations after credit relief measures expire (MEFP, ¶26-27). They welcomed technical assistance provided by the IMF resident expert on banking supervision and are benefitting from WB TA on the resolution framework.

Structural Reforms

28. Structural reforms over the program horizon focus on generating more inclusive growth by enhancing private sector and human capital development. Reversing the decline in private investment seen since the global financial crisis is essential to boost growth, particularly since Uganda's growing population will require creating at least 600,000 jobs a year to maintain current levels of employment.



Sources: IMF WEO and IMF staff estimates.

29. Strengthening the governance reform agenda is essential to reducing the costs of doing business and boosting private sector development. In addition to the PFM reforms listed above, key pillars of the strategy include:

- **Accountability for the use of COVID-19 Funds** (MEFP, ¶29, table 10). The authorities have published COVID-19 cash releases and the list of associated procurement contracts. The procurement template allowing for beneficial ownership information has now been set up for new COVID-19 spending and will progressively be used going forward for other types of contracts. Building on ongoing Fund TA to help design a system to report COVID-19-related spending, a new tracking mechanism (end-August SB) will help prepare quarterly reports on COVID-19 spending. The authorities are still studying the recently completed FY19/20 independent COVID-19 audit and plan to put in place measures to address the use of emergency procurement procedures (which is allowed under existing law as an exception), including through possible sanctions for funds used for unintended purposes (including arrears) and other weaknesses identified (text table).

FY19/20—Summary Results of the independent COVID-19 Audit

	UGX billion	Percent
Total	284.0	
of which		
Emergency procurement procedures	143.8	50.6
Recipients unverifiable	55.8	19.6
Unspent funds	6.7	2.4
Amount unaccounted for	1.4	0.5
Funds used for unintended purposes	10.6	3.7
Project execution:		
activities with work plans		99.0
activities quantified		94.5
activities fully implemented		88.8

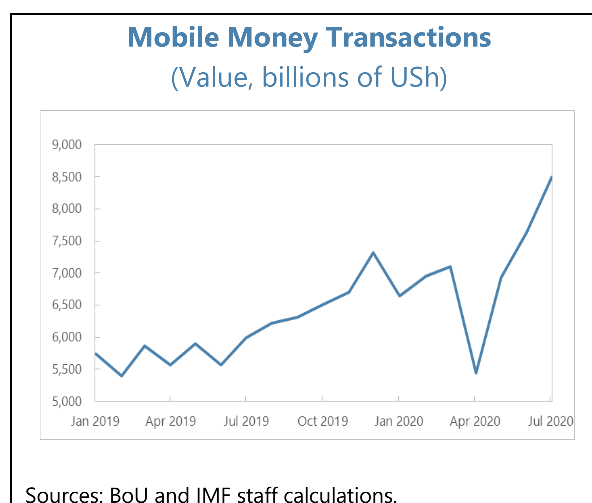
- **Strengthening AML/CFT measures to support anti-corruption efforts.** Key policies include implementing the national AML/CFT strategy and the FATF action plan that will help address intrinsic ML/TF risks and the negative impact of FATF's "gray listing" of Uganda in February 2020. In this regard, the authorities intend to: (i) adopt a regulation to apply enhanced due diligence measures for domestic politically exposed persons (end-September SB); (ii) develop risk-based AML/CFT supervision of the financial sector; and (iii) ensure timely access to accurate basic and beneficial ownership information for legal entities by creating a centralized registry through amendments of the Companies Act (November 2021 SB).

- **Improving the accountability of high-level officials by strengthening the asset declaration (AD) regime** (MEFP, ¶30, Annex VIII). The authorities adopted Leadership Code amendments to address some deficiencies in the existing framework and plan to monitor its implementation through regular publication of statistics on granting public access and enforcement actions for AD requirement breaches. Based on the assessment of the new framework's effectiveness, the authorities are considering revising further the AD regime towards international standards, albeit automatic online AD publication is considered problematic on security grounds. The authorities should intensify scrutiny of high-level officials' wealth, leveraging the AD and the illicit enrichment offense.

- **Strengthening the anti-corruption legal framework**. First priority is to appoint the Inspector-General of Government, using a strengthened and formal selection process (MEFP,¶32), which could consider introducing a selection commission with participation of experts with relevant international experience and legal professionals' associations, and a transparent evaluation process to assess integrity, professional qualities and skills. Extension of electronic case management to all courts would contribute to the transparency and efficiency of the judiciary.

30. Greater financial inclusion would help promote more inclusive growth (MEFP¶36). Implementation of the National Financial Inclusion Strategy has helped increase the number of mobile money users and regulated accounts, including the pandemic. With the enactment of the National Payment Systems Act, new payment licenses have been granted, with the BoU strengthening its supervisory role to protect consumers and minimize cyber risks. Developing new movable collateral for lending and expanding credit bureau coverage will also help enhance credit growth.

Mobile Money Transactions
(Value, billions of USh)



Sources: BoU and IMF staff calculations.

31. Reducing costs of doing business and fostering trade are also priorities later in the program. This includes**:** (i) establishing a one-stop center for business registration and licensing; (ii) improving contract enforcement; and (iii) removing non-tariff barriers and harmonizing standards in line with Uganda's obligations under the EAC and the newly formed African Continental Free Trade Area.

32. Strengthening statistics would remain important for proper policy making, including by improving data collection for extra budgetary units and local governments and producing GFS for nonfinancial and financial public corporations.

PROGRAM MODALITIES

33. Program monitoring will be based on semi-annual reviews (MEFP, Tables 1 and 2). Quantitative performance criteria (PCs, MEFP Table 1) will be set for the third and first quarter of the year, and indicative targets (ITs) for the second and fourth quarters. QPCs will be on: (i) the primary fiscal balance; (ii) net claims on the government by the central bank; (iii) net international reserves; and (iv) non-accumulation of external payment arrears.[1] ITs would monitor tax revenue, preserve critical social spending, and ensure a minimum repayment of arrears. Reflecting Uganda's moderate

[1] Uganda owes a small amount in pre-HIPC Initiative arrears to non-Paris Club debtors, which continue to be deemed away under the revised arrears policy for official creditors, as the underlying Paris Club agreement was adequately representative and the authorities continue to make best efforts to resolve the arrears.

risk of debt distress, a PC will be set on the PV of new public and publicly guaranteed debt. Fiscal program targets will continue to be based on GFSM 1986 classification.

34. Structural Benchmarks (MEFP, Table 2) reflect the authorities' policy priorities and reform agenda, with near-term focus on fiscal sustainability, revenue mobilization and governance. The authorities have already completed prior actions critical in ensuring the necessary adjustment in the near term. The focus of structural benchmarks would be expanded in future reviews to cover other reform priorities necessary to achieve the program's objectives.

35. Financing. The external financing needed to sustain reserves at 4 months of import cover during the program is estimated at about US$2 billion—a level necessary in view of Uganda's external vulnerabilities and to avoid disorderly exchange rate adjustment (Annex VI). This gap would be covered by:

- **Access from the Fund** is expected at 200 percent of quota, or about $1 billion. Disbursements would be frontloaded in the first year of the program, reflecting large near-term financing needs against the backdrop of the COVID-19 shock and strong upfront reform commitments at program approval on the fiscal stance and budget composition, revenue mobilization, arrears management, fiscal transparency and governance. Subsequent disbursements would be evenly distributed. Although access would remain within normal limits, the high-access trigger of outstanding Fund credit of 225 percent of quota would be exceeded during the program.

Projected Access and Normal Access Limit

(Percent of quota)

				12-month access		Outstanding credit			36-month cumulative access	
			Disbursement	Projected	Exceptional access trigger	Projected	Exceptional access trigger	High access trigger	Projected	High access trigger
1	FY2020/21	Jun 28, 2021	50	50	245	150	435	300	150	240
2	FY2021/22	Dec 28, 2021	25	75	245	175	435	300	175	240
3		Jun 28, 2022	25	50	245	200	435	300	200	240
4	FY2022/23	Dec 28, 2022	25	50	100	225	300	300	225	240
5		Jun 28, 2023	25	50	100	250	300	300	150	240
6	FY2023/24	Dec 28, 2023	25	50	100	275	300	300	175	240
7		Jun 14, 2024	25	50	100	300	300	225	150	180
			200.0							

Note: In the case of the 12-month cumulative access, the exceptional access trigger refers to the backward-looking 12-month window.

- **Financing needs** during FY21/22 are expected to be met by concessional financing from the IMF, other multilateral/bilateral donors, and external commercial sources (Tables 9a & 9b). There are firm financing commitments for the next 12 months and good prospects for financing beyond that. IMF's funding is expected to play a catalytic role for commercial funding in the near term by reducing risk premia. Successful program implementation is expected to play a catalytic role for additional grants and concessional budget financing from other IFIs, which is not reflected in the framework. Staff has encouraged the authorities to continue seeking donor grants and IFIs' concessional lending. The authorities are also making best efforts at securing relief from the DSSI, for which an extension to end-December 2021 is also being sought.

External Financing between FY2020/2021 and FY2023/24

	FY2020/21	FY2021/22	FY2022/23	FY2023/24
Financing needs	3,553	3,409	4,165	5,934
Current account deficit	3,585	3,376	3,821	5,427
Net payment to the IMF	0	0	0	0
Reserve accumulation (+=increase)	-32	33	344	507
Financing sources	2,701	3,031	3,909	5,702
ow World Bank 1/	404	234	100	103
ow AfDB	32	0	0	0
ow commercial banks	700	500	200	100
BOP financing gap	261	378	256	232
Prospective ECF	257	257	257	257
DSSI	4	121	-1	-25

Sources: Authorities and IMF staff estimates and projections.

1/ It includes Covid-19 Economic Crisis and Recovery Development Policy Financing, UGIFT and loans for vaccination.

- **Use of resources**. Throughout the program, Fund resources are expected to be on-lent by the BoU to the Ministry of Finance for budget support. A MoU, in line with the one designed for the RCF, will govern the on-lending procedures.

- **Capacity development** (Annex IX). The capacity development strategy is aligned with the program's reform priorities, including through assistance in virtual mode. Priorities focus on revenue mobilization, public financial management, banking supervision and governance, payments systems and central bank communication.

36. SDR allocation. The proposed global SDR allocation of US$650 billion, if approved by the IMF Board of Governors, is estimated to lead to a US$493 million allocation for Uganda. The allocation—captured under the program through an adjustor on the NIR target—would primarily be used to increase reserves, which would allow Uganda to meet the EAC target of 4.5 months of imports earlier than anticipated. In case budget financing fails to materialize or the financing costs become more expensive than planned, discussions during the ECF's first review could assess how some of the allocation could be used to meet the financing gap without undermining program objectives (MEFP, ¶40).

37. An update safeguards assessment was finalized in March 2021. The BoU maintains well-established safeguards in its external and internal audit arrangements, and sound financial reporting practices. In line with the assessment's recommendations, the new amendments of the BoU Act (end-December SB) are expected to strengthen the BoU's autonomy and governance arrangements, including by introducing a hierarchy of objectives and strengthening the appointment and dismissal process for decision making bodies. Adoption the MoF/BoU SLA should provide stronger safeguards on provision of credit to government. The BoU also committed to strengthening foreign reserves management (MEFP,¶23) and reduce risks to its currency operations.

38. Capacity to repay the Fund is adequate (Table 8). Standard indicators of Fund exposure show that credit outstanding would peak in 2024 at $1,519 million (or 300 percent of quota) and then decline beginning in 2026. Obligations to the Fund would peak at 0.4 percent of GDP and 4.2 percent of reserves in 2029. Risks to servicing debt will be mitigated by: (i) fiscal consolidation from FY21/22 onwards; (ii) the likelihood of continued access to concessional financing (particularly for projects) ; (iii) Uganda's moderate public debt level; and (iv) a strong track record of servicing debts to the Fund and other creditors.

STAFF APPRAISAL

39. Uganda has been severely impacted by the COVID-19 pandemic. While the economy is gradually recovering, per capita GDP growth remains below pre-pandemic levels, poverty alleviation gains have been reversed, fiscal balances have deteriorated, and pressures on external buffers remain high.

40. The outlook is predicated on a recovery from the pandemic, but risks remain high. Growth will gradually recover, inflation will be contained, while the current account deficit will slowly narrow, supported by a recovery in external demand and private investment. Risks—particularly from a weaker than expected recovery in external demand, resurgence of lockdown measures, delayed reform implementation, or increased frequency of floods/droughts—could dampen the outlook.

41. The ECF-arrangement supports the priorities of the authorities' NDP. It focuses on maintaining public debt on a sustainable path while improving spending composition and creating space for much needed private investment. Advancing the structural reform agenda through strengthening the governance framework and financial sector development and inclusion are essential priorities to sustain the post-COVID 19 recovery and generate more inclusive growth.

42. Fiscal consolidation—along with pro-growth and inclusive spending composition—would help reduce financing constraints and meet development needs. The implementation of the domestic revenue mobilization strategy—which relies on both tax policy and revenue administration reforms, would create at least 0.5 percent of GDP in revenue a year. Preserving and increasing higher social spending—including through higher budget allocation, reduced non-priority expenditure, strengthened public investment management processes—would be critical to meet Uganda's large development needs. Better arrears management and strengthened cash management reforms would support the fiscal consolidation strategy.

43. Prudent debt management is important to reduce vulnerabilities. Uganda's debt is sustainable and the country is at a moderate risk of debt distress. In view of increased vulnerabilities, it is important that every effort be made to seek concessional financing and continue to pursue relief under the DSSI.

44. Monetary policy accommodation remains appropriate in view of the large negative output gap. The policy stance should be reevaluated if inflation or inflation expectations fall outside the target range. The use of the exchange rate as a shock absorber should continue, with foreign exchange interventions limited to smoothing large exchange rate fluctuations.

45. Financial stability risks should be minimized. The banking system remains well capitalized and liquid. Progress made in enhancing financial sector resilience is welcome, including through heightened oversight of systemic banks and strengthened on-site risk-based supervision. Flexible use of capital buffers should be considered until uncertainties surrounding the COVID-19 pandemic dissipate. Close monitoring of restructured loans should continue while prudential and accounting requirements should be strictly adhered to. Any new loan restructuring extension should be temporary and targeted. Modernizing and revamping the banking resolution and emergency liquidity assistance frameworks would help safeguard financial stability.

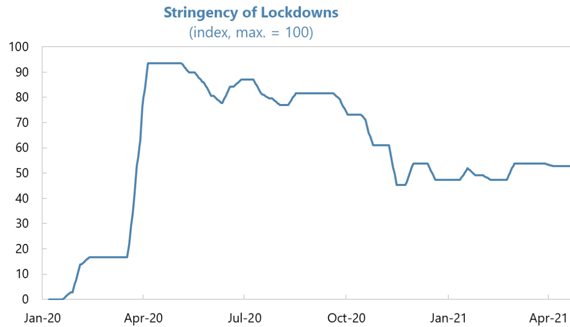
46. Advancing on the governance reform agenda—as well as financial sector inclusion—is crucial for private sector development. The progress made in publishing information on the use of COVID-19 funds—including the independent audit— is welcome. Faster progress in enhancing the effectiveness of the AML/CFT framework—including through increased monitoring of politically exposed persons—and strengthened accountability of high-level officials would be important. Fostering faster financial inclusion—including through wider credit coverage and collateral requirements— is instrumental for boosting private sector development.

47. The implementation of the safeguards assessment recommendations will help strengthen BOU's independence. Existing safeguards in BoU's external and internal audit arrangements, and sound financial reporting practices are welcome. New BoU Act amendments are needed to help reinforce central bank autonomy and minimize risks of fiscal dominance. Commitments to strengthen foreign reserves management and to reduce risks to BoU's currency operations are welcome.

48. Based on the protracted balance of payment needs and strong policy commitments, staff supports the authorities' request for a 36-month arrangement under the ECF.

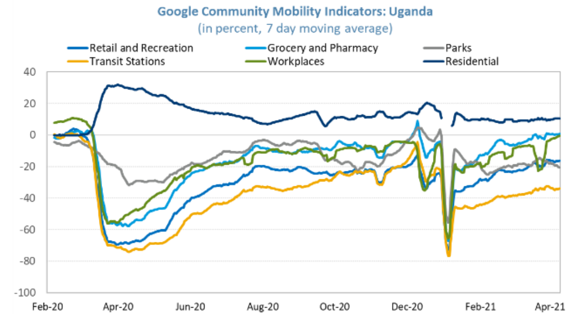
Figure 1. Uganda: COVID-19 Developments

Uganda implemented a very stringent lockdown that has been gradually eased...



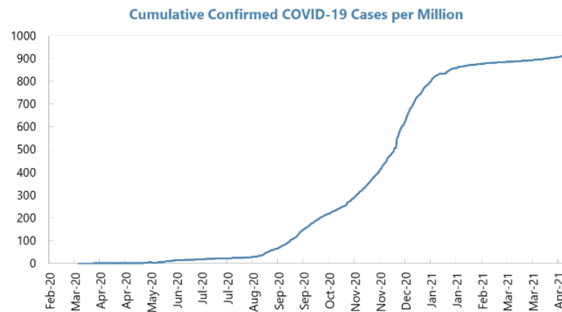
Source: Oxford COVID-19 Government Response Tracker

...which resulted in an initial sharp decline followed by a slow and volatile recovery in mobility.



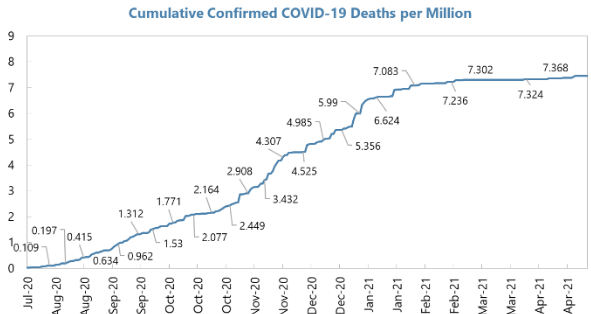
Source: Google COVID-19 Community Mobility Trends

Following the sharp increase in COVID-19 cases in the second half of 2020, there has been some flattening before a recent resurgence...



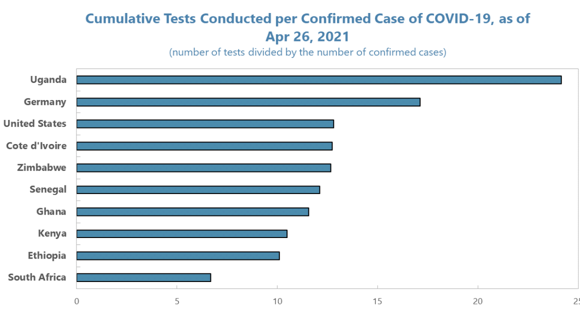
Source: Our World in Data

...including in terms of mortality.



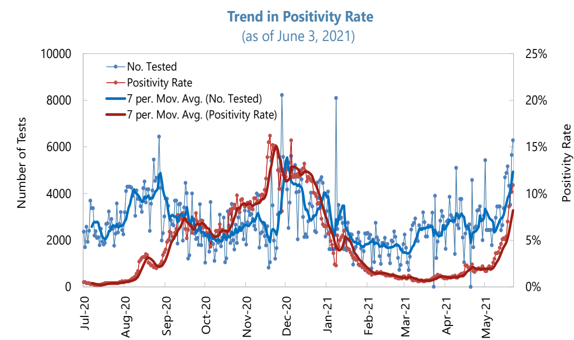
Source: Our World in Data

Testing has been high in international comparison...



Source: Our World in Data

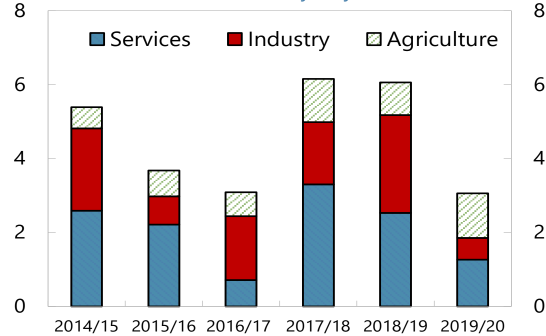
...while the positivity rate has increased recently.



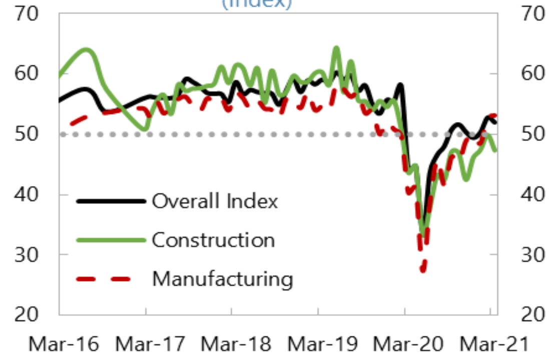
Source: Our World in Data

Figure 2. Uganda: Real Sector Developments

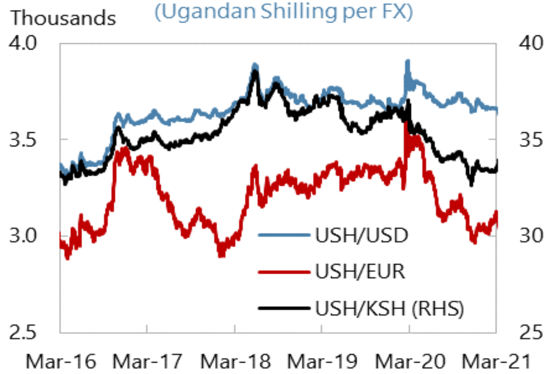
The pandemic has halved growth in 2019/20, affecting industry and services.



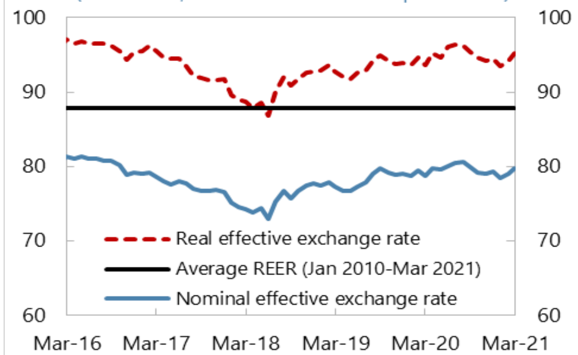
A timid recovery has started in some sectors after a sharp contraction.



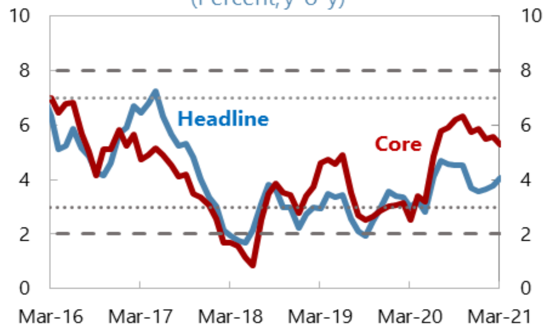
Portfolio inflows to government sector contributed to the recent appreciation of the Shilling…



…and an increase in REER



Headline inflation has gone up, though remains within the target range…



* Dash and dot lines show the outer and inner band of average core inflation target.

Source: Uganda Authorities and IMF staff calculations

…with transportation prices remaining high.

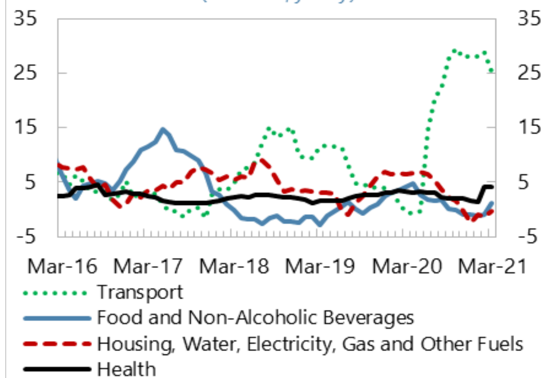
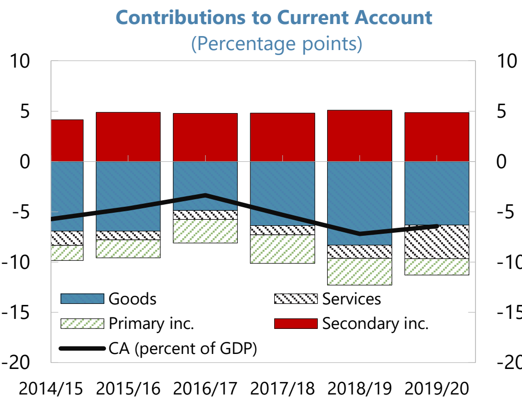
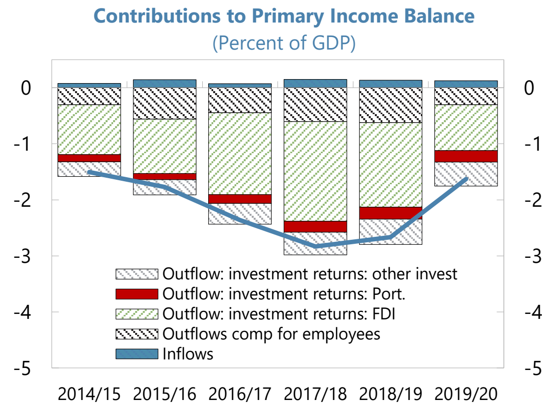


Figure 3. Uganda: External Sector Developments

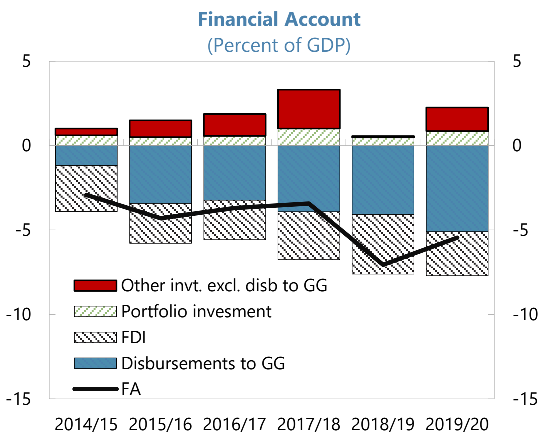
The current account deficit has narrowed in FY19/20, driven by decline in imports of goods…



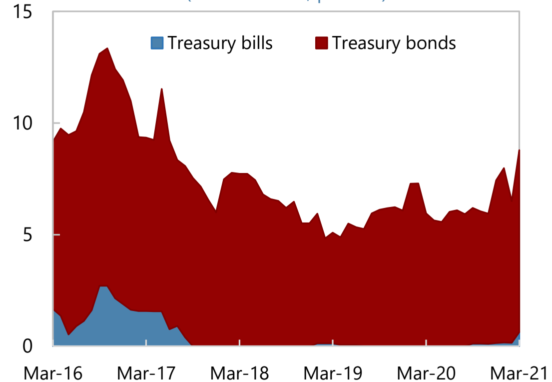
…and lower returns on FDI investment in Uganda…



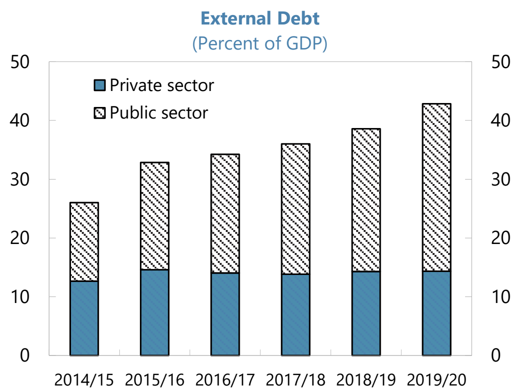
…and financed by loan disbursements to the government as well as FDI inflows.



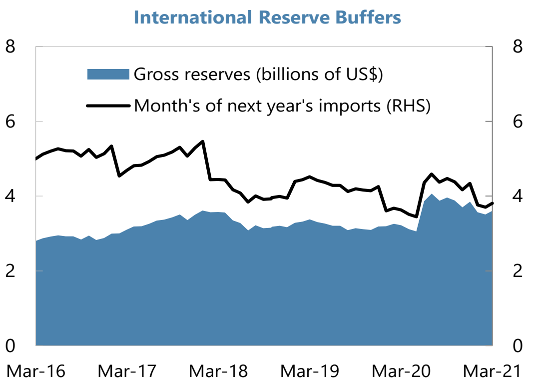
Foreign investors' holding of government debt - mostly in long-term bonds - increased recently to 8 percent of total



At the same time, the government has increased borrowing in foreign currency…



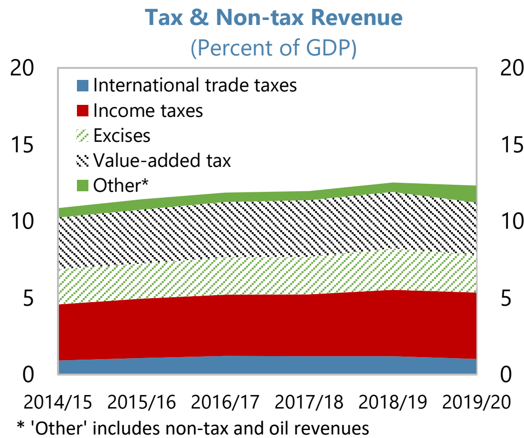
…nonetheless, the reserve cover ratio has declined recently.



Source: Uganda Authorities and IMF staff calculations

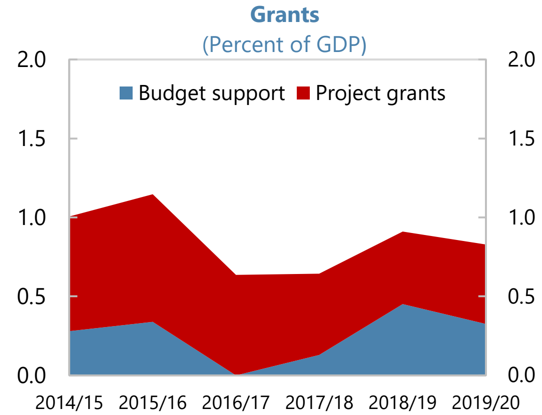
Figure 4. Uganda: Fiscal Developments

Tax revenues declined as a result of lower economic activity and new policy measures introduced to mitigate the impact of the COVID-19 shock...

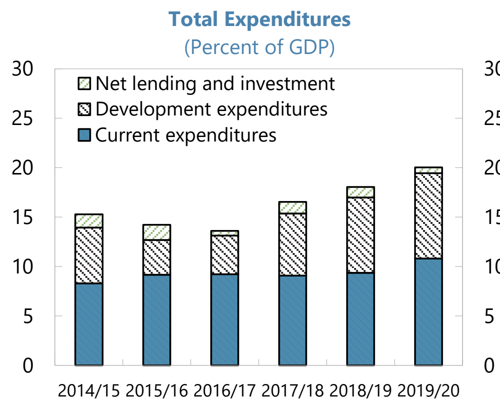


* 'Other' includes non-tax and oil revenues

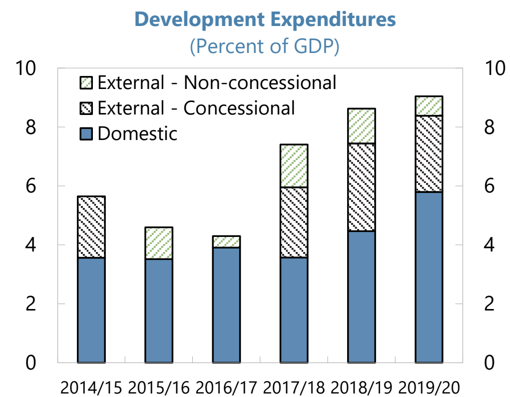
...while grants also declined slightly.



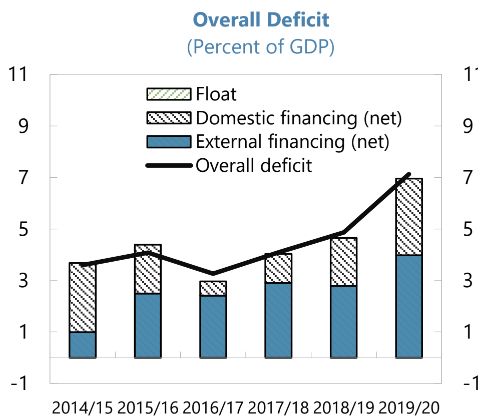
Fiscal support measures in response to the pandemic increased spending...



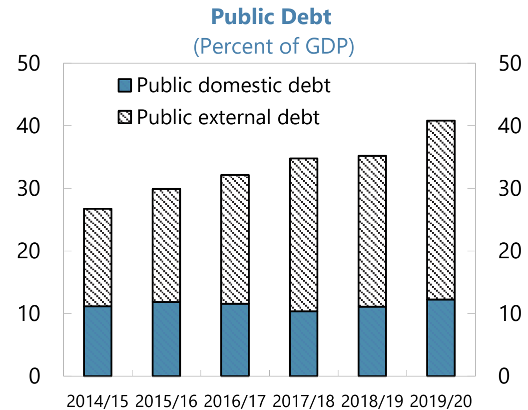
...with development expenditure mainly financed domestically



...leading to wider overall fiscal deficit, mostly financed through external borrowing...



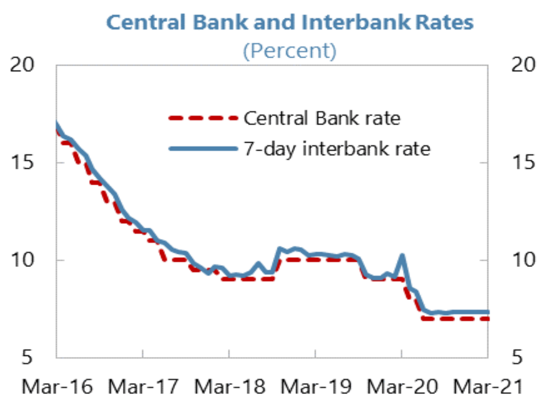
...which led to an increase in public debt.



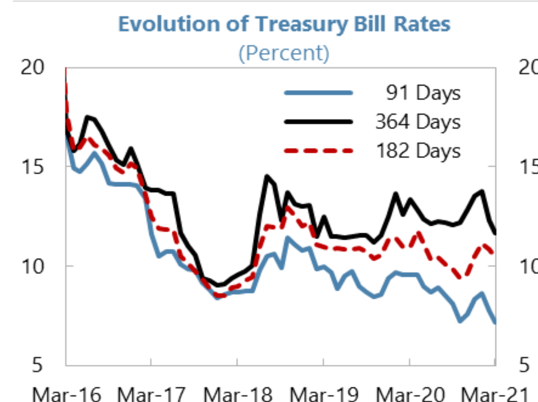
Source: Uganda Authorities and IMF staff calculations.

Figure 5. Uganda: Monetary Developments

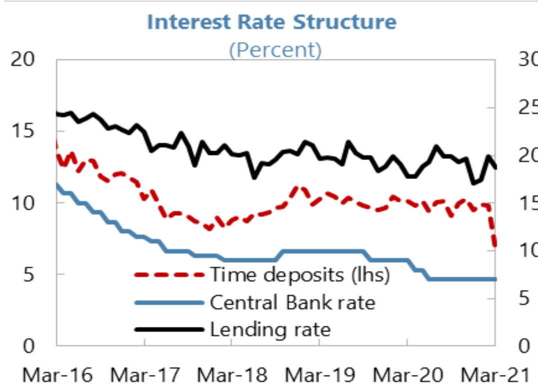
To support recovery, monetary policy has remained accommodative with the policy rate at its lowest.



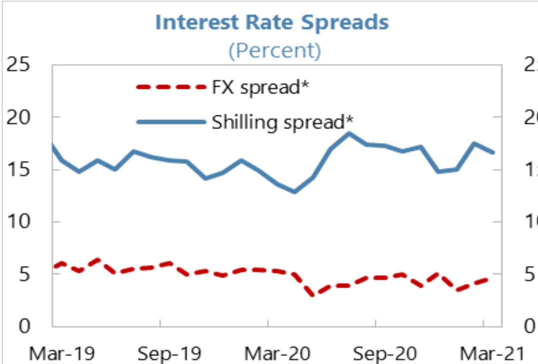
Following a spike in early 2021, short-term yields have decreased slightly.



Lending rates have returned to previous levels despite the lower policy rate…

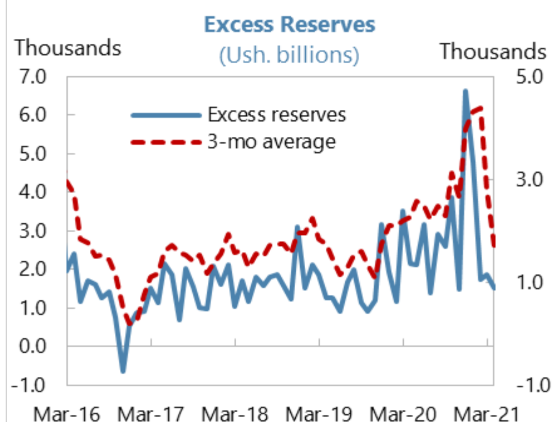


…contributing to the widening spread between FX and shilling rates as deposit rates in shillings remained sticky.

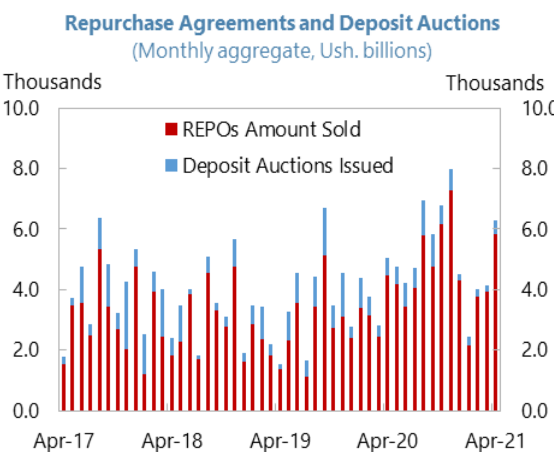


*Both FX and Shillings spreads are calculated as the weighted average lending rate minus the weighted average deposit rate.

Despite the monetization of the deficit, excess liquidity rose in 2020, notwithstanding a decline more recently…



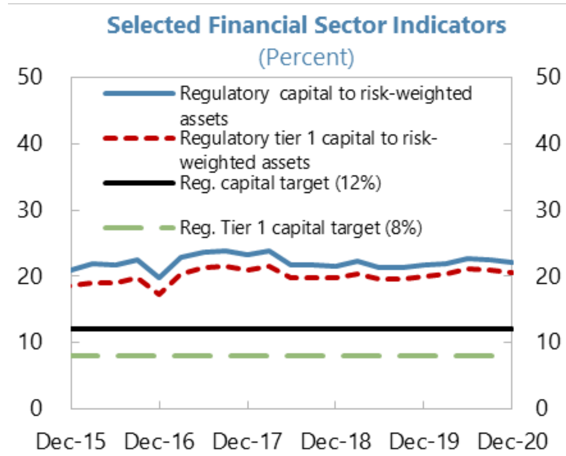
…as the central bank increased its use of mopping up instruments.



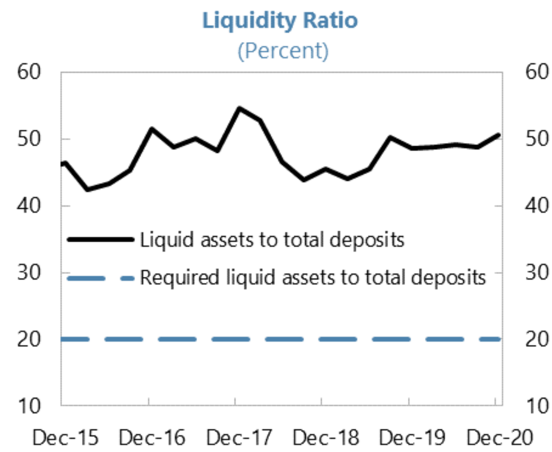
Source: BoU and IMF staff calculations.

Figure 6. Uganda: Financial Sector Developments

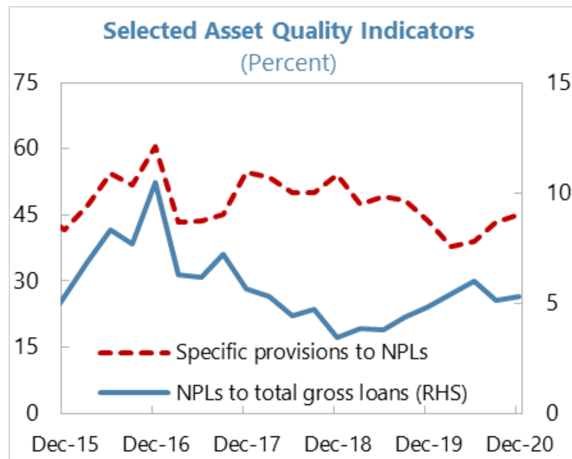
Banks remain well capitalized…



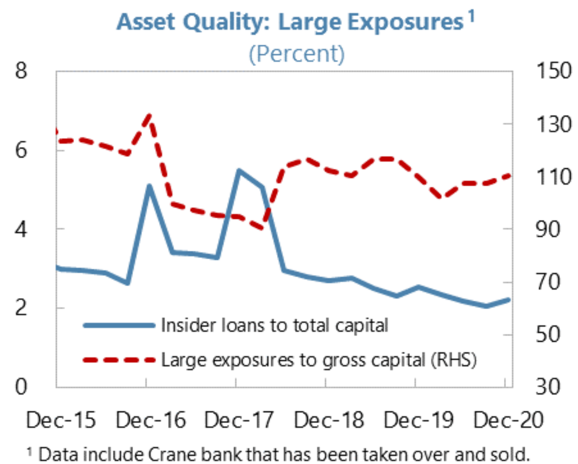
…with comfortable liquidity buffers.



However, asset quality deteriorated sharply during the pandemic, though provisioning picked up more recently.



While insider loans broadly remain steady after declining, exposure to large loans has increased under the pandemic.

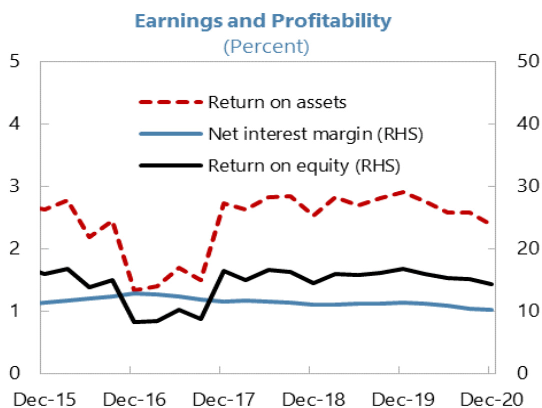


[1] Data include Crane bank that has been taken over and sold.

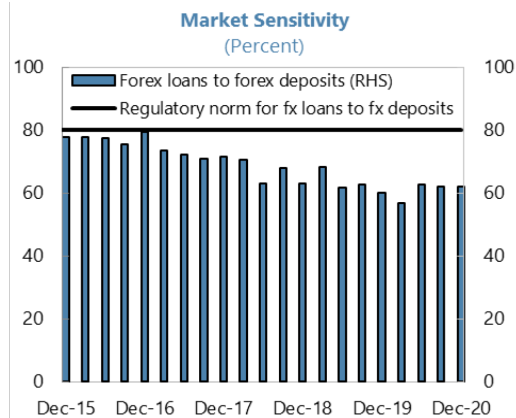
Source: BoU and IMF staff calculations.

Figure 7. Uganda: Other Financial Sector Developments

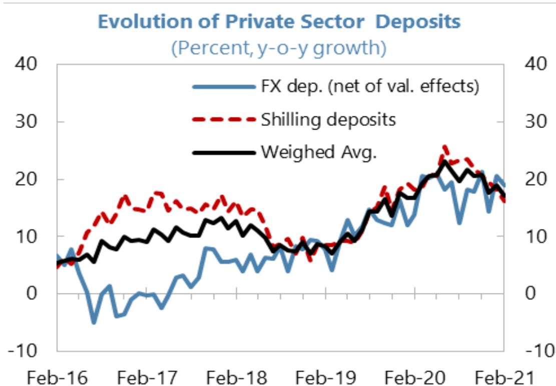
Banks' earnings have declined since the pandemic.



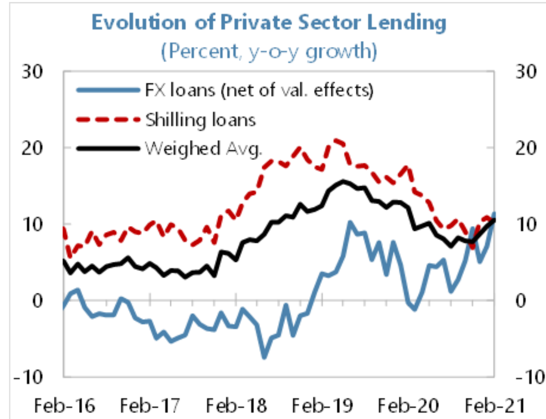
Foreign exchange loans remain below regulatory limits.



Forex deposit growth has surpassed that of shilling deposits, though overall deposit growth is coming down.

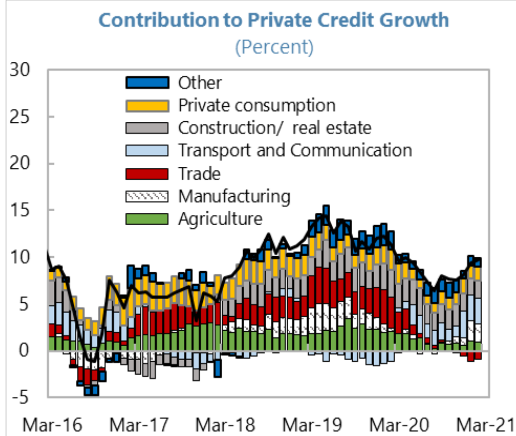


Private sector credit growth remains low and is slowly picking up, mainly driven by FX denominated credit.



Stock market gains show small signs of economic recovery.

Private sector credit growth is driven by manufacturing, agriculture, transport, construction sectors, while trade remains weak.



Source: BoU and IMF staff calculations.

Table 1. Uganda: Selected Economic and Financial Indicators, FY2017/18–2025/26 [1,2]

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	Act.			Prog.					
	(Annual percentage change, unless otherwise indicated)								
Output, prices, and exchange rate									
Real GDP	6.3	6.4	3.0	3.3	4.3	6.4	7.0	7.2	7.0
Non-Oil real GDP	6.3	6.4	3.0	3.3	4.3	6.4	7.0	6.2	6.1
GDP deflator	4.4	3.0	2.7	2.8	4.8	4.6	4.6	4.6	4.9
Headline inflation (period average)	3.4	3.1	3.0	4.7	5.0	5.0	5.0	5.0	5.0
Core inflation (period average)	2.8	3.7	3.1	5.7	5.0	5.0	5.0	5.0	5.0
Terms of trade ("–" = deterioration)	-1.6	3.9	4.1	3.1	1.9	0.1	-0.6	-1.0	-1.1
Exchange Rate (Ugandan Shilling/US$)	3.7	1.9	-0.3	…	…	…	…	…	…
Real effective exchange rate ("–" = depreciation)	-5.4	1.7	2.4	…	…	…	…	…	…
Money and credit									
Broad money (M3)	12.8	7.3	23.2	14.7	9.3	11.5	12.2	12.4	12.5
Credit to non-government sector	10.8	13.6	8.8	10.6	15.2	14.8	13.6	13.5	13.5
Bank of Uganda policy rate (percent) [3]	9.0	10.0	7.0	7.0	…	…	…	…	…
M3/GDP (percent)	18.9	18.5	21.5	23.3	23.3	23.3	23.4	23.4	23.5
NPLs (percent of total loans) [3]	4.4	3.8	6.0	5.3	…	…	…	…	…
	(Percent of GDP, unless otherwise indicated)								
Central government budget									
Revenue and grants	12.7	13.5	13.2	14.6	14.7	14.9	15.3	15.9	17.4
Of which : grants	0.6	0.9	0.8	1.5	0.9	0.5	0.4	0.3	0.3
Of which : oil revenue	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.1	1.1
Expenditure	16.8	18.4	20.3	24.5	21.2	18.6	18.8	19.7	20.3
Of which: Current	9.1	9.4	10.8	12.5	12.2	11.3	11.1	11.8	11.9
Of which: Capital [4]	6.3	7.6	8.6	10.4	8.7	7.1	7.6	7.9	8.4
Primary balance	-2.2	-3.0	-5.0	-7.1	-3.4	-0.9	-0.9	-1.3	-0.4
Overall balance	-4.1	-4.9	-7.1	-9.9	-6.4	-3.7	-3.5	-3.8	-3.0
Excluding budget support grants	-4.2	-5.3	-7.5	-10.3	-6.5	-3.8	-3.5	-3.8	-3.0
Of which: Net domestic borrowing	1.1	1.9	3.0	4.1	1.7	0.6	0.0	1.1	0.2
Public debt									
Public gross debt [5]	34.8	35.2	40.8	50.2	53.5	53.0	52.0	50.2	47.4
External [6]	24.4	24.1	28.6	33.7	36.9	37.5	38.2	36.8	35.4
Domestic	10.3	11.1	12.3	16.5	16.6	15.5	13.8	13.4	12.0
Investment and savings									
Investment	24.6	25.7	29.3	31.4	29.4	33.1	38.6	40.0	41.7
Public	6.3	7.6	8.6	10.4	8.7	7.1	7.6	7.9	8.4
Private	17.2	17.1	20.2	20.7	20.7	26.0	31.0	32.1	33.2
Savings	19.4	19.0	23.5	22.3	21.3	24.5	27.2	26.8	29.9
Public	3.0	3.4	1.6	0.1	1.8	3.0	3.9	3.9	5.3
Private	16.4	15.6	21.9	22.1	19.4	21.5	23.4	22.9	24.6
External sector									
Current account balance	-5.3	-6.7	-5.8	-9.2	-8.2	-8.6	-11.3	-13.2	-11.8
Current account balance (excluding grants)	-5.4	-6.9	-6.0	-9.6	-8.3	-8.8	-11.4	-13.3	-12.0
Exports (goods and services)	15.1	15.0	12.0	15.4	17.2	17.2	17.3	16.8	16.9
Imports (goods and services)	21.6	22.3	20.2	27.2	27.6	28.6	31.9	32.9	29.6
Gross international reserves									
In billions of US$	3.1	3.2	3.9	3.8	3.8	4.2	4.7	4.9	5.6
In months of next year's imports of goods and services	3.8	4.3	4.4	4.0	3.6	3.3	3.2	3.3	3.5
Memorandum items:									
GDP at current market prices									
Ush. billion	120,431	132,096	139,711	148,278	162,068	180,359	201,802	226,381	253,983
US$ billion	32.9	35.4	37.6	39.1	41.2	44.3	47.9	52.8	59.4
GDP per capita (Nominal US$)	867	934	926	934	956	997	1,048	1,121	1,224
Population (million) [7]	37.8	…	…	…	…	…	…	…	…
Interest payments (in percent of revenue)	15.6	15.2	17.0	21.2	22.1	19.5	17.5	16.1	14.8
Gross international reserves excluding oil project financing and investment related imports (in mths of imports)				4.0	4.0	4.0	4.1	4.2	4.5

Sources: Ugandan authorities and IMF staff estimates and projections.

[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. NPLs: Dec-2020; BoU policy rate: March-2021.

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

[5] Debt is on a residency basis.

[6] External debt includes publicly guaranteed debt.

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

Table 2a. Uganda: Fiscal Operations of the Central Government, FY2017/18–2025/26[1]

(Billions of Ugandan Shillings)

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
		Act.					Prog.		
Total revenue and grants	**15,281**	**17,839**	**18,442**	**21,659**	**23,882**	**26,836**	**30,880**	**35,937**	**44,077**
Revenue	14,507	16,638	17,286	19,432	22,425	25,913	30,101	35,183	43,435
Tax	14,076	16,163	15,912	17,873	20,837	24,097	27,992	32,556	37,893
Import duty	1,224	1,350	1,209	1,514	2,071	2,507	2,779	3,253	3,993
Income taxes	4,850	5,706	6,045	6,573	7,398	8,480	9,735	11,389	13,067
Excises	2,963	3,572	3,462	3,691	4,288	4,903	5,811	6,603	7,587
Value-added tax	4,448	4,879	4,732	5,576	6,253	7,266	8,549	9,988	11,499
Infrastructure levy	88	93	82	103	120	139	168	201	239
Other taxes	504	563	382	415	706	802	952	1,123	1,507
Nontax	431	475	1,374	1,560	1,588	1,816	2,108	2,627	5,542
o/w: Oil revenue	0	0	0	130	0	0	0	274	2,882
Grants	774	1,202	1,156	2,226	1,457	923	779	754	643
Budget support	155	595	455	627	77	67	23	23	23
o/w: Vaccines				491					
Project grants	620	607	701	1,599	1,380	857	756	731	620
Expenditures and net lending	**20,202**	**24,268**	**28,401**	**36,304**	**34,281**	**33,549**	**37,895**	**44,556**	**51,612**
Current expenditures	10,934	12,374	15,101	18,582	19,693	20,357	22,351	26,669	30,174
Wages and salaries	3,481	4,213	4,861	5,203	5,526	5,803	6,393	7,415	8,317
Interest payments[2]	2,260	2,525	2,932	4,114	4,946	5,052	5,254	5,679	6,439
Other current	5,192	5,635	7,308	9,265	9,221	9,502	10,705	13,575	15,418
o/w: Vaccines				526	484				
Development expenditures	7,566	10,047	12,064	15,421	14,074	12,792	15,344	17,887	21,438
Externally-financed projects	3,268	4,149	3,967	5,489	6,419	6,351	8,302	9,513	11,253
Of which: Non-concessional borrowing	400	214	359	1,399	1,807	2,459	4,671	6,052	7,330
Government of Uganda investment	4,298	5,899	8,097	9,932	7,655	6,441	7,042	8,375	10,185
Net lending and investment	1,396	1,428	831	1,497	113	0	0	0	0
Hydro-power projects	1,396	1,428	631	560	113	0	0	0	0
Recapitalization	0	0	200	482	0	0	0	0	0
Of which: Bank of Uganda	0	0	200	482	0	0	0	0	0
Other net lending	0	0	0	455	0	0	0	0	0
Other spending (incl. arrears clearance)	305	419	405	805	400	400	200	0	0
Overall balance	**-4,920**	**-6,428**	**-9,959**	**-14,646**	**-10,399**	**-6,713**	**-7,016**	**-8,619**	**-7,535**
Primary balance	**-2,660**	**-3,903**	**-7,026**	**-10,532**	**-5,453**	**-1,661**	**-1,762**	**-2,940**	**-1,095**
Financing	**4,856**	**6,145**	**9,713**	**13,669**	**9,387**	**5,665**	**5,932**	**8,619**	**7,535**
External financing (net)	3,496	3,680	5,563	7,526	6,590	4,513	5,971	6,033	7,121
Disbursement	4,306	4,878	6,379	8,761	8,040	6,717	8,401	9,008	10,886
Budget support	141	188	2,415	4,312	2,888	1,222	855	226	254
Concessional project loans[3]	2,420	3,136	3,037	2,491	3,232	3,035	2,874	2,729	3,302
Non-concessional project loans	1,746	1,554	928	1,959	1,920	2,459	4,671	6,052	7,330
Amortization (–)[2,4,5]	-813	-1,198	-816	-1,235	-1,450	-2,204	-2,430	-2,975	-3,766
Exceptional financing	3	0	0	0	0	0	0	0	0
Domestic financing (net)	1,360	2,465	4,150	6,143	2,797	1,152	-39	2,586	414
Bank financing	260	1,256	2,291	3,364	1,499	576	-20	1,293	361
Bank of Uganda[5]	-110	343	939	-1,063	200	0	0	0	308
Commercial banks	370	913	1,352	4,427	1,299	576	-20	1,293	53
Nonbank financing	1,099	1,208	1,859	2,778	1,299	576	-20	1,293	53
Financing gap	**65**	**283**	**246**	**977**	**1,012**	**1,048**	**1,084**	**0**	**0**
Prospective ECF				977	1,012	1,048	1,084		
Memorandum Items:									
Social spending (excluding external financing)	3,138	3,866	4,785	5,216	5,895	6,061	7,035	8,579	9,888
Security spending (excluding external financing)	1,496	2,097	4,150	5,215	3,596	2,708	3,402	3,681	3,681

Sources: Ugandan authorities and IMF staff estimates and projections.

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

[2] External debt service reflects the rescheduling of payments of US$4 million from FY2020/21 to the period between FY2022/23 and FY2026/27, and of US$121 million from FY2021/22 to the period between FY2023/24 and FY2027/28 under the Debt Service Suspension Initiative.

[3] The data between July 2020 and March 2021 refer to total project loans.

[4] Amortizations are presented on a currency basis (i.e., external amortizations exclude local currency securities held by offshore investors).

[5] The repayment of the balance-of-payment support from the IMF is included under external amortizations financed by the Bank of Uganda.

Table 2b. Uganda: Fiscal Operations of the Central Government, FY2017/18–2025/26 [1/]

(Percent of GDP)

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
		Act.				Prog.			
Total revenue and grants	**12.7**	**13.5**	**13.2**	**14.6**	**14.7**	**14.9**	**15.3**	**15.9**	**17.4**
Revenue	12.0	12.6	12.4	13.1	13.8	14.4	14.9	15.5	17.1
Tax	11.4	12.0	11.3	11.9	12.7	13.2	13.7	14.2	14.7
International trade taxes	1.2	1.2	1.0	1.2	1.5	1.7	1.7	1.7	1.9
Income taxes	4.0	4.3	4.3	4.4	4.6	4.7	4.8	5.0	5.1
Excises	2.5	2.7	2.5	2.5	2.6	2.7	2.9	2.9	3.0
Value-added tax	3.7	3.7	3.4	3.8	3.9	4.0	4.2	4.4	4.5
Infrastructure levy	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Nontax	0.6	0.6	1.1	1.2	1.2	1.2	1.2	1.4	2.4
o/w: Oil revenue	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.1	1.1
Grants	0.6	0.9	0.8	1.5	0.9	0.5	0.4	0.3	0.3
Budget support	0.1	0.5	0.3	0.4	0.0	0.0	0.0	0.0	0.0
o/w: Vaccines				0.3					
Project grants	0.5	0.5	0.5	1.1	0.9	0.5	0.4	0.3	0.2
Expenditures and net lending	**16.8**	**18.4**	**20.3**	**24.5**	**21.2**	**18.6**	**18.8**	**19.7**	**20.3**
Current expenditures	9.1	9.4	10.8	12.5	12.2	11.3	11.1	11.8	11.9
Wages and salaries	2.9	3.2	3.5	3.5	3.4	3.2	3.2	3.3	3.3
Interest payments[2]	1.9	1.9	2.1	2.8	3.1	2.8	2.6	2.5	2.5
Other current	4.3	4.3	5.2	6.2	5.7	5.3	5.3	6.0	6.1
o/w: Vaccines				0.4	0.3				
Development expenditures	6.3	7.6	8.6	10.4	8.7	7.1	7.6	7.9	8.4
Externally-financed projects	2.7	3.1	2.8	3.7	4.0	3.5	4.1	4.2	4.4
Of which: Non-concessional borrowing	0.3	0.2	0.3	0.9	1.1	1.4	2.3	2.7	2.9
Government of Uganda investment	3.6	4.5	5.8	6.7	4.7	3.6	3.5	3.7	4.0
Net lending and investment	1.2	1.1	0.6	1.0	0.1	0.0	0.0	0.0	0.0
Hydro-power projects	1.2	1.1	0.5	0.4	0.1	0.0	0.0	0.0	0.0
Recapitalization	0.0	0.0	0.1	0.3	0.0	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	0.0
Other net lending	…	…	0.0	0.3	0.0	0.0	0.0	0.0	0.0
Other spending (incl. arrears clearance)	0.3	0.3	0.3	0.5	0.2	0.2	0.1	0.0	0.0
Overall balance	**-4.1**	**-4.9**	**-7.1**	**-9.9**	**-6.4**	**-3.7**	**-3.5**	**-3.8**	**-3.0**
Primary balance	**-2.2**	**-3.0**	**-5.0**	**-7.1**	**-3.4**	**-0.9**	**-0.9**	**-1.3**	**-0.4**
Financing	**4.0**	**4.7**	**7.0**	**9.2**	**5.8**	**3.1**	**2.9**	**3.8**	**3.0**
External financing (net)	2.9	2.8	4.0	5.1	4.1	2.5	3.0	2.7	2.8
Disbursement	3.6	3.7	4.6	5.9	5.0	3.7	4.2	4.0	4.3
Budget support	0.1	0.1	1.7	2.9	1.8	0.7	0.4	0.1	0.1
Concessional project loans	2.0	2.4	2.2	1.7	2.0	1.7	1.4	1.2	1.3
Non-concessional project loans	1.4	1.2	0.7	1.3	1.2	1.4	2.3	2.7	2.9
Amortization (–)[2,3,4]	-0.7	-0.9	-0.6	-0.8	-0.9	-1.2	-1.2	-1.3	-1.5
Domestic financing (net)	1.1	1.9	3.0	4.1	1.7	0.6	0.0	1.1	0.2
Bank financing	0.2	1.0	1.6	2.3	0.9	0.3	0.0	0.6	0.1
Bank of Uganda[4]	-0.1	0.3	0.7	-0.7	0.1	0.0	0.0	0.0	0.1
Commercial banks	0.3	0.7	1.0	3.0	0.8	0.3	0.0	0.6	0.0
Nonbank financing	0.9	0.9	1.3	1.9	0.8	0.3	0.0	0.6	0.0
Financing gap	**0.1**	**0.2**	**0.2**	**0.7**	**0.7**	**0.6**	**0.5**	**0.0**	**0.0**
Prospective ECF				0.7	0.7	0.6	0.5		
Memorandum Items:									
Social spending (excluding external financing)	2.6	2.9	3.4	3.5	3.6	3.4	3.5	3.8	3.9
Security spending (excluding external financing)	1.2	1.6	3.0	3.5	2.2	1.5	1.5	1.5	1.4

Sources: Ugandan authorities and IMF staff estimates and projections.

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

[2] Interest payments and external amortizations reflect the rescheduling of payments of US$31 million and US$90 million, respectively, from FY2021/22 to the period between FY2023/24 and FY2027/28 under the Debt Service Suspension Initiative.

[3] Amortizations are presented on a currency basis (i.e., external amortizations exclude local currency securities held by offshore investors).

[4] The repayment of the balance-of-payment support from the IMF is included under external amortizations financed by the Bank of Uganda.

Table 3. Uganda: Monetary Accounts, FY2017/18-FY2025/26 [1]

(Billions of Ugandan Shillings unless otherwise indicated)

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	Act.			Proj.					
Depository Corporations Survey[2]									
Net foreign assets	14,953	13,878	16,224	16,818	17,177	19,462	22,279	23,038	27,496
Bank of Uganda	13,362	13,407	14,718	15,039	15,719	17,697	20,463	21,227	25,464
Commercial banks	1,592	471	1,506	1,779	1,459	1,766	1,816	1,811	2,032
Net domestic assets	7,849	10,586	13,906	17,665	20,513	22,579	24,872	29,980	32,126
Claims on public sector (net)[3]	2,768	4,104	6,944	11,343	12,750	13,492	13,666	14,948	15,001
Claims on central government (net)	2,716	3,973	6,895	11,261	12,668	13,410	13,584	14,866	14,919
Claims on the private sector	14,108	16,020	17,423	19,278	22,209	25,496	28,966	32,877	37,315
Other items (net)[4, 5]	-9,040	-9,550	-10,473	-12,957	-14,446	-16,408	-17,760	-17,845	-20,190
Money and quasi-money (M3)	22,750	24,412	30,067	34,483	37,690	42,042	47,150	53,017	59,620
Foreign exchange deposits	6,780	7,133	8,494	9,975	10,903	12,162	13,639	15,336	17,247
Bank of Uganda									
Net foreign assets	13,362	13,407	14,718	15,039	15,719	17,697	20,463	21,227	25,464
Net domestic assets	-7,146	-6,638	-5,910	-5,468	-5,259	-6,150	-7,689	-7,056	-9,527
Claims on public sector (net)[3]	-2,420	-2,077	-1,138	-941	-741	-741	-741	-741	-741
Claims on non-financial private sector (net)	-487	161	-418	-522	-693	-383	-453	-686	-1,596
Claims on commercial banks	-1,256	-1,887	-1,839	-515	-442	-1,531	-2,798	-1,709	-3,119
Other items (net)[4, 5]	-2,983	-2,836	-2,514	-3,491	-3,383	-3,495	-3,697	-3,920	-4,072
Base money	6,216	6,768	8,808	9,570	10,460	11,546	12,774	14,171	15,936
Currency in circulation	4,315	4,592	5,697	6,240	6,821	7,608	8,533	9,594	10,790
Commercial bank deposits[6]	1,902	2,176	3,110	3,330	3,639	3,938	4,241	4,577	5,147
Other Depository Corporations									
Net foreign assets	1,592	471	1,506	1,779	1,459	1,766	1,816	1,811	2,032
Net domestic assets	17,398	19,948	23,684	27,408	30,443	33,820	38,093	43,064	48,432
Of which Claims on central government (net)	5,136	6,049	8,033	12,202	13,501	14,077	14,057	15,350	15,403
Of which Claims on private sector	14,054	15,960	17,357	19,278	22,209	25,496	28,966	32,877	37,315
Deposit liabilities to the non-bank public	18,990	20,419	25,190	29,188	31,902	35,585	39,909	44,875	50,464
Shilling deposits	12,210	13,286	16,696	19,213	20,999	23,424	26,270	29,539	33,218
Memorandum items:									
(Annual percentage change)									
Base money	5.3	8.9	30.1	8.7	9.3	10.4	10.6	10.9	12.5
M3	12.8	7.3	23.2	14.7	9.3	11.5	12.2	12.4	12.5
Credit to the private sector	10.8	13.6	8.8	10.6	15.2	14.8	13.6	13.5	13.5
Memorandum items:									
Base money-to-GDP ratio (percent)	5.2	5.1	6.3	6.5	6.5	6.4	6.3	6.3	6.3
M3-to-GDP ratio (percent)	18.9	18.5	21.5	23.3	23.3	23.3	23.4	23.4	23.5
Base money multiplier (M2/base money)	2.6	2.6	2.4	2.6	2.6	2.6	2.6	2.7	2.7
Credit to the private sector (percent of GDP)	11.7	12.1	12.5	13.0	13.7	14.1	14.4	14.5	14.7
Velocity (M3)	5.3	5.4	4.6	4.3	4.3	4.3	4.3	4.3	4.3

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] The public sector includes the central government, public enterprises, and local governments.

[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 4a. Uganda: Balance of Payments, FY2017/18-2025/26 [1]

(Millions of US dollars unless otherwise indicated)

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
		Act.				Proj.			
Current account	-1,733	-2,390	-2,193	-3,585	-3,376	-3,821	-5,427	-6,983	-7,012
Trade balance	-2,083	-2,866	-2,363	-2,769	-2,893	-3,733	-5,303	-6,534	-5,462
Exports, f.o.b.	3,537	3,962	3,800	4,785	5,330	5,433	5,937	6,365	7,506
Of which: oil	0	0	0	0	0	0	0	64	1,387
Imports, f.o.b.	5,619	6,828	6,164	7,554	8,223	9,167	11,240	12,899	12,968
Of which: oil	911	980	851	947	1,086	1,093	1,132	1,195	1,225
Services (net)	-299	-357	-1,035	-1,859	-1,396	-1,322	-1,654	-1,984	-2,054
Credit	2,023	2,457	1,782	1,228	1,754	2,176	2,367	2,489	2,531
Debit	-2,322	-2,814	-2,817	-3,087	-3,150	-3,498	-4,020	-4,474	-4,586
Primary income (net)	-926	-916	-607	-652	-768	-853	-935	-1,064	-2,256
Of which: interest on public debt (debit)	-93	-114	-116	-235	-344	-371	-402	-411	-412
Secondary income (net)	1,575	1,749	1,812	1,695	1,681	2,087	2,465	2,600	2,760
Private transfers	1,444	1,598	1,672	1,397	1,474	1,935	2,336	2,472	2,641
Of which: workers' remittances (credit)	1,252	1,369	1,306	1,004	1,033	1,487	1,856	1,957	2,061
Official transfers	131	150	140	299	207	152	129	128	119
Of which: budget support (including HIPC)	53	72	64	144	58	54	43	43	43
Capital account	105	100	69	236	229	137	117	110	92
Of which: project grants	105	100	69	236	229	137	117	110	92
Financial account	-1,124	-2,428	-2,104	-2,470	-2,923	-3,771	-5,560	-7,031	-7,651
Direct investment (net)	-929	-1,217	-966	-799	-960	-2,343	-3,715	-5,099	-5,449
Of which: oil-linked investment (- = inflows)	…	…	…	-2	-27	-941	-2,365	-3,646	-3,838
Portfolio investment (net)	330	168	321	49	11	-4	5	-1	19
Other investment (net)	-525	-1,373	-1,456	-1,711	-1,968	-1,417	-1,843	-1,924	-2,213
Loans (net)	-964	-1,274	-1,862	-2,285	-2,064	-1,494	-1,892	-1,944	-2,223
Government (net)	-1,052	-1,155	-1,718	-1,958	-1,663	-1,058	-1,388	-1,343	-1,602
Disbursements	-1,281	-1,399	-1,907	-2,392	-2,062	-1,666	-2,008	-2,108	-2,544
Budget support	-56	-50	-1,110	-1,136	-734	-300	-203	-53	-59
Project support	-1,224	-1,348	-797	-1,257	-1,328	-1,366	-1,805	-2,055	-2,484
Of Which: non concessional	-450	-421	-249	-507	-480	-593	-1,090	-1,409	-1,720
Amortization [2]	229	244	190	434	399	608	621	765	941
Deposits taking corporations	171	-84	11	-42	-25	-38	-2	-1	-1
Other	0	-5	-3	-10	-6	-7	-7	-7	-7
Net errors and omissions	343	-69	645	591	0	0	0	0	0
Overall balance	-161	69	626	-288	-224	87	250	158	731
Financing	161	-69	-626	31	-33	-344	-507	-158	-731
Central bank net reserves (increase = –)	164	-65	-622	32	-33	-344	-507	-158	-731
Use of Fund credit	0	0	0	0	0	0	0	0	0
Exceptional Financing	-3	-3	-3	-1	0	0	0	0	0
Financing gap	0	0	0	257	257	257	257	0	0
Prospective ECF				257	257	257	257	0	0
Memorandum items:									
Gross international reserves									
In US$ billions	3.1	3.2	3.9	3.8	3.8	4.2	4.7	4.9	5.6
In months of next year's imports of goods and services	3.8	4.3	4.4	4.0	3.6	3.3	3.2	3.3	3.5
Gross international reserves excluding oil project financing and investment related imports									
In US$ billions				3.8	3.8	4.2	4.7	4.8	5.4
In months of next year's imports of goods and services				4.0	4.0	4.0	4.1	4.2	4.5
Donor support									
Of which : budget support (loans and grants)	110	123	1,174	1,280	792	354	246	96	102
Of which : project support (loans and grants)	1,329	1,448	866	1,493	1,556	1,503	1,922	2,165	2,576
Current account balance (excl. oil-project related balances)	-	-	-	-3,583	-3,349	-2,881	-3,062	-3,386	-3,986

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] External debt service reflects the rescheduling of payments of US$4 million from FY2020/21 to the period between FY2022/23 and FY2026/27, and of US$121 million from FY2021/22 to the period between FY2023/24 and FY2027/28 under the Debt Service Suspension Initiative.

Table 4b. Uganda: Balance of Payments, FY2017/18-2025/26 [1]

(in percent of GDP unless otherwise indicated)

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	Act.			Proj.					
Current account	-5.3	-6.7	-5.8	-9.2	-8.2	-8.6	-11.3	-13.2	-11.8
Trade balance	-6.3	-8.1	-6.3	-7.1	-7.0	-8.4	-11.1	-12.4	-9.2
Exports, f.o.b.	10.7	11.2	10.1	12.3	12.9	12.3	12.4	12.1	12.6
Of which: oil	...	...	...	0.0	0.0	0.0	0.0	0.1	2.3
Imports, f.o.b.	17.1	19.3	16.4	19.3	20.0	20.7	23.5	24.4	21.8
Of which: oil	2.8	2.8	2.3	2.4	2.6	2.5	2.4	2.3	2.1
Services (net)	-0.9	-1.0	-2.8	-4.8	-3.4	-3.0	-3.5	-3.8	-3.5
Credit	6.1	6.9	4.7	3.1	4.3	4.9	4.9	4.7	4.3
Debit	-7.1	-7.9	-7.5	-7.9	-7.6	-7.9	-8.4	-8.5	-7.7
Primary income (net)	-2.8	-2.6	-1.6	-1.7	-1.9	-1.9	-2.0	-2.0	-3.8
Of which: interest on public debt (debit)	-0.3	-0.3	-0.3	-0.6	-0.8	-0.8	-0.8	-0.8	-0.7
Secondary income (net)	4.8	4.9	4.8	4.3	4.1	4.7	5.1	4.9	4.7
Private transfers	4.4	4.5	4.4	3.6	3.6	4.4	4.9	4.7	4.4
Of which: workers' remittances (credit)	3.8	3.9	3.5	2.6	2.5	3.4	3.9	3.7	3.5
Official transfers	0.4	0.4	0.4	0.8	0.5	0.3	0.3	0.2	0.2
Of which: budget support (including HIPC)	0.2	0.2	0.2	0.4	0.1	0.1	0.1	0.1	0.1
Capital account	0.3	0.3	0.2	0.6	0.6	0.3	0.2	0.2	0.2
Of which: project grants	0.3	0.3	0.2	0.6	0.6	0.3	0.2	0.2	0.2
Financial account	-3.4	-6.9	-5.6	-6.3	-7.1	-8.5	-11.6	-13.3	-12.9
Direct investment (net)	-2.8	-3.4	-2.6	-2.0	-2.3	-5.3	-7.8	-9.7	-9.2
Of which: oil-linked investment flows	...	...	...	0.0	-0.1	-2.1	-4.9	-6.9	-6.5
Portfolio investment (net)	1.0	0.5	0.9	0.1	0.0	0.0	0.0	0.0	0.0
Other investment (net)	-1.6	-3.9	-3.9	-4.4	-4.8	-3.2	-3.8	-3.6	-3.7
Loans (net)	-2.9	-3.6	-5.0	-5.9	-5.0	-3.4	-3.9	-3.7	-3.7
Government (net)	-3.2	-3.3	-4.6	-5.0	-4.0	-2.4	-2.9	-2.5	-2.7
Disbursements	-3.9	-3.9	-5.1	-6.1	-5.0	-3.8	-4.2	-4.0	-4.3
Budget support	-0.2	-0.1	-3.0	-2.9	-1.8	-0.7	-0.4	-0.1	-0.1
Project support	-3.7	-3.8	-2.1	-3.2	-3.2	-3.1	-3.8	-3.9	-4.2
Of Which: non concessional	-1.4	-1.2	-0.7	-1.3	-1.2	-1.3	-2.3	-2.7	-2.9
Amortization [2]	0.7	0.7	0.5	1.1	1.0	1.4	1.3	1.4	1.6
Deposits taking corporations	0.5	-0.2	0.0	-0.1	-0.1	-0.1	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net errors and omissions	1.0	-0.2	1.7	1.5	0.0	0.0	0.0	0.0	0.0
Overall balance	-0.5	0.2	1.7	-0.7	-0.5	0.2	0.5	0.3	1.2
Financing	0.5	-0.2	-1.7	0.1	-0.1	-0.8	-1.1	-0.3	-1.2
Central bank net reserves (increase = –)	0.5	-0.2	-1.7	0.1	-0.1	-0.8	-1.1	-0.3	-1.2
Use of Fund credit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional Financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.7	0.6	0.6	0.5	0.0	0.0
Prospective ECF				0.7	0.6	0.6	0.5	0.0	0.0
Memorandum items:									
Gross international reserves									
In US$ billions	3.1	3.2	3.9	3.8	3.8	4.2	4.7	4.9	5.6
In months of next year's imports of goods and services	3.8	4.3	4.4	4.0	3.6	3.3	3.2	3.3	3.5
Gross international reserves excluding oil project financing and investment related imports									
In US$ billions				3.8	3.8	4.2	4.7	4.8	5.4
In months of next year's imports of goods and services				4.0	4.0	4.0	4.1	4.2	4.5
Donor support									
Of which : budget support (loans and grants)	110	123	1,174	1,536	1,048	611	503	96	102
Of which : project support (loans and grants)	1,329	1,448	866	1,493	1,556	1,503	1,922	2,165	2,576
Current account balance (excl. oil-project related balances)	-	-	-	-9.2	-8.1	-6.5	-6.4	-6.4	-6.7

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] External debt service reflects the rescheduling of payments of US$4 million from FY2020/21 to the period between FY2022/23 and FY2026/27, and of US$121 million from FY2021/22 to the period between FY2023/24 and FY2027/28 under the Debt Service Suspension Initiative.

Table 5. Uganda: Banking Sector Indicators, March 2017-March 2021

(In percent)

	2017				2018				2019				2020				2021
	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Capital adequacy																	
Regulatory capital to risk-weighted assets	22.9	23.6	23.8	23.2	23.8	21.8	21.6	21.6	22.2	22.1	22.1	21.8	21.9	22.7	22.5	22.2	23.8
Regulatory tier 1 capital to risk-weighted assets[1]	20.4	21.4	21.5	20.9	21.5	19.7	19.8	19.8	20.4	20.3	20.3	20.1	20.3	21.1	20.9	20.6	22.2
Asset quality																	
NPLs to total gross loans	6.3	6.2	7.2	5.6	5.3	4.4	4.7	3.4	3.8	3.8	4.4	4.7	5.4	6.0	5.1	5.3	5.4
NPLs to total deposits	4.1	4.0	4.6	3.6	3.4	2.8	3.1	2.3	2.5	2.5	2.8	3.0	3.3	3.7	3.1	3.2	3.3
Specific provisions to NPLs	43.4	43.6	45.0	54.9	53.4	50.1	50.1	54.1	47.5	49.3	48.3	44.4	37.8	39.1	43.5	45.0	47.2
Earning assets to total assets	67.5	69.2	70.9	71.9	72.2	68.2	69.0	69.1	73.2	71.7	72.5	69.8	68.2	67.4	69.8	69.1	69.1
Large exposures to gross loans	37.8	37.4	37.3	38.0	36.4	43.2	44.5	42.9	42.6	44.3	45.0	42.8	40.6	42.0	42.6	42.5	42.0
Large exposures to total capital	99.8	97.5	95.2	94.8	90.6	113.7	116.9	112.5	110.5	116.7	116.7	110.0	101.7	107.5	107.3	110.7	105.1
Earnings and profitability																	
Return on assets	1.4	1.7	1.5	2.7	2.6	2.8	2.8	2.5	2.8	2.7	2.8	2.9	2.8	2.6	2.6	2.4	2.7
Return on equity	8.3	10.2	8.7	16.4	15.0	16.7	16.3	14.4	15.9	15.8	16.1	16.8	15.9	15.2	15.1	14.2	15.6
Net interest margin	12.7	12.3	11.8	11.6	11.6	11.5	11.3	11.1	11.0	11.2	11.2	11.3	11.2	10.9	10.4	10.2	10.4
Cost of deposits	3.3	3.1	3.0	2.8	16.2	2.5	2.4	2.3	2.4	2.3	2.5	2.5	2.6	2.5	2.5	2.4	2.4
Cost to income[2]	84.1	81.6	82.9	73.9	2.7	72.8	72.6	73.9	72.1	72.9	72.2	71.9	73.2	74.3	74.3	75.1	73.5
Overhead to income[2]	47.7	48.4	49.1	48.9	74.8	51.2	52.3	53.7	53.0	52.2	51.4	51.6	51.6	51.0	50.8	50.9	49.5
Liquidity																	
Liquid assets to total deposits	48.8	50.1	48.3	54.6	52.9	46.6	43.9	45.5	44.1	45.5	50.3	48.6	48.8	49.1	48.8	50.7	47.6
Market sensitivity																	
Foreign currency exposure to regulatory tier 1 capital	-8.1	-7.0	-5.5	-5.4	-7.9	-5.2	-5.0	-7.5	-4.3	-3.6	-2.4	-4.7	-6.5	-6.9	-7.5	-6.0	5.5
Foreign currency loans to foreign currency deposits[2]	73.4	72.1	70.8	71.5	70.6	62.9	67.8	63.0	68.2	61.8	62.8	60.1	56.6	62.7	62.2	62.1	62.3
Foreign currency assets to foreign currency liabilities	96.7	91.8	90.6	92.4	98.3	99.9	98.4	94.1	91.3	88.2	86.5	92.3	93.8	98.1	95.7	99.5	94.3

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. 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: Proposed Access and Phasing Under the ECF Arrangement

Availability Date	Disbursements [1/]		Conditions
	Millions of SDR	Percent of Quota	
June 28, 2021	180.50	50.0	Approval of the arrangement
December 28, 2021	90.25	25.0	Completion of the first review
June 28, 2022	90.25	25.0	Completion of the second review
December 28, 2022	90.25	25.0	Completion of the third review
June 28, 2023	90.25	25.0	Completion of the fourth review
December 28, 2023	90.25	25.0	Completion of the fifth review
June 14, 2024	90.25	25.0	Completion of the sixth (final) review
Total	722.00	200.0	

Source: IMF estimates.
[1/] Uganda's quota is SDR 361 million.

Table 7. Uganda: External Financing Requirements, FY2019/20-2025/26

(In millions of US dollar)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Financing needs	**2,816**	**3,553**	**3,409**	**4,165**	**5,934**	**7,140**	**7,743**
Current account deficit	2,193	3,585	3,376	3,821	5,427	6,983	7,012
Net payment to the IMF	0	0	0	0	0	0	0
Reserve accumulation (+=increase)	622	-32	33	344	507	158	731
Financing sources	**-2,170**	**-2,705**	**-3,152**	**-3,908**	**-5,677**	**-7,140**	**-7,743**
Capital account	69	236	229	137	117	110	92
Financial account	-2,104	-2,470	-2,923	-3,771	-5,560	-7,031	-7,651
FDI (net)	-966	-799	-960	-2,343	-3,715	-5,099	-5,449
Public sector (net)	1,388	1,088	1,015	1,445	1,471	1,654	1,888
Exceptional financing	-3	-1	0	0	0	0	0
Errors and omissions	**645**	**591**	**0**	**0**	**0**	**0**	**0**
Financing gap	**0**	**257**	**257**	**257**	**257**	**0**	**0**
Prospective financing		**257**	**257**	**257**	**257**	**0**	**0**
Prospective ECF		257	257	257	257	0	0
Residual financing gap		**0**	**0**	**0**	**0**	**0**	**0**

Sources: Authorities and IMF staff estimates and projections.

Table 8. Uganda: Indicators of Capacity to Repay the IMF, 2021-30

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
IMF obligations based on existing credit (in millions of SDRs)										
Principal	0.0	0.0	0.0	0.0	10.0	20.0	20.0	20.0	20.0	10.0
Charges and interest	0.0	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	36.1	90.3	135.4	171.5	207.6	180.5
Charges and interest	0.0	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	0.0	0.1	0.1	0.1	36.2	90.3	135.5	171.6	207.7	180.6
In millions of U.S. dollars	0.0	0.1	0.1	0.1	50.8	126.9	190.3	241.0	291.7	253.7
In percent of GDP	0.0	0.0	0.0	0.0	0.1	0.2	0.3	0.3	0.4	0.3
In percent of exports of goods and services	0.0	0.0	0.0	0.0	0.6	1.3	1.6	2.0	2.3	1.9
In percent of government revenue	0.0	0.0	0.0	0.0	0.6	1.3	1.6	1.8	2.1	1.7
In percent of gross international reserves	0.0	0.0	0.0	0.0	1.2	2.6	4.9	5.7	6.6	6.1
In percent of IMF quota	0.0	0.0	0.0	0.0	3.5	9.4	16.5	26.4	47.0	69.0
IMF credit outstanding (end-of-period)										
In millions of SDRs	631.8	812.3	992.8	1083.0	1046.9	956.7	821.3	649.8	442.2	261.7
In millions of U.S. dollars	877.9	1132.4	1387.4	1518.6	1473.2	1346.2	1155.7	914.4	622.3	368.3
In percent of GDP	2.2	2.7	3.1	3.2	2.8	2.3	1.7	1.3	0.8	0.4
In percent of exports of goods and services	14.6	16.0	18.2	18.3	16.6	13.4	9.8	7.5	4.9	2.8
In percent of government revenue	17.2	19.9	21.8	21.3	18.0	13.3	9.7	7.0	4.4	2.4
In percent of gross international reserves	27.4	35.0	38.8	37.2	34.7	27.2	29.7	21.8	14.1	8.8
In percent of IMF quota	175.0	225.0	275.0	300.0	290.0	265.0	227.5	180.0	122.5	72.5
Memorandum items										
Nominal GDP (in millions of U.S. dollars)	39,052	41,197	44,266	47,887	52,780	59,358	66,371	72,884	78,693	84,982
Exports of goods and services (in millions of U.S. dollars)	6,013	7,084	7,609	8,303	8,855	10,037	11,775	12,269	12,742	13,157
Government revenue (in millions of U.S. dollars)	5,118	5,700	6,360	7,143	8,203	10,151	11,963	13,156	14,117	15,076
Gross international reserves (in millions of U.S. dollars)	3,200	3,233	3,578	4,085	4,242	4,950	3,885	4,193	4,402	4,165
IMF quota (in millions of SDRs)	631.8	812.3	992.8	1,083.0	1,046.9	956.7	821.3	649.8	442.2	261.7
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

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

Table 9a. Uganda: Projected External Borrowing Program
Program Approval to June 30, 2021

PPG external debt	Volume of new debt in 2021		PV of new debt in 2021 (program purposes)	
	USD million	Percent	USD million	Percent
By sources of debt financing	**1010.0**	**100**	**867.2**	**100**
Concessional debt, of which	**240.0**	**24**	**111.9**	**13**
Multilateral debt	240.0	24	111.9	13
Bilateral debt	0.0	0	0.0	0
Other	0.0	0	0.0	0
Non-concessional debt, of which	**770.0**	**76**	**755.3**	**87**
Semi-concessional	116.1	12	101.5	12
Commercial terms	653.8	65	653.8	75
By Creditor Type	**1010.0**	**100**	**867.2**	**100**
Multilateral	356.1	35	213.4	25
Bilateral - Paris Club	0.0	0	0.0	0
Bilateral - Non-Paris Club	0.0	0	0.0	0
Other	653.8	65	653.8	75
Uses of debt financing	**1010.0**	**100**	**867.2**	**100**
Infrastructure	84.1	8	74.7	9
Social Spending	0.0	0	0.0	0
Budget Financing	925.8	92	792.5	91
Other	0.0	0.0	0.0	0.0

Table 9b. Uganda: Projected External Borrowing Program
July 1, 2021 to June 30, 2022

PPG external debt	Volume of new debt in 2021		PV of new debt in 2021 (program purposes)	
	USD million	Percent	USD million	Percent
By sources of debt financing	**1698.5**	**100**	**1285.5**	**100**
Concessional debt, of which	**661.6**	**39**	**311.9**	**24**
Multilateral debt	640.0	38	306.0	24
Bilateral debt	21.6	1	5.9	0
Other	0.0	0	0.0	0
Non-concessional debt, of which	**1036.9**	**61**	**973.6**	**76**
Semi-concessional	417.8	25	354.5	28
Commercial terms	619.1	36	619.1	48
By Creditor Type	**1698.5**	**100**	**1285.5**	**100**
Multilateral	1037.2	61	644.6	50
Bilateral - Paris Club	42.2	2	21.8	2
Bilateral - Non-Paris Club	119.1	7	119.1	9
Other	500.0	29	500.0	39
Uses of debt financing	**1698.5**	**100**	**1285.5**	**100**
Infrastructure	695.6	41	551.9	43
Social Spending	299.7	18	140.4	11
Budget Financing	625.0	37	557.3	43
Other	78.2	4.6	35.9	2.8

Table 10. Uganda: RCF Commitments

RCF commitments	**Status**
Publish COVID-19 expenditure for Q4 FY19/20 and cash releases for Q1& Q2 FY20-21 as defined in the letter of intent for the RCF request.	FY19/20 audit reports on FY19/20 spending, and all cash releases on COVID-19 are published (links available here and here).
Publish procurement contracts and winning bidders for Q4 of FY19-20 and Q1& Q2 FY20-21 as defined in the letter of intent of the RCF request. Amend the procurement forms to collect and publish beneficial ownership information for these procurement contracts going forward.	Procurement reports by Ministry are available here). Procurement forms for Covid-19 contracts introducing beneficial ownership has been approved.
Complete and publish the independent audit of COVID-19 spending for FY2019/20.	Audit completed and can be found here.
Complete a special independent audit of at least the first three quarters of FY20/21.	Audit completed on June 14th. It will be published after presentation to Parliament in FY21/22.

Annex I. The Uganda National Development Plan (NDP III)

1. The Third National Development Plan (NDPIII) of Uganda seeks to increase households' incomes and improve quality of life under an overall strategy aimed at pursuing sustainable industrialization for inclusive growth, employment, and sustainable wealth creation by fostering private sector development. It aims at accelerating growth to 7 percent, reducing poverty from 21 to 15 percent, halving youth unemployment to 6.6 percent by creating 520,000 new jobs a year. In addition to sectoral strategies in agriculture, oil and minerals, tourism, transportation, energy, education and public service delivery, implementation of NDP III rests on the following pillars:

- **Macroeconomic stability** through: (i) a fiscal deficit achieving the 3 percent of GDP East Africa Community (EAC) target by FY24/25 and anchored on a 50 percent NPV debt-to-GDP ceiling; (ii) price stability by maintaining core inflation within the target band of 5 percent +/- 3 percent; (iii) a competitive exchange rate with reserve target of 4.5 months import cover (in line with objective set by the EAC).

- **Domestic revenue mobilization** by increasing the revenue-to-GDP ratio to at least the sub-Saharan average of 15 percent through more efficient and effective tax administration, compliance enforcement and tax evasion reduction strategies.

- **Prudent debt management.** The government will intensify efforts to mobilize other sources of financing for implementation of NDPIII through use of infrastructure bonds, diaspora remittances, and secondary markets. It remains committed to limiting risks to debt sustainability by maximizing concessional financing, prioritizing projects with high economic returns, and limiting contingent liabilities by developing guidelines for borrowing by state-owned enterprises. Government plans to limit domestic borrowing as a source of net financing to ensure it avoids crowding out the private sector.

- **Financial sector development** by: (i) improving access to finance, including through expanded delivery channels, financial literacy programs, set up a short-term development credit window for MSMEs; (ii) deepening and widening the capital markets, strengthening the legal and regulatory frameworks for private equity and venture capital and by building private sector capacity to access green financing; and (iii) strengthening the regulatory and supervisory capacity of the various players in the financial sector to enhance financial consumer protection, prevent and mitigate ML/FT that may jeopardize the country's financial systems.

- **Strengthening governance** by reducing corruption as measured by the corruption perception index from 35 to 25 percent. Priorities include: (i) automating institutional management functions (e-governance); (ii) strengthening the capacity and operations of the commercial justice institutions to provide fast and effective dispute resolution in all the specialized areas; (ii) streamlining judicial operations to reduce case backlog particularly of a commercial nature; (iii) strengthening the oversight role of Parliament over the Executive; (iv) enforcing compliance with accountability rules and regulations; (v) developing and implementing an asset recovery

framework; and (vi) mainstreaming the anti-corruption initiative (Transparency, Accountability and Anti-Corruption-TAAC) in all MDA programs and budgets.

- **Greater public sector efficiency and effectiveness**, through continued investment in public infrastructure while balancing it with social sector spending. To reap the full return on the public infrastructure and social sector investments, the strategy will focus on enhancing efficiency in public investments[1] through strengthening the Public Investment Management (PIM) system from identification, preparation, appraisal, implementation and evaluation of projects—including better alignment of line ministry priorities. Program-based budgeting is also expected to help.

- **Increasing social protection coverage**, by prioritizing the merging, modification and/or expansion of existing social protection programs—such as the elderly grant (SAGE)—to cover more beneficiaries within the existing age cohorts or to include new age cohorts. It is only when existing programs cannot be modified or expanded to meet emerging needs that consideration will be given to designing new ones focusing on both direct and indirect income support and provision to social care services.

- **Improving access in quality of social services**, through strengthening the quality and relevance of education service delivery to bridge the gap between the requirements of the economy and the skills taught in the education institutions. Health services will be restructured to focus more on disease prevention using a multi-sectoral approach as opposed to the current curative model.

- **Removing other constraints to private sector growth** by: (i) addressing non-financial factors (power, transport, ICT) leading to high costs of doing business; (ii) strengthening the system of incubation centers to support growth of SMEs in strategic areas; (iii) establishing one-stop center for business registration and licensing; (iv) rationalizing and harmonizing standards, institutions, and policies at local and regional level; (v) reviewing of legal and regulatory frameworks to remove restrictive legislation and fast track pending bills; and (vi) streamlining bureaucratic red tape, reduce duplications and speed up clearances for business operations.

[1] Key projects to spur productivity and economic growth include: transport infrastructure; construction of refinery and crude oil pipeline; power production and distribution; construction of industrial parks; and provision of water for production. Most spending on infrastructure is expected in FY2021/22, driven by construction of the oil-related infrastructure.

Annex II. COVID-19 Policy Response

Fiscal Response

1. In FY19/20, two supplementary budgets and budget reallocation increased the spending envelope for critical sectors and vulnerable groups by about US$300 million (0.8 percent of GDP), of which around US$90 million (0.2 percent of GDP) is estimated to have been executed. In FY20/21, tax measures in response to COVID-19 contributed to the revenue shortfall by close to US$70 million (0.2 percent of GDP). In addition, through the budget and two supplementary budgets, US$600 million (1.5 percent of GDP) were allocated for additional COVID-19 related outlays, partly driven by the delayed execution of some measures originally planned for FY19/20. Moreover, further support is allocated for vaccines both in FY20/21 (around US$139 million or 0.4 percent of GDP) and in FY21/22 (around US$122 million or 0.3 percent of GDP). Among others, the fiscal support has included the following measures:

i. Additional funding to the health sector, including for medical equipment, masks, test kits, and vaccines;
ii. Support to households, including food to the vulnerable and funding for agriculture inputs and entities that support the sector;
iii. Employment support, such as through the EMYOOGA initiative;
iv. Support to firms, including in the form of waived interest on tax arrears, deferred payments of Pay-As-You-Earn and corporate income tax and the expedited repayment of VAT refunds;
v. The expansion of labor-intensive public works programs;
vi. Acceleration of the development of industrial parks;
vii. Clearance of arrears;
viii. Import substitution and export promotion by providing funding to Uganda's Development Bank and recapitalizing the Uganda Development Cooperation.

2. Initially, the authorities have used US$1.3 million from their Contingency Fund in the FY2019/20 budget to finance the Ministry of Health Preparedness and Response Plan. On May 6, 2020, Uganda secured US$491.5 million in emergency financing from the IMF under the Rapid Credit Facility, of which 30 percent was provided as budget support considering the impact of COVID-19. On June 29, the World Bank approved a US$300 million budget support under the Uganda COVID-19 Economic Crisis and Recovery Development Policy Financing supporting reforms to provide immediate relief to individuals and businesses most affected by the pandemic. Also, part of the costs of vaccination is expected to be financed by COVAX. Finally, spending reallocations also contributed to the financing of COVID-19-related spending.

Monetary and Macro-Financial Response

3. **The Bank of Uganda (BoU) maintained its policy rate at 7 percent in February 2021, following two consecutive 100 basis points reduction in April and June, 2020.** The BoU remains committed to providing liquidity support to for a period of up to one year to supervised financial institutions in need and putting in place a mechanism to minimize the likelihood of insolvency due to lack of credit. The BoU waived limitations on restructuring of credit facilities at financial institutions that may be at risk of going into distress and has also worked with mobile money providers and commercial banks to ensure they reduce charges on mobile money transactions and other digital payment charges. All Supervised Financial Institutions (SFIs) were directed to defer dividend payments and bonuses for at least 90 days effective March 2020 to ensure capital adequacy. Other measures include purchases of Treasury Bonds held by microfinance deposit taking institutions and credit institutions to ease liquidity pressures and exceptional permission to SFIs to restructure loans as needed on a case by case basis. These measures, which remained in place until March 2021, have been extended for another 6 months starting on April 1, 2021.

Annex III. Risk Assessment Matrix[1]

Source of Risks	Likelihood/ Time Horizon	Expected Impact on Economy	Policy Response
Unexpected shifts in the COVID-19 pandemic.	Medium **Prolonged pandemic.** The disease proves harder to eradicate (e.g., due to new virus strains, short effectiveness of vaccines, or widespread of unwillingness to take them), requiring costly containment efforts. . **Short to Medium term**	**High.** Demand for contact-intensive sector would contract further. Firms face a prolonged increase in production costs and shortage of supply. Pandemic-prompted protectionist actions would disrupt trade. **Medium.** Lower global growth would widen current account deficit through reduced tourism, trade, and foreign direct investment and portfolio inflows.	- Scale up public health measures, such as large-scale systemic testing. -Strengthen social safety net. -Use all available policy space by extending fiscal and monetary support. -Accelerate structural reforms and formulate credible medium-term fiscal path to support investor confidence.
Potential Domestic Risks			
Widespread social discontent and political instability. Social tension erupts as the pandemic cause economic hardship and exacerbate preexisting tension ahead of the 2021 elections.	High **Short term**	**High.** Economic activity would be disrupted. Growing political instability would weaken policy-making and institutional framework. Deepened political uncertainty would weaken business and foreign investor confidence weighing on investment.	- Intensify social safety net measures. - Formulate credible medium-term fiscal path to support investor confidence.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Source of Risks	Likelihood/ Time Horizon	Expected Impact on Economy	Policy Response
Delayed implementation of social support measures	**High** **Short to Medium Term**	**High.** Would push more households into poverty.	-Improve the quality of public spending -Strengthen social safety net
Lack of commitment to fiscal reforms, including on improving revenue mobilization and public sector efficiency.	**High** **Short to Medium Term**	**High.** Would lower growth dividend and increase risk of debt distress	- Improve the quality of public spending - Define operational debt ceiling with annual budget deficit and a binding expenditure envelope
Higher frequency and severity of natural disasters related to climate change cause severe economic damage.	**Medium** **Medium/ Long-term**	**High.** Lower growth, increase in poverty levels, worsened public debt sustainability	-Improve economic resilience to shocks, build fiscal and external buffers
Potential External Risks			
Accelerating de-globalization.	**Medium** **Short to Medium Term**	**Medium.** Would adversely impact exports, foreign direct investment and portfolio inflows.	-Maintain exchange rate flexibility. -Accelerate reforms to enhance competitiveness. -Move forward with trade integration in the East African Community.
Sharp rise in global risk premia exposes financial and fiscal vulnerabilities. A reassessment of market fundamentals (e.g., in response to adverse COVID-19 developments) triggers a widespread risk-off event.	**Medium** **Short Term**	**Low.** Would reduce capital inflows with negative impact on the banking sector and credit growth. Higher domestic borrowing costs.	-Ease monetary policy -Maintain strong FX reserves and capital buffer in the financial sector

Source of Risks	Likelihood/ Time Horizon	Expected Impact on Economy	Policy Response
Oversupply and volatility in the oil market. Higher supply and lower demand lead to renewed weakness in energy prices.	**Medium** **Short to Medium Term**	**Medium.** Would further delay in the start of oil production and weaken public debt metrics.	-Focus on revenue mobilization and refrain from tax exemptions -Rein in current non-priority spending and rephase investment
Intensification of security risks in Africa	**High** **Short to Medium Term**	**High.** Deterioration of security situation in South Sudan and DRC, key trading partners, would directly affect exports. Spread of instability to Uganda would have widespread adverse effects on the economy.	-Exchange rate flexibility; - Rebuild fiscal and external buffers -Promote diversification of trading markets.
Cyber-attacks on critical financial systems.	**Medium** **Short to Medium Term**	**Low.** Would disrupt economic activities, put at risk financial stability, but financial sector remains small.	- Step up efforts to strengthen cyber security -Preemptively, carry out regular testing of the resilience of computer systems to cyberattacks and address vulnerabilities.

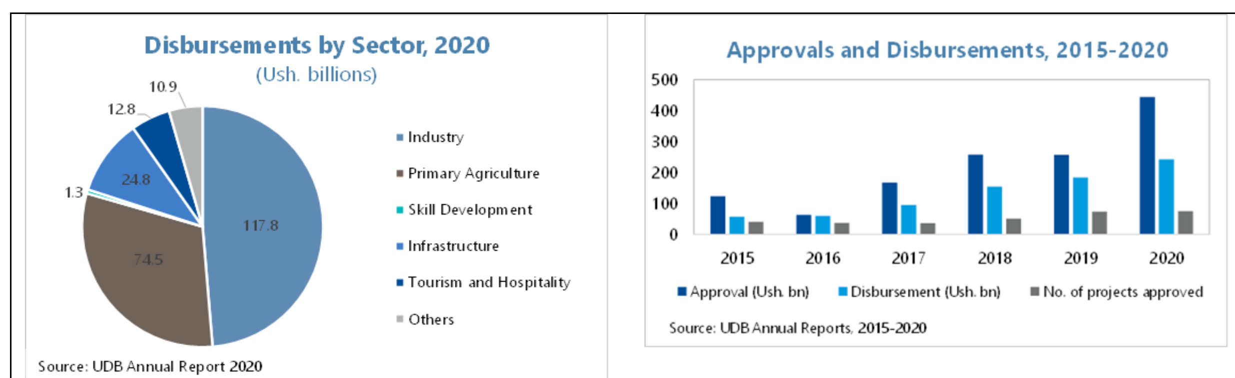
Annex IV. Lending and COVID-19 Interventions by Uganda Development Bank

1. About a third of emergency funding provided by the IMF under the RCF was allocated to the Uganda Development's Bank (UDB). The UDB is a government-owned financial institution founded in 1972 to promote national development and, more recently, designated to support the achievement of Sustainable Development Goals. Its strategic plan was revised for the 2020-24 period to be aligned with the third National Development Plan to support three goals: (i) reducing poverty while protecting the natural environment, (ii) building a sustainable food system, and (iii) promoting sustainable industrialization. The main economic sectors enjoying UDB credit are agriculture, industry, tourism and education (technical and vocational training).

	Capital and reserves (Ush. billion)	Capital and reserve (Percent of GDP)	Number of Staff
2018	254	0.20	59
2019	348	0.25	67
2020	911	0.64	88

Source: UDB Annual Report 2020.

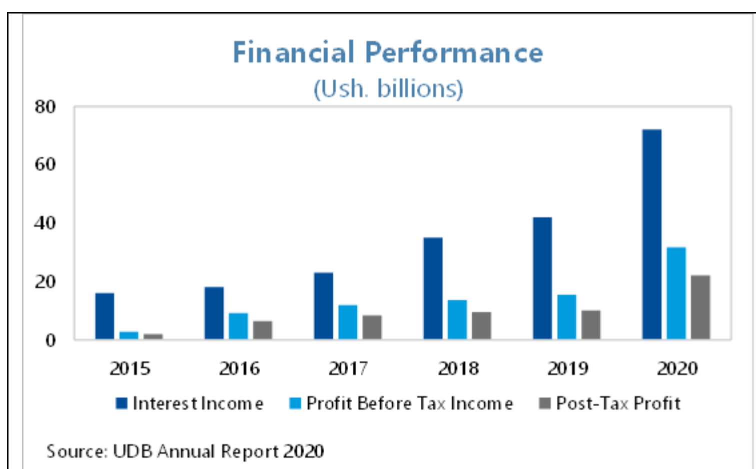
2. UDB's capital and reserves were boosted three times during 2020 more than doubling its balance sheet. To meet the heightened lending objectives, staffing was organically boosted from 59 in 2018 to 103 people in 2021, which strengthened the bank's capacity to manage increased lending needs. UDB's disbursements over the year have increased by around 32 percent from 183.9 billion shilling in 2019 to 242 billion shilling in 2020, and targeted mostly industry and agriculture, which accounted for 79 percent of total disbursements in 2020.



3. UDB's COVID-19 interventions focused mostly on credit relief to its more distressed customers, with restructured loans amounting to Ush 51 billion, which is 4.7 percent of total assets and deferred interest payments amounting to 172 billion shilling (about 15.8 percent of total assets) for up to 18 months. These relief measures, extended to businesses in sectors most affected by the pandemic, tourism for instance, freed the much-needed liquidity that enabled affected enterprises to continue operating. Loan application processes were also simplified and digitalized, building

capacity to augment business sourcing and credit appraisal. UDB also entered a strategic partnership with the state-owned Post Bank to leverage on its country-wide network of branches.

4. UDB's lending terms are more favorable than those of commercial banks albeit not exceptionally attractive. Loans have on average 9-year maturity and can go up to 15 years, with a grace period of up to 3 years, while the interest rate charged is 10-12 percent. Given its location in the capital, the majority of loans (60 percent) are extended to business in Kampala and the Northern Uganda region. In 2020, UDB allocated UGX 24 billion to support SMEs operating in industry. Projects funded in 2020 have generated substantial socio-economic gains, creating over 24 thousand jobs and lifting more than 5 thousand people out of poverty (UDB annual report).



Source: UDB Annual Report 2020

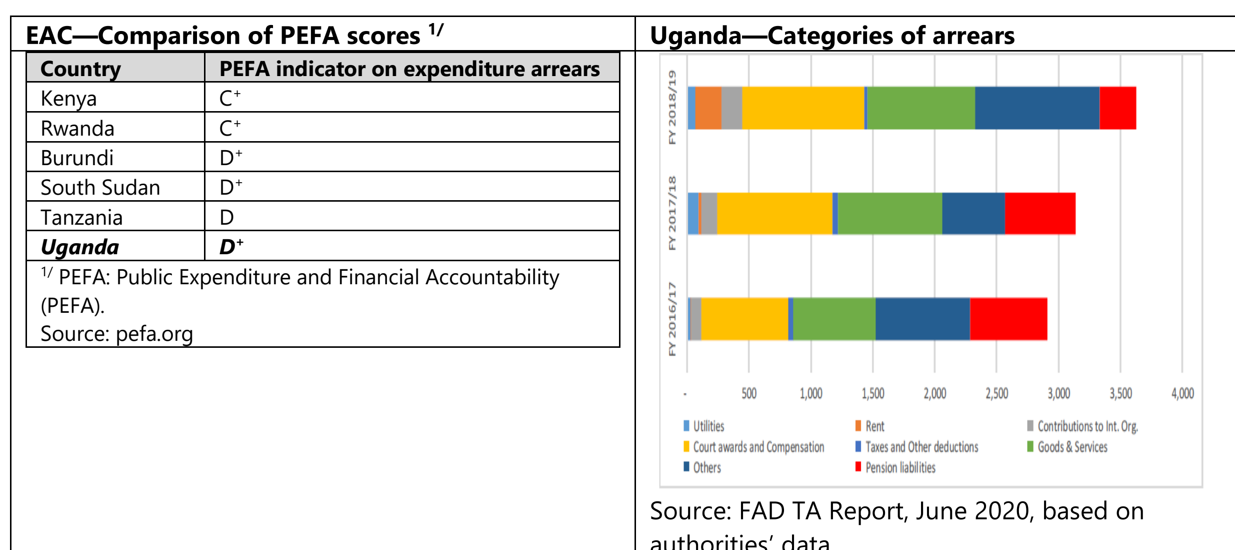
5. UDB profits are entirely on-lent and its accounts are audited by KPMG. UDB is working towards achieving green finance accreditation and establishing a green financing fund, expanding lending to more remote areas, financing women, youth and SMEs.

6. Despite its achievements, UDB still faces several challenges to further improve its performance. Coming down from 20 percent, NPLs are still high at 13 percent in 2020, including for restructured loans. Margins on lending rates are elevated and cost income ratio (without impairment) for a branchless institution are as high as 45.5 percent on average during 2015-2020.

Annex V. Domestic Arrears

1. Expenditure arrears have a serious impact on the economy. They distort the actual fiscal deficit as they can be used to circumvent fiscal targets, undermine budget credibility, increase the cost of service delivery as suppliers price-in the cost of delayed payments, damage financial health of suppliers thus worsening credit quality, and most importantly, erode investor confidence and potentially undermine macroeconomic stability.

2. In Uganda, verified expenditure arrears for budgetary central government have more than doubled in the past five years. As indicated in the recently published Ernst&Young audit, the stock of domestic arrears has continued to increase, more than doubling over the past five years from 1.4 trillion Ugandan shillings (1.4 percent of GDP) in 2015 to 3.6 trillion shillings (2.6 percent of GDP) in 2019, including in key sectors such as agro-processing, agriculture and manufacturing. This is a result of overall weak management of domestic arrears, where Uganda ranks poorly.



EAC—Comparison of PEFA scores [1/]

Country	PEFA indicator on expenditure arrears
Kenya	C+
Rwanda	C+
Burundi	D+
South Sudan	D+
Tanzania	D
Uganda	***D+***

[1/] PEFA: Public Expenditure and Financial Accountability (PEFA).
Source: pefa.org

Uganda—Categories of arrears

Source: FAD TA Report, June 2020, based on authorities' data.

3. The recently published arrears strategy—which reflects key messages from recent IMF TA—is designed to address key shortcomings to prevent arrears accumulation. Key priorities are to:

- ***Strengthen the reporting of expenditure arrears through quarterly reports***. The updated strategy envisages to set up a system to capture all unpaid government financial obligations undertaken through the authorities Financial Management Information System (FMIS), and gradually broaden coverage to entities outside the FMIS. A quarterly report will help monitor any domestic arrears accumulation, which will have to account for overdue payments within the year (definition currently used in Uganda define arrears as commitments outstanding at the end of the financial year).

- ***Address the causes of expenditure arrears in Uganda.*** These are linked to widespread weaknesses in the PFM system but more specifically to poor budget planning, which manifests itself through numerous supplementary budgets, and frequent virements to compensate for

initial poor project costing and inadequate prioritization. In addition to eliminating overcommitment in multi-year projects, automated registration of invoices and a stronger sanction regime will help reduce unauthorized commitments.

- ***Provide for sufficient budget allocations for the payment of expenditure arrears***, which has been insufficient in the past due to lack of ring-fencing. The current MTFF provides for clearance of the current stock over the next three years—with allocations ring-fenced under the program through an indicative target.

Annex VI. External Sector Assessment

Overall Assessment: *The external position of Uganda in 2020 was moderately weaker than the level implied by fundamentals and desirable policies. This preliminary assessment, however, is subject to a greater margin of uncertainty given the severity of the COVID-19 pandemic. The current level of gross international reserves is assessed to be adequate but would be below the desired reserve cover level in the absence of a Fund program.*

Potential Policy Responses: *Pursuing exchange rate flexibility is critical to cushion the economy from external shocks. The Bank of Uganda should pursue exchange rate flexibility and only intervene in case of extreme market distress. Policies to preserve fiscal and debt sustainability, and to improve export diversification and product quality can help to maintain investor confidence and improve external competitiveness over the long run.*

Foreign Assets and Liabilities: Position and Trajectory

Background. The NIIP has deteriorated to 59 percent of GDP in 2020 from -53 percent in 2019 reflecting the current account dynamics. As in many developing economies, the majority of the external liabilities were foreign direct investment (at around 40 percent) and concessional loans from multilateral and bilateral sources (at around 30 percent). About half of the external assets was held by the Bank of Uganda as reserve assets, and the remaining share consisted of deposits and debt securities. Between 2015 and 2020, the NIIP has declined by 17.7 percentage points, reflecting a negative CA contribution of 33.8 percentage points partly offset by valuation effect.

Assessment. Despite some deterioration, the sustainability of the NIIP is not an immediate concern. Since 2008, valuation gains have offset about 25 percent of the effect of CA flows on the NIIP, partly reflecting CA measurement issues and depreciation of the shilling. Furthermore, the accompanying debt sustainability analysis suggests that Uganda faces a moderate risk of debt distress, partly driven by lower debt carrying capacity as weaker global outlook increases the probability of debt distress.

2020 (% GDP)	NIIP: -58.9	Gross Assets: 21.7	Debt Assets: 3.2	Gross Liab.: 80.7	Debt Liab.: 10.4

Current Account

Background. The CA deficit has deteriorated further to 8.7 percent of GDP in 2020 (from 5.7 percent in 2019)— below its historical average. The wider CA deficit in 2020reflects mostly weaker trade balance where tourism receipts dropped by 2.7 percent of GDP. Secondary income remained broadly unchanged from 2019supported by robust NGO inflows partially offsetting the decline in remittances. The current account deficit is expected to narrow moderately in 2021, as improving external conditions and commodity prices lead to higher exports. For the saving-investment perspective, the current account deficit was mainly driven by the public sector. Going forward, the current account is going to be shaped by further improvements in global demand and imports related to capital investment in oil projects. Oil exports, first expected in 2025, would pick up significantly in subsequent years which would provide further support to the current account.

Assessment. The EBA-lite CA model estimates a CA gap of -2.2 percent in 2020 with a cyclically adjusted CA balance of -9.4 percent compared with a CA norm of -7.3 percent of GDP. Staff assesses the CA in 2020 to be moderately weaker than the level consistent with fundamentals.

Uganda: Model Estimates for 2020

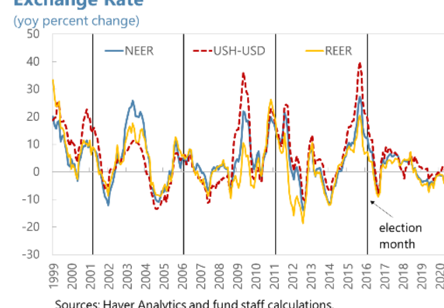
(In percent of GDP)

	CA model	REER model
CA-Actual	**-9.1**	
Cyclical contributions (from model) (-)	0.1	
COVID-19 adjustor (+) 1/	0.6	
Natural disasters and conflicts (-)	0.8	
Adjusted CA	**-9.4**	
CA Norm (from model) 2/	**-7.3**	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	**-7.3**	
CA Gap	**-2.2**	**1.2**
o/w Relative policy gap	2.2	
Elasticity	-0.14	
REER Gap (in percent) 3/	**15.3**	**-8.2**

1/ Additional cyclical adjustment to account for the temporary impact of the pandemic on oil balances (-0.5 percent of GDP), on tourism (2 percent of GDP), and on remittance (0.1 percent of
2/ Cyclically adjusted, including multilateral consistency adjustments.
3/ Fixed effect was re-computed from 2011 through 2016 to reflect the inflation-targeting regime introduced in 2011.

Real Exchange Rate

Background. The shilling was unchanged in real effective terms in 2021Q1 relative to its average level in 2020 and has appreciated by 1½ percent since 2016. Shilling appreciation in part reflects the inflation differential against Uganda's trading partners. In normal effective terms, the shilling remained broadly stable despite the deterioration in the current account deficit and the recently held elections – in contrast with the sharp depreciation observed during previous pre-election cycles.



Sources: Haver Analytics and fund staff calculations.

Assessment. The EBA-lite CA gap assessment implies an REER overvaluation gap of 15.3 percent in 2020. The EBA-lite IREER model suggests an undervaluation of 8.2 percent while the REER is broadly in line with the average over the last ten years. In comparison to previous years, the REER assessment is subject to greater margin of uncertainty due to the global pandemic as well as the general elections in early 2021. Overall, on balance, staff assesses the REER to be moderately overvalued.

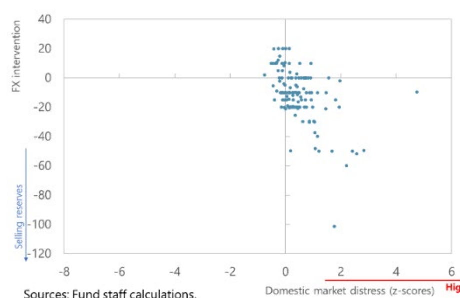
Capital and Financial Accounts: Flows and Policy Measures

Background. In net terms, the CA was mainly financed in 2020 by net FDI inflows of 2.2 percent of GDP, a 1.1 percentage points decline compared with 2019 and a doubling of project and budget loan disbursements of 6.4 percent of GDP as multilateral and bilateral sources stepped up their support for Uganda in the midst of the COVID-19 pandemic. Since 2020Q4, portfolio inflows have picked up strongly driven by relatively attractive yields on government securities.

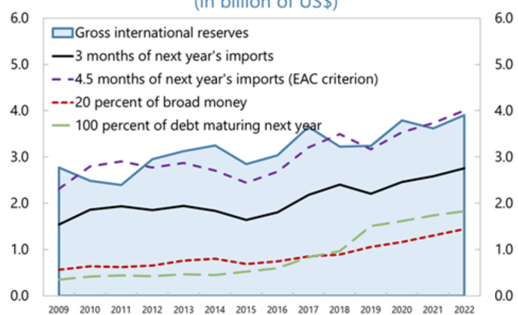
Assessment. The increase in portfolio inflows has made the financial account more vulnerable to refinancing risks and is likely to decline as the gap between yields on Uganda government bonds and foreign securities narrows. Going forward, FDI inflows are expected to pick up driven by improved business conditions as well as investment related to the oil refineries.

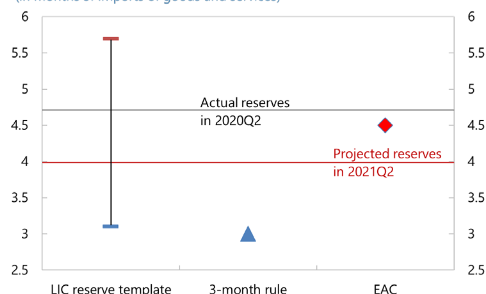
FX Intervention and Reserves Level

Background. The Ugandan Shilling depreciated against the US dollar by 6.4 percent on March 24, 2020 relative to the previous month amid global volatility in financial markets. As a result, Bank of Uganda intervened in the currency market by selling about US$200million of foreign exchange; subsequently the shilling appreciated and stabilized at around the average-2019 level. Since the beginning of 2021, the shilling has appreciated by 4.2 percent in May against the US dollar reflecting a combination of dollar depreciation as well as an increased foreign investors' appetite for Uganda government bonds. In light of this development, the central bank has accumulated US$280 million reserves. Nonetheless, gross international reserves have fallen by about US$150 million since end-2020 to US$3.7bn at end-May, covering about 4 months of next year's imports of goods and services (excluding oil related investment projects).



Assessment. The Bank of Uganda should maintain the flexible exchange rate regime, and only intervene in case of extreme market distress--as done in the past. The most recent effort to build up FX reserves helped contain the appreciation pressure and should continue in view of the increasing refinancing risk. The IMF's reserve adequacy metric for credit-constrained economies indicates an adequate reserve range of 3.1 – 5.7 months of imports depending on the cost of holding reserves. The level of reserves in 2021Q1 exceeds the standard rule of thumb (3 months of import coverage, 20 percent of board money and 100 percent of short-term external debt at remaining maturity) but is within the adequate range indicated from the metric. Going forward, reserve coverage ratio is expected to improve as current account gradually recovers. Motivated from an external vulnerability perspective, reserve cover—defined as reserves as a share of next year's imports excluding oil project financing and related imports should be maintained at 4 at the minimum and gradually converge to 4.5 months of imports as set out in the EAC convergency criterion over the medium term.





Annex VII. Strengthening the Asset Declaration Regime in Uganda

1. Asset Declarations (ADs) are established as public information in Uganda, and the legal framework has recently been reinforced. Recent amendments to the Leadership Code help address some of the existing weaknesses, including by allowing sanctions for non-submission and submitting a false AD, such as by confiscating undeclared or excess property, imposing fines and issuing warnings/dismissal of the officials. However, effective implementation of the legal framework is largely pending, and remaining legal gaps need to be filled through:

- **Less barriers to AD access**: Access to ADs is limited to individual requests (both for the public and law enforcement), with an obligation not to disclose the contents of AD to other persons and to indicate in the request assets potentially not included in the declaration. The Inspectorate of Government has a wide discretion to reject the requests (e.g. if AD may be "used in bad faith"), which is reportedly invoked often, and is collecting a fee of approximately USD 55 for a request. These barriers and restrictions inhibit transparency of high public offices and effective detection and investigation of corruption offences. Uganda's electronic system for collection of ADs allows streamlined online publication of ADs, bringing it in line with best international practices.

- **Stronger sanctions**. The current value of confiscated assets and the number of dismissed officials for AD breaches is insignificant. Recent amendments and the operationalization of the Leadership Code Tribunal are a step forward but sanctions do not appear to be dissuasive and need to be strengthened by introducing criminal liability, including possible imprisonment, for the most egregious breaches (e.g. not declaring high-value assets).

- **Broader AD coverage**. Requirement to declare the assets, incomes and liabilities of officials' children, spouses and dependents as well as assets owned beneficially need to be strengthened. The requirement to declare assets of children and spouses was eliminated by the Parliament in 2017, which created a loophole for officials to conceal assets. Recent amendments expanded the definition of "interest" in assets that needs to be declared, intending to close this loophole, but depending on the implementation additional specific legal provisions may need to be considered.

- **Better focus on high officials**. The recent amendments extended AD requirement to all public officers, increasing the annual number of submitted declarations approximately twentyfold, thus diluting the needed focus on high-level officials.

Annex VIII. Status of Recommendations to Address the Failure of Private Banks

Aspects of Resolution Policy	Current Practice	Proposed Enhancements
1. Full compliance with FIA, 2004, MDI Act, 2003	Yes	Yes
COSASE recommendations		
2. Detailed responsibilities/TORs of Statutory Manager, Liquidation team and other resolution stakeholders	No	Yes
3. Pre-Vetting of Statutory Managers	No	Yes
4. Guidelines for closing financial institutions	No	Yes
5. Methodology for choosing appropriate resolution strategy	No	Yes
6. Dedicated Resolution Unit/Team (Proposed reporting and governance structure for RU attached)	No	Yes
7. Reports on Status of SFIs under Resolution – Up-to-date Compilation, management and reporting of financials.	No	Yes
FSB Key Attributes, /IMF FSSR Recommendations, /EAMU convergence criteria		
8. Resolvability assessments. Recovery and resolution plans for DSIBs	Partial	Yes
9. Decision Grid for Activating Resolution	No	Yes
10. Expand bank resolution Tools and funding e.g. bridge bank, asset management vehicle, bail in		
11. Detailed guidelines for Cooperation with DPF	No	Yes
12. Transparency and Accountability	No	Yes
13. Information sharing and cross border cooperation on resolution with other jurisdictions (FSB Key Attribute 7).		
14. Strategic Resolution Planning	No	Yes
Other Enhancements		
15. Procedures for Voluntary Liquidation	Yes	Yes (with detailed procedures)

Annex IX. Capacity Development Strategy

1. An extensive Technical Assistance (TA) agenda has been implemented in recent years under both program and surveillance engagements with satisfactory outcomes overall. Fund TA has brought about a significant improvement in revenue administration, which contributed to a sustained increase in tax collection. Public finance management strengthened too, including through the establishment of a Treasury Single Account. Traction on monetary policy formulation and bank supervision has been good and has picked up recently with the assistance of a resident expert. Ongoing work on statistics has also celebrated important achievements, with rebased GDP estimates and the forthcoming transition to GFSM 2014.

2. The ECF-supported program provides an opportunity to boost implementation of the authorities' National Development Plan (NDPIII) through intensified TA involvement. Short-term priorities are being adjusted aptly to respond to challenges emerging from the COVID-19 pandemic. Business continuity plans are being upgraded in the Uganda Revenue Administration. The Fund is also helping the authorities develop a framework to track COVID-19 expenditures and report them transparently. In line with the NDPIII, priorities will center on the implementation of the domestic revenue mobilization strategy, natural resource management, public financial management (notably procurement), banking supervision, payment systems, central bank communication and financial integrity (AML/CFT). TA absorption capacity is good despite the challenges currently imposed by the virtual environment.

3. Coordination of TA across a rich landscape of developmental partners is essential to ensure its effectiveness. Numerous partners, including the World Bank, the African Development Bank, the European Union, UNICEF, UNDP, USAID, DIFID, and others, are currently actively engaged in policy areas covered by Fund TA. Close cooperation with partners and coordination of TA delivery across agencies will be of utmost importance to avoid overlaps, explore synergies and deliver consistent advice without overburdening authorities' absorptive capacity.

Appendix I. Letter of Intent

Kampala, June 15, 2021

Madame Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, DC 20431
USA

Dear Madame Managing Director:

We request the IMF's assistance for our economic reform program to help support Uganda's economy in the midst of the COVID-19 pandemic and put in place conditions for a sustainable and robust recovery in the medium term.

Uganda has made significant strides in reducing poverty and putting in place conditions for robust economic growth over the last decade. However, the COVID-19 pandemic has hit the economy hard, with growth falling to less-than half its previous long-term average and inflation rising, following the imposition of some of the region's strictest domestic lockdown measures and the disruption of regional supply and demand chains. Poverty gains made over the past ten years have been reversed despite the government's strong policy response to cushion the impact of the pandemic. It is estimated that 61 percent of Uganda suffered severe income losses.

Our economic reform program addresses the near-term impact of COVID-19 on the economy and supports inclusive growth over the medium term through a steadfast implementation of Uganda's National Development Plan (NDP III). The near-term response will continue to rely on fiscal and monetary policy to protect and secure livelihoods, and support economic activity, subject to the government's financing constraints. In order to address medium-term challenges that include creating jobs and wealth by fostering private sector development, our program will focus on: safeguarding macroeconomic stability by maintaining public debt on a sustainable path; enhanced mobilization of domestic revenues; efficient prioritized spending; strengthening reserve buffers; improving the inflation targeting framework; and supporting financial sector stability. Generating more inclusive growth will also require strengthening governance, expanding the existing social safety net and implementing structural reforms to boost human capital and private sector development, including reducing the costs of finance and reducing the government's domestic arrears.

We request the Fund's financial support for our program through a new three-year arrangement under the Extended Credit Facility (ECF) covering the period 2021-24, in an amount of SDR 722 million (200 percent of Uganda's quota) to be disbursed in 7 tranches. The Fund's support will be instrumental for the steadfast implementation of our economic reform program by providing Balance of Payments and Budget assistance, leveraging donor resources, and enhancing the efficacy

of the monitoring for reform implementation. Our program will be monitored through semiannual reviews (the first test being end-September 2021 and second test date end-March 2022) with quantitative criteria and structural benchmarks as described in detail in the attached Memorandum of Economic and Financial Policies (MEFP) and defined in the attached Technical Memorandum of Understanding (TMU).

Our commitment to the goals of our program remains strong, as demonstrated recently by the implementation of all governance-related commitments—including those for tracking of COVID-19 spending—made under the Rapid Credit Facility (RCF) in May 2020. On our part, we commit not to: introduce nor intensify exchange restrictions; introduce or modify multiple import restrictions for balance of payments reasons; nor conclude bilateral payment agreements that are inconsistent with Article VIII of the Fund's Articles of Agreement. We shall provide timely information necessary for monitoring economic developments and the implementation of policies defined in the program as agreed in the TMU, or upon request. We shall also continue to seek concessional lending from other IFIs benefiting from the catalytical role of the program.

The government believes that the measures and policies set forth in the attached MEFP are appropriate and sufficient to achieve the objectives of the program but stands ready to take any additional measures that may be necessary. We will consult with the IMF on the adoption of such measures in advance of any revision of the policies contained in the MEFP, in accordance with the IMF's policies on such consultations.

The government intends to make public the content of the IMF staff report accompanying this request for a three-year arrangement under the ECF, including this letter, the attached MEFP and TMU, the informational annex, and the debt sustainability analysis (DSA) undertaken by IMF and World Bank staff. It therefore authorizes the IMF to publish these documents on its website once the IMF Executive Board approves the new three-year arrangement under the ECF.

Sincerely yours,

/s/
Patrick Ocailap
Ag. Permanent Secretary/Secretary to the Treasury
For: Minister of Finance, Planning and Economic Development

/s/
Prof. E. Tumusiime Mutebile
Governor of the Bank of Uganda

Attachments: I. Memorandum of Economic and Financial Policies
II. Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

A. Introduction

1. Uganda has acted swiftly and decisively to contain the COVID-19 pandemic, with one of the most stringent lockdown regimes in the region, which helped limit COVID-19 cases but hit the economy hard. Economic activity stalled due to a domestic lockdown that lasted over four months, including border closures that limited trade, and because of a global demand contraction and disruption of supply chains. These developments have resulted in a sharp decline of private investment and consumption, with the manufacturing and services sectors, particularly tourism, being the most affected. The weaker economic activity—which is estimated to have partially reversed poverty gains made over the past ten years—is only expected to recover gradually, despite the government's strong policy response to cushion the impact of the pandemic. Positivity rates have increased recently, and new variants have been detected but the disease progression and morbidity have remained contained, which bodes well for a continued recovery.

2. The government has embarked on a strategy to implement its homegrown National Development Plan (NDP III), which aims at increasing households' income and inclusive growth by fostering private sector development. In addition to sectoral strategies, implementation of our NDP III will be built on the following pillars: (i) macroeconomic stability that aims at reducing the deficit through domestic revenue mobilization while increasing priority and infrastructure spending, controlling inflation, safeguarding financial stability, and ensuring prudent debt management; and (ii) structural reforms to ease structural bottlenecks, including through strengthening governance, fostering public sector efficiency, and removing constraints to private sector growth (e.g., access to electricity).

3. The economic program discussed in this Memorandum of Economic and Financial Policies (MEFP) is built on NDPIII and its key pillars. Our program is intended to protect livelihoods and support the recovery. NDPIII implementation will be critical for a post-COVID-19 environment that fosters private sector-led development. This MEFP describes the specific policies and measures the government plans to take for the period 2021-2024—with support of the International Monetary Fund under a three-year ECF arrangement—to address the short-term impact of the COVID-19 pandemic and to ensure a robust sustainable medium-term recovery.

B. Economic and Social Developments

4. Economic activity has stalled, but a gradual recovery is under way. Real GDP growth bottomed out in late 2020 after a sharp contraction in 2020-Q2, particularly in services and manufacturing which fell by 8.8 and 5.5 percent respectively year-on-year, and led average growth in FY19/20 to fall to 3 percent yoy, less than half the historical average pre-COVID. Despite some pickup in Purchasing Managers Index (PMI) and agricultural production, recovery in the services sector has been slow and capacity utilization in manufacturing has remained weak while credit growth has not recovered fully. Hence, in CY2020, the economy is expected to have contracted by

1 percent (from 7.5 percent growth in CY 2019). After peaking during the lockdown, unemployment has returned to its high pre-COVID level of about 10 percent. The national poverty headcount ratio is expected to have risen from 21 percent in 2019 to 26 percent in 2020, reversing most of the poverty reduction gains made over the last decade.

5. After initially peaking, inflation has been trending down towards the mid-point of the inflation band. Headline and core inflation, which peaked at 4.5 and 6.3 percent respectively in October 2020, have now fallen back to around 4 and 5 percent respectively in April 2021, mainly reflecting a reversal in rising transportation costs and declining food prices in the latter part of 2020. The one-off increase in import tariffs on some goods (foodstuff mostly) contributed to an initial inflation uptick, which has now dissipated. In April 2021, the Uganda Bureau of Statistics (UBOS) rebased the Consumer Price Index (CPI) from 2009/10 base year to 2016/17 base year. The rebased CPI reflects lower inflation and will be used in our macroeconomic framework and in program monitoring in subsequent reviews.

6. Higher external financing flows have helped offset a deteriorating current account deficit. At about 10 percent of GDP in 2020H2, the current account deficit, deteriorated from FY19/20 level of 5.9 percent of GDP, reflecting: (i) a worsening trade balance partly driven by government spending that boosted imports while tourism receipts remained weak; (ii) higher interest payments on public debt, partly driven by rising yields on government bonds; and (iii) remittances that have recovered somewhat but remain 31 percent below the level in 2019H2. Donor support and FDI continue to be the main sources of financing while net portfolio inflows to general government—which are more vulnerable to refinancing risks—have remained strong in early 2021 after reaching a record high of US$150 million in 2020Q4. Gross international reserves improved to US$3.9 billion at end-December 2020 but has since then declined to US$3.7 billion in mid-May. Nonetheless, by mid-May, reflecting strong portfolio inflows, the shilling has appreciated by 3.6 percent against the dollar.

7. With the negative output gap and contained inflation, the Bank of Uganda (BoU) adopted an accommodative monetary policy stance. The Central Bank Rate (CBR) was cut twice in April and in June by a cumulative 200 bps to 7 percent. This is the lowest rate since the introduction of the inflation targeting framework. Despite ample liquidity, private sector credit growth has decelerated to 7 percent year-on-year in March 2021 (7.5 percent excluding capitalized interest), as both demand for and supply of credit declined amid high global uncertainty, banks' increased risk aversion and government's high financing needs.

8. In response to the economic hardship induced by the pandemic, the government adopted a fiscal package aimed at supporting SMEs and the vulnerable population. In FY19/20, two supplementary budgets and budget reallocation increased the spending envelope for critical sectors and vulnerable groups by about US$300 million (0.8 percent of GDP), of which around US$90 million (0.2 percent of GDP) is estimated to have been executed. In FY20/21, tax measures in response to COVID-19 contributed to the revenue shortfall by close to US$70 million (0.2 percent of GDP). In addition, through the budget and two supplementary budgets, US$600 million (1.5 percent of GDP) were allocated for additional COVID-19 related outlays, partly driven by the delayed execution of some

measures originally planned for FY19/20. Moreover, further support is allocated for vaccines both in FY20/21 (around US$139 million or 0.4 percent of GDP) and in FY21/22 (around US$122 million or 0.3 percent of GDP). Among others, the fiscal support has included the following measures:

- Additional funding to the health sector, including for medical equipment, masks, test kits, and vaccines (0.6 percent of GDP);
- Support to households, including food to the vulnerable and funding for agriculture inputs and entities that support the sector (0.2 percent of GDP);
- Employment support, such as through the EMYOOGA initiative (0.3 percent of GDP);
- Support to firms, including in the form of waived interest on tax arrears, deferred payments of Pay-As-You-Earn and corporate income tax and the expedited repayment of VAT refunds (0.1 percent of GDP), which only became effective in FY20/21;
- The expansion of labor-intensive public works programs (0.1 percent of GDP);
- Acceleration of the development of industrial parks (0.2 percent of GDP);
- Clearance of arrears (0.1 percent of GDP);
- Import substitution and export promotion by providing funding to Uganda's Development Bank and recapitalizing the Uganda Development Cooperation (0.5 percent of GDP).

9. The fiscal response and the economic slowdown led to a wider fiscal deficit and higher financing costs. The fiscal deficit, which increased from 4.9 percent of GDP in FY18/19 to 7.1 percent of GDP in FY19/20, most notably because of a decline in tax revenues by 0.8 percent of GDP and an increase in spending by 1.9 percent of GDP, is expected to persist in FY20/21 as it already reached 6.5 percent of GDP in the first three quarters of FY20/21. Notwithstanding budget support loans received from the IMF and the WB, financing of the deficit this year has increasingly relied on financing from the BoU (0.4 percent of GDP) and purchase of government securities by banks, nonbanks and offshore investors (3.5 percent of GDP), with the latter exceeding its FY19/20 level by 81 percent. As a result, our financing costs have increased substantially—e.g., 10-year T-Bond yields rose by about 200 basis points since last June, despite some recent improvements in the May auction.

10. In support of the fiscal stimulus and accommodative monetary policy stance, additional exceptional measures have helped keep the financial sector resilient during the COVID-19 crisis. In addition to the exceptional liquidity support through its Lombard Window and Exceptional Liquidity Assistance Facility, the BoU introduced in April 2020 credit relief measures that were recently extended to end-September 2021. Such measures have kept NPLs under control as 21.3 percent of total loans were under restructuring at end-March 2021, of which 29 percent were past due by at least one instalment and are at risk of default. That said, the system remains liquid and well capitalized overall, with solvency ratios averaging 22.2 percent at end-March 2021. BoU stress tests using end-March 2021 data indicate that the banking system has adequate capital and

liquidity buffers even if NPLs were to double from current levels (5.4 percent of total loans); however smaller banks could face liquidity, capital and profitability issues.

C. Macroeconomic Outlook and Risks

11. The near-term economic recovery will remain subdued. In FY20/21, growth is projected at 3.3 percent, reflecting weak external demand and subdued private sector credit growth and tourism activity. In the medium term, government investment in oil-related infrastructure, the energy sector and transport, coupled with a recovery in manufacturing, construction and external demand will bring annual growth back above 6 percent. The recent agreement between the French oil company Total and the governments of Uganda and Tanzania is a decisive step towards a final investment decision in the second half of 2021, which will allow for first oil production by FY24/25 and contribute to growth topping 7 percent. Inflation is projected to remain within the IT band in the near term, with core inflation possibly hovering above its mid-point target of 5 percent in the near term as pent-up demand pressures from demand contraction materialize and the policy stance remains accommodative in support of a narrowing output gap.

12. As imports recover while remittances and tourism receipts remain subdued, there is an urgent need to increase reserve buffers. Although the current account deficit is expected to narrow because of improving global conditions, it is expected to remain large at 7.9 percent of GDP in FY21/22. The gradual improvement in tourism and remittance receipts is expected to continue supporting the current account; nonetheless, imports of investment goods associated with the oil project, while mostly financed by FDI, is expected to weigh on the current account from FY22/23. In the absence of a Fund program and its catalytic role on the private sector as well as additional concessional financing, FDI inflows are expected to decline further in FY20/21 from already low levels in FY19/20 and only increase gradually over the medium term. Higher returns on government bonds and investment in Uganda would put further pressure on the current account. Reserves are thus expected to decline from the 4.1 months of import cover—defined as reserves as a share of months of next year's imports of goods and services excluding oil project financing and investment related imports—at the end of December 2020 to an average of about 3 months of import cover between FY21/22 and FY25/26. Financing throughout the program will aim at keeping reserve cover at the adequate level of 4 months of import cover before increasing it to the East Africa Community (EAC) target of 4.5 months once oil production starts.

13. Risks to the outlook are mostly to the downside. Weaker external demand, delayed implementation of fiscal support measures, possible resurgence of lockdown measures linked to higher COVID-19 positivity rates, enhanced credit risk, and increasing social and domestic political tensions would weigh down on the outlook. Moreover, slow execution of public investment projects and uncertainty about the timing of oil investments could dampen the growth outlook further while an increased frequency of droughts/floods could undermine agricultural activity and further increase poverty in rural areas. On the upside, a faster than expected pandemic recovery and higher donor financing would help.

D. Economic Policies

14. Our three-year economic program aims at supporting the recovery from COVID-19 in the near term while accelerating inclusive growth for sustainable development as defined in the NDP III. The near-term response to COVID-19 will continue to rely on fiscal and monetary policy to protect economic livelihoods and support a robust recovery, while remaining within the government's financing constraints. In the medium term, a revenue-based fiscal consolidation will ensure fiscal sustainability and reduce the government's debt burden, which will be accompanied by improvements in public investment management and PFM reforms. The composition of spending will also be revised to tilt more towards social spending and other priority areas. Monetary policy will be geared towards achieving our core inflation target and supporting growth where feasible. Structural reforms will support our growth agenda, including fostering financial stability and access to financing and, more generally, facilitating private sector activity.

Fiscal Policy

15. Fiscal policy in FY20/21 remained oriented towards mitigating the impact of the COVID-19 pandemic on Uganda's economy. Higher spending on households and afflicted businesses, repayment of a significant portion of verified arrears, and recapitalization of the Uganda Development Corporation and Uganda Development Bank were some of our key priorities to respond to the COVID-19 pandemic. Those expenditures (around 1.6 percent of GDP), combined with a tax revenue shortfall (around 1.8 percent of GDP) and our inability to curtail much needed and planned security spending (almost 1 percent of GDP) to replace equipment needed to face the regional tensions, added to the deficit in FY20/21, which is expected to reach 9.9 percent of GDP. While this target is almost three percentage points higher than in the previous year, the deterioration was kept in check by additional measures taken to enhance domestic revenue mobilization (0.2 percent of GDP, mostly through customs and revenue administration), as well as savings in non-priority spending and reallocation within the budget (e.g., spending on workshops and seminars, travel, or staff trainings), leading to total primary spending decreasing by 0.2 percent of GDP relative to the original budget despite the large additional spending triggered by the COVID-19 crisis .

16. The financing gap in FY20/21 is expected to be filled by: (i) additional domestic borrowing from both banks and nonbanks—including higher interest from non-resident portfolio investors; and (ii) a planned syndicated loan of $650 million. Moreover, the government's commitment to repay the large advances made by the BoU (Ush 2.7 trillion by end-April 2021) to the government within this fiscal year remains steadfast. The incorporation of vaccine costs this FY (around $139 million) to cover 20 percent of the population will be mostly funded by the Covax grant facility ($129 million). New central bank financing—including during FY20/21—will be capped under the program at 10 percent of current year's revenue (in line with the new proposed Banking Act) and will be zero by the end of the fiscal year.

Medium-Term Fiscal Policy and Debt Sustainability

17. Fiscal policy will be anchored on reducing the nominal debt-to-GDP ratio to below 50 percent by the end of the program, despite a temporary breach with debt peaking at 53.5 percent of GDP in FY21/22 to accommodate priority spending. To accomplish this, the program will aim at reducing the overall fiscal deficit to 6.4 percent of GDP in FY21/22 and then gradually towards the 3 percent of GDP medium-term target, as guided by Uganda's Charter of Fiscal Responsibility (CFR), while allowing for increased spending on human capital and other priority areas in the NDPIII. To that end, the FY21/22 budget, which has just been adopted by Parliament (Prior Action), has incorporated the following measures:

- **Revenue measures of 0.8 percent of GDP, that are building on the implementation of the Domestic Revenue Mobilization Strategy (DRMS**). Our DRMS, which includes specific costing and timelines for measures, has just been adopted by the Ministry of Finance and the Commissioner of the Uganda Revenue Administration (prior action). In the Budget for FY21/22, we target revenue gains of 0.8 percent of GDP—mostly from an increase in excise duty on petrol and diesel and the management of tax arrears—and 0.5 percent of GDP on average per year over the medium term. Widening the tax base will also remain a key priority, hence our plan to streamline tax expenditures, which amounted to 3.6 percent of GDP in FY2019/20. The FY19/20 tax expenditure statement, which was published as part of the Budget (prior action), also showed high potential savings that will help us increase revenue substantially. In line with our reform plan, a tax expenditure framework will be adopted and an annual tax statement published by October 2021 (structural benchmark). As part of that, we will also include a separate section on COVID-19 related tax expenditure, which have become effective in FY20/21.

- **Reducing non-priority spending.** The fiscal adjustment in FY21/22 includes a reduction in non-priority current spending (0.7 percent of GDP) and capital expenditures (1.7 percent of GDP). Moreover, the non-recurrence of one-off items such as the recapitalization of the Bank of Uganda (0.3 percent of GDP) and the on-lending to the Uganda Development Bank (0.3 percent of GDP) in FY20/21 will contribute to the improvement in FY21/22. Finally, the decline in security spending (by around 1 percent of GDP in FY21/22) will create room for higher social spending, including the vaccination of another 20 percent of the population.

18. In case downside risks materialize or financing assurances do not materialize, we will cut spending further, including non-priority and investment projects, to safeguard the fiscal goals of the program. To help us in this regard, we will consider implementing a temporary freeze on new project commitments and use the prioritization criteria identified with help of Fund TA to redirect resources away from infrastructure projects facing long delays or no longer profitable into new initiatives. Emergency projects related to the COVID-19 response will be ring-fenced. Contingency revenue measures identified as part of our DRMS will also be considered.

19. The program will also target higher priority social spending of about 0.6 percent of GDP during the program. While the scope for further increases in social spending is limited by the debt outlook that has been significantly affected by the fiscal response to COVID-19 and the need

to maintain infrastructure investments, this would reverse the historical decline in public education and health spending and create additional space to expand social assistance programs. To achieve this, we will launch a unified national registry of all social assistance programs (structural benchmark). Our monitoring of progress in this area will be done through two indicative target floors: one on general social spending (excluding external financing) and a more specific one that allows for scaling up existing programs to support vulnerable households while expanding their coverage through the:

- **Northern Uganda Social Action Fund (NUSAF).** With NUSAF 3 ending in June, 2021 (and which had targeted 2,983,000 beneficiaries), we are currently in discussions with the World Bank on a successor program that will expand the geographical scope to the eastern region which has high levels of poverty and vulnerability, and increase the number of target beneficiaries.

- **Urban Labor-Intensive Public Works program**, which will be launched in 2021 and help address the impact of COVID-19 pandemics amongst poor and vulnerable households in urban and flood-affected areas in 16 flood-prone districts and 13 urban centers. We will soon finalize the preparation of the project, which will target 637,000 beneficiaries.

- **Senior Citizens Grant (SAGE),** which supports beneficiaries aged 70 and above. We are committed to scale up the total number of beneficiaries from 150,000 during FY19/20 to 350,000 in FY20/21. We also plan to expand coverage of SAGE over the next few years.

- **Emyooga,** which is a presidential initiative aimed at wealth and job creation by supporting vulnerable groups, including women, youth, and persons with disabilities. All economically active Ugandans aged 18 and above can benefit from this initiative, which targets 18 specialized enterprises. But members under the youth category should not exceed 35 years of age. It is financed by the Ministry of Finance with Ush100 billion seed capital, and implemented by the Microfinance Support Center Ltd.

20. Strengthening public financial management will be a central part of our medium-term fiscal program. This will evolve around four main axes:

- **Improving spending efficiency**. Our NDPIII has identified public investment management as a key area where improvement is necessary. To address challenges, we will adopt medium-term fiscal envelope forecasts to better prioritize capital projects within our capital expenditure budget. We will publish multi-year public investment plans in line with the medium-term budget framework. We will also exercise rigorous public investment portfolio oversight. To avoid adding projects on an ad hoc basis, we will publish project selection criteria and a pipeline of projects that are ready for inclusion in the annual budget (end-September 2021 structural benchmark).

- **Reducing the outstanding stock of domestic arrears and preventing new accumulation.** Our first step in addressing this issue has been to publish in May 2021 the international E&Y audit of domestic arrears (prior action), which has shown that our stock has averaged about 3.2 percent of GDP since FY16/17. We have increased budget provisions for the clearance of

domestic arrears in FY20/21 and will continue to prioritize and repay them in subsequent years. We have also introduced prepayments for utilities and commitment controls. Our program will also put in place measures to prevent further arrears accumulation by:

- **Designing a new domestic arrears strategy** which has just been finalized and published by the Ministry of Finance (prior action). Its implementation will help us identify new priorities that will need to be addressed to close any remaining gaps, including through:

  - ✓ **Strengthening commitment controls.** To that end, we started issuing system generated purchase requisitions, to prevent expenditure arrears by avoiding expenditure commitments outside the system. We also plan to seek IMF TA to help us identify gaps in the existing PFM regulations to enable the strengthening of the sanction regime for officers responsible for unauthorized spending commitments, with personal penalties (end-November 2021 Structural benchmark). Commitment controls will also be strengthened through automatic confirmation of fund availability before incurring expenditure commitments and the automatic registration of invoices in the expenditure commitment module of our financial management information system.

  - ✓ **Planning to monitor through quarterly reports** unpaid government financial obligations showing due date and recorded in the authorities' Financial Management Information System (FMIS). To that end, IMF TA is expected to help us set a system that can capture all unpaid government financial obligations undertaken through our FMIS, with a first quarterly report to be produced by end-November 2021 (end-November Structural benchmark). The aim will be to ensure that these quarterly reports converge towards no unpaid bills in IFMIS after 90 days.

  - ✓ **Ring-fence** the budget provisions allocated to clearing domestic arrears to prevent them from being redirected to other budgetary spending. Implementation will be reported through the institutions' budget execution quarterly report.

- **Strengthening cash management reforms** will include extending the Treasury Single Account to extra-budgetary units. We will also continue engaging donors on disbursing externally funded projects through the TSA. We will gradually improve the accuracy of monthly cashflow forecasting to help improve quarterly and cash flow balances. We will also issue a circular by December 2021 for rolling out an online template to all ministries, departments and agencies starting with FY2021/22 to report their spending projections in order to inform cashflow forecasting. We will integrate cash and debt management by preparing an aggregate borrowing plan that takes into account the government's consolidated cash position in and outside the TSA. To that end, we will reconcile the central government deposits in commercial banks reported in the monetary surveys with records of government bank accounts held outside the

TSA monthly. We will seek IMF technical assistance to support these reforms and help us move towards operationalizing monthly and quarterly cash flow forecasting by end-FY2021/22.

- **Enhancing budget transparency**, by publishing a statement of fiscal risks in the budget framework paper for FY22/23 that lists contingent liabilities and reports on risks arising to the budget. Following the Auditor General report on expenditures, weaknesses in the expenditure processes identified will be presented to the Secretary to Treasury who will report in a public document to Parliament by March 2022 the steps taken to strengthen the process. To further enhance fiscal transparency and support fiscal sustainability, the government will strengthen macro fiscal reporting by preparing and publishing the medium-term fiscal framework in line with the new International Government Finance Statistics Standard of 2014 (GFSM2014) (Structural benchmark, May 2022).

21. With the approach of the final investment decision for the development of Uganda's oil sector, our medium-term fiscal plan also includes the adoption of a fiscal rule for managing oil revenues. The fiscal rule, which will be implemented through the Charter of Fiscal Responsibility (CFR), will aim at establishing the non-oil primary balance (NOPB) as the appropriate operational target for when oil comes into production. This will prevent pro-cyclical spending. In addition to numerical limits or targets on fiscal variables and above-mentioned PFM pre-requisites, the CFR will also contain key provisions to account for: (i) corrective actions in case numerical limits or targets are breached; (ii) escape clauses; (iii) transitional arrangements to bring the debt and fiscal deficit to levels prescribed by the fiscal rule; and (iv) institutional arrangements to monitor and enforce the rule.

Debt Management Policy

22. Our debt management framework remains appropriate. Over the past decade, we have enhanced debt transparency, both in terms of fiscal reporting and the publication of debt data and debt management information. Nevertheless, we will aim to further enhance transparency, including by making state-owned enterprise debt publicly available. Over the medium term, large infrastructure projects (e.g., railway lines) will lead to a slight shift in the composition of financing towards non-concessional loans. However, going forward, we plan to closely follow the goals laid out in our Medium-Term Debt Management Strategy, including the scaling back of domestic financing and increasing the maturity of domestic debt. We will also continue during the course of the program to make every effort to seek additional grants from donors or additional concessional lending from other IFIs beyond the amounts currently committed. Debt is projected to remain sustainable at a moderate risk of debt distress.

Monetary and Exchange Rate Policies

23. Our monetary policy framework remains appropriate, but fiscal dominance has reduced its effectiveness. High banks' risk aversion, higher domestic public borrowing and rising domestic bond yields have contributed to keeping lending rates high, which has reduced the effectiveness of our monetary policy tools. Our program's proposed fiscal adjustment and higher reliance on external financing will enhance monetary policy transmission and effectiveness. To further support the functioning of the monetary policy framework, the Bank of Uganda will:

- **Continue monitoring inflation developments closely** and stand ready to adjust the policy stance if forward looking (core) inflation looks set to increase above the upper band inflation target (5+/-3 percent) in an 18-month horizon. The inflation consultations clause will remain a key pillar of the program.

- **Continue fine tuning liquidity forecasting.** We will continue to rely on repurchase Repos, Depos and recapitalization securities as our main instruments for managing liquidity at different maturities. In July 2020, FX swaps were added to our liquidity management arsenal to help manage structural liquidity for up to one year.

- **Limit direct BoU financing of fiscal operations.** To this end, the government will ensure that with-in year limits of advances are adhered to and that all advances provided are repaid by the end of the fiscal year. We will also clarify existing rules on advances to the government[1] (including for debt redemption) by adopting a service level agreement between the BoU and Ministry of Finance (end-July SB) to: (i) ensure that the government account at BoU has sufficient funds for servicing government debt through the BoU; and (ii) include appropriate safeguards—including penalty interest rates (as prescribed in the BoU Act)—for within-year credit provision.

24. An independent central bank remains essential to maintaining Uganda's hard-earned macroeconomic stability and monetary policy credibility. We have worked recently to improve BoU's financial situation and we recapitalized BoU by providing it with Ush 482 billion in government securities in July 2020. However, further efforts are needed to ensure the Bank's financial independence by strengthening the BOU's capital position and modernizing the central bank law. In line with the safeguards' assessment recommendations and the BOU reform agenda following the 2019 Parliament Committee recommendations, the new amendments to the BoU Act will be approved by Cabinet (end-December 2021 Structural Benchmark) that include a dynamic recapitalization, strengthen safeguards for institutional autonomy, clarify limits for advances to the government, and strengthen the BOU's governance and transparency framework.

[1] According to the Bank of Uganda Act, use of advances to the Government is limited to temporary deficiencies of recurrent revenue, and is capped at 18 percent of current year's revenue during any fiscal year. The Public Finance Management (Amendment) Act 2015 limits advances to 10 percent of last year's revenue and requires loans raised for treasury operations to be repaid within the financial year.

25. The Shilling has remained broadly stable and is estimated to be moderately overvalued. Our foreign exchange interventions will continue to aim at smoothing out excess volatility—as was the case in March 2020. We will also continue to maintain exchange rate flexibility to help the economy adjust to external and domestic shocks. This will also help preserve foreign exchange buffers when reserves come under pressure and additional external financing for the budget is limited. We have developed guidelines for managing foreign reserve portfolio internally in line with best practices, including reducing placements with commercial banks and minimizing deposits that are not redeemable at short notice. These guidelines—which will be aligned with best practices—will be shared with the World Bank Treasury team for advice.

Financial Sector Policies

26. Financial sector stability remains essential. We adopted at end-December 2020 the Financial Institutions (Capital Buffers and Leverage Ratio) Regulations 2020, which enhanced financial sector resilience by introducing the capital conservation buffer (CCB), the systemic risk buffer, the countercyclical capital buffer (CCyB) as well as the leverage ratio. Financial institutions were given a one-year grace period ending in December 2021 to comply with this new regulation. Since December 2020, we have also made great strides in controlling and mitigating systemic risks by asking Domestic Systemically Important Banks (DSIBs) to hold additional capital buffers in the range of 0-3.5 percent. Moreover, in February 2021, the BOU Board approved the DSIBs framework with an identification and assessment methodology, and heightened supervisory scrutiny in line with international best practices and the applicable regulations. These changes to the DSIBs' on additional capital buffers requirements and heightened regulatory oversight have come into effect in April 2021.

27. Actions targeted to financial sector stability also include measures to strengthen capital buffers by deferring dividend distribution on a case-by-case basis as and when asset quality is deemed to be deteriorating beyond prudential thresholds. We remain committed to (i) ensure that loan classification and provisioning rules are not relaxed; and (ii) continue to strictly adhere to our prudential and accounting requirements. In addition, the Bank of Uganda will:

- **Enhance bank oversight**, including through monthly monitoring of restructured loans and NPLs and regular reassessment of adequacy of provisioning. We will ensure that the six-month extension of the credit relief measures to September 2021 remains temporary and targeted to those entities impacted by the pandemic. We will closely scrutinize corporate and households' balance sheets to gauge the extent of credit and concentration risks faced by the financial system and evaluate foreign exchange risks. We have made significant progress in implementing the integrated stress testing framework to cover a broader range of macroeconomic, credit, liquidity, concentration and operational risks. We will continue to strengthen systemic risk analysis and implement bottom up stress testing, which is expected to become effective in August 2021.

- **Transition towards Basel II and Basel III to strengthen capital buffers.** Good progress is being made towards effective implementation of Basel II by January 2022. Following the introduction of the Financial Institutions (Capital Buffers and Leverage Ratio) Regulations 2020 which increases in the core and total capital ratios to RWA, and the provision to raise the prudential capital buffers thresholds for the DSIBs, we plan to : (i) closely monitor financial institutions' compliance to Financial Institutions (Capital Buffers and Leverage Ratio) Regulations 2020 capital buffer requirements in order to ensure that all financial institutions meet the new standards by December 2021; (ii) present to BoU Management in August 2021 the framework that will guide the calibration of the countercyclical buffers, which will come into effect by December 2021; and (iii) instructed financial institutions to conduct by October 2021 an internal capital adequacy assessment (ICAAP) to verify their capital adequacy with respect to existing and emerging risks 12 months ahead. We will however review the implementation date of such measures after the expiration of the credit relief measures to ensure this does not unduly discourage bank lending and slow economic recovery.

- **Strengthen bank supervision** by correcting any supervisory weaknesses that manifested themselves when Crane Bank failed, including through strengthening banks' on-site risk-based supervision, financial reporting, internal controls, and governance. We are upgrading our risk-based supervision from a one-off risk assessment done once a year to a continuous risk-based supervision assessment with a bank-specific risk-based matrix that is systematically updated. In addition, we will review by October 2021 the risk-based supervision manual, which will incorporate associated risk rankings and process flows.

- **Enhance the resolution framework.** The enhancements to the BoU resolution framework are ongoing, in part to address main issues raised by the Parliamentary Committee COSASE probe into the failure of Crane bank and other closed banks. To that end, we are making good progress on many of the recommendations, which are also aligned with FSSR-recommended measures:

    - All DSIBs are now required to submit their recovery plans to the BoU supervision department, completing their first step towards their resolution plans.

    - A Policy Framework Resolving Problem Institutions (PFRPI) has been prepared in line with international best practices to detail the guidelines for implementing the BoU's resolution powers under the Financial Institutions Act (FIA) of 2004, which will focus on the management of bank resolution and creditor priority hierarchy. The framework's approval by the BoU's Financial Stability Committee was approved on May 14th, 2021 and BoU Board approval is expected by end-June 2021.

    - After approval of the PFRPRI, a resolution unit will be created and made operational within the Financial Stability Department by end-December 2021 to oversee the implementation of the resolution framework and fulfill the following core functions (including preparing strategic resolution plans, reviewing onsite and offsite examination reports, and monitor the resolution process post-intervention).

- A resolution manual has now been finalized, detailing procedures, steps and processes for pre and post intervention or closure audit. It is expected to be effective in September 2021.

- With help from World Bank technical assistance, amendments to the Financial Institutions Act (FIA) will be proposed to BoU Management by September 2021 to deal with recovery planning and expand the role and mandate of the deposit protection scheme.

- The Emergency Liquidity Assistance (ELA) framework—which aims at strengthening financial safety nets including through collateral and haircuts, definition of eligible institutions, supervisory requirements for ELA access—has been approved by the Financial Stability Committee of the Board (FSCB) at end February 2021, adopted by the BoU Board in April 2021, and is expected be operationalized by September 2021. The amendments to the BoU Act will also strengthen the ELA by having it enshrined in a law that explicitly specifies its exceptional nature.

- **Modernize the financial market infrastructure and protect against cyber risks.** The BoU has issued a directive to all banking institutions in July 2020 and October 2020 to enhance their risk management frameworks to avert exposure to cyber and operational risks. As Uganda moves ahead with digitalization of its economy through greater use of e-financial services, which have played an increasingly important role during COVID-19, we have also strengthened our Fintech regulatory framework with the enactment in August 2020 of the National Payment Systems (NPS) Act. Its implementation, which started in April 2021, will ensure that the BoU can fully deploy its regulatory and supervisory powers on the sector and that cyber risks are minimized, and consumer protection enhanced through appropriate cybersecurity guidelines and use of big data. The BoU will continue to assess the robustness of banks' business continuity plans and cyber security measures through adherence to new risk management policies and by auditing the institutions' information and communication technology infrastructure, and regularly conducting vulnerability and penetration tests on their systems and network devices.

E. Structural Reforms

28. Our structural reform agenda focuses on generating higher and more inclusive growth by facilitating private sector activity and enhancing human capital development. Reversing the decline in private investment seen since the global financial crisis is a priority under our NDPIII, particularly to absorb the roughly 600,000 new entrants into the labor market per year. We will seek to unlock private sector activity by improving governance, reducing the cost of doing business, and fostering financial inclusion.

Governance

29. The government is committed to strengthening governance, which is a critical element to foster inclusive economic growth. As a first step, we have fully implemented our commitments under the IMF's RCF program regarding COVID-19 spending and related governance measures. In this regard, we have benefitted from ongoing IMF technical assistance to help design a system that

can be used by our Budget Monitoring and Accountability Unit (BMAU) to track and report COVID-19-related expenditures irrespective of the source of financing (end-August structural benchmark). In line with our RCF commitments, we also have:

- **Published a comprehensive report of COVID-19** spending for FY19/20 and cash releases for the first two quarters of FY20/21.
- **Published a list of procurement contracts** above Ush500 million for works, and above Ush200 million for goods and services, including the names of winning bidders. Procurement forms were amended-with Fund technical assistance–and introduced to collect and publish beneficial ownership information of recipients of new COVID-19 related contracts.
- **Conducted and published an independent audit of COVID-19 spending** for FY2019/20 by May 2021. The recently concluded independent audit found some shortcomings in the procurement procedures used for COVID-19 expenditures that are however aligned with the legal framework for emergency situations. A relatively small share of funds allocated to the fight against COVID-19 were not used on time and a limited part was used for unintended purposes. In addition, some food items that were distributed did not pass the quality check partly due to logistical limitations. We plan to further study the findings of this recent audit and implement the recommendations noted by the Auditor General, which includes reinforcing expenditure controls, including on emergency procedures.
- **Complete a special independent** audit for COVID-19 spending between end-June 2020 to end-March 2021 by June 2021. This audit has now been finalized, and publication is expected by September 2021 after presentation to parliament.

30. Strengthening accountability and transparency of the public service—a key commitment under the NDPIII—will require improving the asset declaration (AD) regime. We recently amended the Leadership Code to address deficiencies in the current framework and we will continue monitoring its implementation, including by publishing statistics on the requests for AD granted/rejected and on enforcement breaches. We will continue to work during the course of the IMF-supported program on addressing remaining weaknesses in the asset declaration regime to bring it more in line with international best practices. This could include: (i) publication of asset declarations of high-level officials; (ii) declaring assets and incomes of spouses, children and dependents and assets owned beneficially; and (iii) introducing criminal liability for breaches of the asset declaration obligations by officials, including the sanction of imprisonment for submission of false declaration. We intend to leverage the asset declaration regime to intensify scrutiny of high-level officials' wealth and to detect and investigate corruption offences, including illicit enrichment.

31. We are working to enhance the effectiveness of the AML/CFT framework and to fully implement the "grey list" action plan with the FATF. We have adopted a National AML/CFT Strategy to address the AML/CFT deficiencies identified in the action plan with FATF. We are working on the amendments to the Companies Act to prevent abuse of legal entities for money laundering by ensuring high degree of corporate transparency and timely access to accurate beneficial ownership information (November 2021 structural benchmark). To reduce the financial integrity risks facing the financial sector and better align Uganda's practices with international standards, the following priority actions will be taken:

- **Strengthening AML/CFT supervisory capacity at the BoU** by operationalizing the AML/CFT dedicated division, approved by the FSCB in May 2021 and for which a team has already been identified and will be operationalized by December 2021. Priorities include developing and implementing a risk-based approach to financial sector AML supervision, including tools for offsite monitoring, inspections, and a dedicated AML/CFT supervisory process and procedure manual.

- **Adopting a regulation (by FIA and Minister of Finance) to require financial institutions to identify domestic politically exposed persons** (already existing for foreign politically exposed persons) and apply enhanced due diligence measures by establishing their source of wealth and funds and enhanced ongoing monitoring of the business relationship (September 2021 structural benchmark). A BoU guidance on implementation of these measures will also be issued.

32. We are committed to tackle corruption, prioritizing implementation and enforcement of anti-corruption legal framework. We will focus on safeguarding anti-corruption bodies from undue influence and external interference as well as strengthening their capacity. We plan to adopt terms of reference for an improved, balanced and transparent selection process of the Inspector General of Government, which will be seen as credible and independent by the public, and will result in the appointment in September 2021 of a person with impeccable reputation, relevant specific skills, and high professional qualities. We will also develop guidelines on the voluntary settlements of anti-corruption investigations for all relevant law enforcement agencies, in particular outlining the cases that cannot be settled voluntarily at the stage of investigation and should be adjudicated. We will promote integrity and transparency in judiciary and will introduce the comprehensive electronic case management tools in all courts.

33. Uganda has recently joined the Extractive Industries Transparency Initiative (EITI). As part of our commitments to the EITI, we stand ready to disclose contracts and licenses for oil & gas production and beneficial owners of corporate entities that hold legal interest. The first EITI report containing the relevant disclosures will be finalized and submitted in 2022.

Reducing the Cost of Doing Business

34. The government has been working to reduce legal and administrative impediments to doing business. The government has also recently worked to unite all permitting and registration requirements for new businesses in a one-stop shop, which can be accessed physically and online. In addition to these initiatives, the following envisaged actions should relax constraints on private sector

initiative and growth, consistent with our priorities under the NDPIII: (i) addressing non-financial factors (power, transport, ICT) leading to high costs of doing business; (ii) strengthening the system of SME incubation centers (where education and help is offered to entrepreneurs who want to start a business) to support growth of SMEs in strategic areas; (iii) improving land administration, including by extending the coverage of the immovable property registry; (iv) rationalizing and harmonizing standards, institutions, and policies at the local and regional level; and (v) further streamlining bureaucratic red tape, reduce duplications and speed up clearances for business operations.

35. Our development plan recognizes that an open and transparent trade regime is key to fostering dynamic economic growth. We have been investing in transport infrastructure (Standard Gauge Railway and roads) to support trade links with neighboring countries. Transport interconnectivity to the East Africa Community (EAC) region through the Northern and Central Corridor transport projects is gradually improving. In this regard, the implementation of Uganda's commitments to the African Continental Free Trade Area (AfCFTA) will be important and will require removing non-tariff barriers and harmonizing standards with our trading partners. We will make sure measures introduced to protect strategic industries during COVID-19—such as basic manufactures, food processing and pharmaceuticals—are time-bound and phase them out once the crisis has passed, which will be necessary to better support a trade regime that promotes dynamic and inclusive growth consistent with the WTO, EAC, COMESA, and AfCFTA provisions for international trade.

Fostering Financial Inclusion

36. Implementation of the National Financial Inclusion Strategy (NFIS) is ongoing and further progress is envisaged under the program. Mobile money users and the number of regulated accounts are on the rise, supported by a rising number of mobile money agents and extensive awareness campaigns on the use of e-payments during the pandemic. In addition, the number of active agents has risen to 11,671 at end-September 2020, up from 9,370 in June 2019. Such progress—spurred further by the COVID-19 pandemics—will benefit from our ongoing update of our financial literacy strategy, which will help expand our delivery channels to improve access to finance. Other key planks of our NFIS include:

- **Strengthening regulations.** After the passing of the NPS Act in August 2020, three regulations were gazetted on March 5, 2021 namely; the NPS Regulations, NPS Sandbox Regulations and NPS Agent Regulations. Subsequently, three applicants have each received a payment system operator license and a payment service provider license, while one entity received approval to operate under the regulatory sandbox. Fifteen other applications for licenses are under evaluation.

- **Enhancing SME financing**. We will set up a short-term development credit window for SMEs and work to deepening and widening the capital markets by strengthening the legal and regulatory frameworks for private equity and venture capital and by building private sector capacity to access green financing.

- **Modernizing the financial infrastructure by improving banks' data sharing infrastructure for credit and collateral through two key priorities**: (i) allowing financial institutions to start accepting movable collateral for lending, which is now possible as the Uganda Registration Services Bureau (URSB) has put in place the requisite regulations in 2020 to implement the new law on movable assets and established a computerized system to track collateral; and (ii) submitting the draft amendments to the Credit Reference Bureau to the Ministry of Finance for no objection, with regulations expected to be gazetted by December 2021, with the aim to expand coverage of who can submit data to all providers of credit in the economy and linking credit information to the National identity number of the borrower and national ID database.

F. Other Program Modalities

37. We are committed to implementing the key policy requirements of the Fund's safeguards assessment. To that end, we expect the changes to the BOU Act to strengthen BoU's autonomy. The operational control gaps noted in currency operations and reserve management are also being addressed.

38. We are continuing strengthen our statistics, which are essential for the design of appropriate policies. While data provision is broadly adequate for surveillance and program monitoring, the government will continue to support UBOS in fulfilling its missions, and we count on continued technical and financial assistance from our partners in strengthening of the timeliness and accuracy of national accounts and Government Finance Statistics (GFS), as part of a broader goal in migrating from the Enhanced General Data Dissemination System (e-GDDS) to the Special Data Dissemination Standard (SDDS). Developing institutional sector accounts and higher frequency GDP indicators alongside the rebasing of CPI, PPI and IPI remains a priority.

39. The program will be evaluated based on quantitative performance criteria and structural benchmarks (Tables 1 and 2) and semi-annual reviews. Definitions of key concepts and indicators, as well as reporting requirements, are set out in the accompanying Technical Memorandum of Understanding (TMU). The first and second reviews are scheduled to be completed on or after December 28, 2021 and June 28, 2022, respectively, based on test dates for periodic performance criteria of end-September 2021 and end-March 2022, respectively.

40. SDR allocation. The proposed SDR allocation would primarily be used to increase reserve cover towards the EAC target of 4.5 months of imports of goods and services earlier than anticipated. An adjustor (see TMU) would be introduced to capture the impact of the new allocation on the reserve target. Nonetheless, should the expected budget financing fail to materialize or the financing costs become more expensive, SDR allocation could be used to meet the financing gap as long as it remains aligned with program objectives.

Table 1. Quantitative Performance Criteria

	2021	2021			2022	
	End Mar	End June IT	End Sept QPC	End Dec IT	End Mar QPC	End June IT
Quantitative performance criteria						
Fiscal targets						
Primary budget balance of the central government (- = deficit; floor, in billions of USh) 1/	-6,490	-10,532	-2,093	-3,327	-4,247	-5,453
Monetary targets						
Net claims on the government by the central bank (ceiling) 1/	180	-1,415	2,200	1,000	300	0
Target for international reserves						
Stock of net international reserves (floor, in millions of US$) 2/	3,099	3,028	3,060	2,885	2,917	2,797
Continuous PCs						
Stock of external payment arrears incurred or guaranteed by the public sector (ceiling)	0	0	0	0	0	0
PV of newly contracted external public and publicly guaranteed debt (ceiling, millions of US$) 3/		867	1,286	1,286	1,286	1,286
Monetary policy consultation clause						
Outer band (upper limit)		8	8	8	8	8
Inner band (upper limit)		7	7	7	7	7
Core inflation target 4/	5	5	5	5	5	5
Inner band (lower limit)		3	3	3	3	3
Outer band (lower limit)		2	2	2	2	2
Indicative targets						
Support to vulnerable households (floor, billions of USh) 1/			60	117	199	292
Social spending (floor, billions of USh) 1/ 5/	3,509	5,216	1,466	2,986	4,391	5,895
Tax revenues (floor, in billions of USh) 1/	13,305	17,873	4,615	10,364	15,452	20,837
Repayment of outstanding domestic arrears (floor, in billions of USh) 1/	668	805	100	200	300	400

Note: The September 2021 and the March 2022 QPC targets are set for the first and the second review, respectively.

1/ Targets are cumulative flows from July 1, 2020 to end-June 2021, and from July 1, 2021 to end-September, end-December 2021, end-March 2022 and end-June 2022.
2/ The NIR excludes central bank short-term liabilities, and is assessed at program exchange rate.
3/ Targets are cumulative flows from program approval to end-June 2021, and from July 1, 2021 to end-September, end-December 2021, end-March 2022 and end-June 2022.
4/ Core inflation excludes energy, fuel, and utilities and food crops. Annual percentage change, twelve-month period average core inflation.
5/ Social spending includes spending on education, health and social development (excluding external financing).

Table 2. Prior Actions and Structural Benchmarks

Measures	Rationale	Deadline
Adoption by the Ministry of Finance and URA Commissioner of the Domestic Revenue Mobilization Strategy (DRMS) implementation plan with specific timeline and costing of tax policy and administration measures needed to achieve at least 0.5 percent of GDP per year starting from FY 21/22.	Improve revenue collection	Prior Action: met
Publish the independent audit report on expenditure arrears.	Fiscal transparency	Prior Action: met, see link here
Publish the first annual tax expenditure statement for FY2019-20	Fiscal transparency and revenue collection	Prior Action: met, see link here
Adoption by Parliament of a budget for FY 21/22 in line with the Fund-supported program, including programmed deficit target, a minimum of 0.5 percent of GDP in revenue measures, the arrears repayment strategy (as described in the MTFF), and appropriate reduction in the share of non-essential spending while increasing the share of social spending.	Ensure fiscal consolidation	Prior Action: met
Finalization and publication by the Ministry of Finance of a strategy to prevent further accumulation of expenditure arrears	Strengthening budget processes	Prior Action: met, see link here
Prepare a service level agreement between the MoFPED and BoU regularizing availability of funds for debt servicing and introducing safeguards (limits, penalty interest rates) in credit provision	Enhance BoU governance	July 2021
Adopt a framework for tracking COVID-19 spending regardless of source of financing, including parastatals and other State-owned enterprises (e.g. UDB), and assign responsibility for tracking to MoFPED's Budget Monitoring and Accountability Unit (BMAU) under the guidance of the Economic Response Unit (ERU).	Improve Covid-19 spending transparency	August 2021
Publish project selection criteria and a pipeline of projects that are ready for inclusion in the annual budget	Efficiency of public investment management	September 2021

Table 2. Prior Actions and Structural Benchmarks (concluded)

Measures	**Rationale**	**Deadline**
Prepare a unified registry of all social assistance programs	Targeting of social assistance programs	September 2021
Adoption through the Financial Intelligence Authority (and Ministry of Finance) of a regulation that requires financial institutions to identify and apply enhanced due diligence measures for domestic Politically-Exposed Persons.	Strengthening the AML/CFT regime	September 2021
Adopt a tax expenditure framework and publish the annual tax expenditure statement	Fiscal transparency and revenue collection	October 2021
Publish a regulation introducing a strict sanction regime for officers responsible for unauthorized spending commitments, with clear personal penalties	Strengthen expenditure commitment controls	November 2021
Establishment of legal and regulatory mechanisms for timely access to accurate basic and beneficial ownership information for legal entities.	Strengthen governance	November 2021
Publish a quarterly report on unpaid invoices	Strengthening budget processes	November 2021
Submit to Cabinet the amendments to the BoU Act to strengthen governance and autonomy, including for the dynamic recapitalization of the BoU, enhancements of the ELA and the resolution powers of the BoU	Enhance BoU governance	December 2021
Prepare and publish a medium-term fiscal framework which is aligned to the Government Finance Statistics Manual of 2014 (GFSM 2014) in budget documents	Fiscal sustainability and enhance fiscal transparency	May 2022

Attachment II. Technical Memorandum of Understanding

Introduction

1. This memorandum defines the quarterly performance criteria and indicative targets described in the Memorandum of Economic and Financial Policies (MEFP) for the financial program supported by the IMF Three-Year Extended Credit Facility (ECF) over the period of June 30, 2021—June 30, 2024; and sets forth the reporting requirements under the instrument. The stock of all foreign assets and liabilities will be converted into U.S. dollars at each test date using the cross-exchange rate referred to in Text Table 1 below for the various currencies, and then converted into Uganda shillings using the program U.S. dollar-Uganda shilling exchange rate for end-May 2021, unless otherwise indicated in the text.

Text Table 1. Program Exchange Rate (end-May 2021)1/	
US dollar (US$)	1.0000
Australian Dollar/US$	1.2930
Canadian Dollar/US$	1.2064
Euro/US$	0.8177
British pound/US$	0.7039
US$/Japanese yen	0.0091
US$/Rwandan franc	0.0010
SDR/US$	0.6922
1/ For the currencies not listed in this table, the cross-exchange rates to the U.S. dollar at end-May 2021 will be applied.	

Floor on Primary Budget Balance of the Central Government[1]

2. The quantitative performance criterion (QPC) on the floor on the primary budget balance is defined as the overall budget balance of the central government excluding net interest payments on public debt. The overall budget balance is defined from below the line as the sum of:

i) Net external financing (NEF), defined as the sum of the difference between disbursements and amortization of any loans (including budget support loans and project loans, both concessional

[1] The central government comprises the treasury and line ministries.

and non-concessional), international-bonds, and any other forms of liabilities by the central government to nonresidents, excluding nonresidents' holdings of domestically-issued government securities (which are covered under NDF).

ii) Net domestic financing (NDF), defined on a cash basis as the sum of:

- The change in net claims on the central government by the banking system, defined as the difference between claims on the central government and liabilities to the central government, of the central bank and other depository corporations.

- The change in net claims on the central government of domestic nonbank institutions and households, including treasury bills, bonds or other government securities held by the nonbank public.

- Net proceeds from sales of non-financial assets including privatization receipts (data to be provided by the authorities—see below).

3. NDF will be calculated based on data from balance sheets of the monetary authority and other depository corporations and government liabilities to nonbank institutions and households as per the Depository Corporations Survey (DCS).

4. Changes in NEF will be measured using external financing (net) provided in the monthly government finance statistics. These data, in turn, will be based on the reconciled donor disbursement figures obtained by the central bank and by Ministry of Finance, Planning, and Economic Development (MoFPED) through the Debt Management and Financial Analysis System (DMFAS) and Aid Management System (AMS).

5. The primary balance target will be a floor on the cumulative flows from July 1, 2020 to June 30, 2021, and from July 1, 2021 to September 30, 2021, December 31, 2021, March 31, 2022 and June 30, 2022. The floors on primary budget balance for end-September 2021 and end-March 2022 will be quantitative performance criteria under the ECF program; while the floors for end-June, 2021, end-December, 2021 and end-June 2022 will be indicative targets.

Ceiling on Net Claims on the Government by the Central Bank

Background on Temporary Advances from the Bank of Uganda to the Central Government

6. The Government of Uganda (GoU) may receive temporary advances from the Bank of Uganda (BoU) to cover temporary deficiencies of recurrent revenue of up to 10 percent of recurrent revenues over the fiscal year, according to the Amendments to the 2015 PFM Act. The Act also requires full repayment within the respective fiscal year.

7. The GoU has thus committed to repay the total outstanding advance during the remainder of FY20/21 with no further advances to be requested.

8. Within the remit sets out by the 2015 PFM Act, the GoU expects to temporarily draw on advances from the BoU in the first quarter of FY21/22 and to fully repay the advances over the subsequent three quarters as liquidity condition improves.

Purpose, Definition, and Measurement

9. The purpose of the quantitative performance criteria on the ceiling of net claims on the government by the central bank is to help define and monitor the balance of temporary advances and ensure their prompt repayment. This should help reduce the likelihood of a situation where the temporary advances are used in order to bypass issuances of treasury securities in the domestic financial market, resulting in monetization of fiscal deficits and potential inflationary pressures. It also acts as a monitoring mechanism for the GoU extended repayment schedule for the existing advances.

10. The net claims on the government by the BoU is defined as the difference between claims on central government and liabilities to central government, excluding deposits in administered funds (including the petroleum funds, agriculture credit facility and development finance scheme projects), project accounts (both donor and government funded) with the central bank and net recapitalization securities (recapitalization securities provided to the central bank less those used for monetary policy purposes).

11. The net claims on the government by the central bank will be calculated based on data from balance sheets of the monetary authorities as per the DCS.

Floor on Net International Reserves of the Bank of Uganda

12. Net international reserves (NIR) of the Bank of Uganda are defined for program monitoring purposes as reserve assets of the BoU net of short-term external liabilities of the BoU. Reserve assets are defined as external assets readily available to, and controlled by, the BoU and exclude pledged or otherwise encumbered external assets, including, but not limited to, assets used as collateral or guarantees for third-party liabilities. Short-term external liabilities are defined as liabilities to nonresidents, of original maturities less than one year, contracted by the BoU and include outstanding IMF purchases and loans.

13. For program-monitoring purposes, reserve assets and short-term liabilities at the end of each test period will be calculated in U.S. dollars by converting the stock from their original currency denomination at program exchange rates as set out in Table 1 above. The NIR limit for each of the test dates will be a floor on the NIR stock at the end of each test period. NIR floors for March 2021 and September 2021 will be quantitative performance criteria under the ECF; floors for June 2021 and December 2021 will be indicative targets.

Ceiling on External Arrears Incurred or Guaranteed by the Public Sector[2]

14. The definition of debt, for the purposes of the limit, is set out in point 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements (Executive Board Decision No. 6230-(79/140), as amended by Decision No. 15688-(14/107), effective June 30, 2015). It does not only apply to the debt as defined in point 8(a) of the Executive Board decision, but also to commitments contracted or guaranteed for which value has not been received.[3] The definition of debt set forth in point 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements reads as follows:

15. For the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lesser retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

16. Under the definition of debt set out in point 8(a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

17. The ceiling on the accumulation of new external payments arrears is zero. This limit, which is to be observed on a continuous basis, applies to the change in the stock of overdue payments on debt contracted or guaranteed by the public sector from their level at end-June 2021. External debt payment arrears consist of external debt service obligations (reported by the Statistics Department of the BoU, the Accountant General's office of the Ministry of Finance, Planning and Economic

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[2] Public sector comprises the general government (which includes the central government, local governments, and monetary authorities), and entities that are public corporations which are subject to 'control by the government', defined as the ability to determine general corporate policy or by at least 50 percent government ownership.

[3] Contracting and guaranteeing is defined as approval by a resolution of Parliament as required in Section 36(5) and 39(1) of the Public Finance and Management Act, 2015.

development) that have not been paid at the time they are due as specified in the contractual agreements but shall exclude arrears on obligations subject to rescheduling, disputed debt service obligations and the HIPC-related external arrears to Iraq and Nigeria. For the purposes of this continuous PC, which is monitored continuously, the government will immediately report to the IMF staff any new external arrears it accumulates.

Ceiling on the Present Value of Newly Contracted External Public and Publicly Guaranteed Debt

Definition, Coverage

18. For program purposes, the definition of debt is set out in paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board Decision No. 15688-(14/107), effective June 30, 2015 (see above). The public sector comprises the central government, state government, local government, social security funds, the central bank, nonfinancial public enterprises and other official sector entities. The guarantee of a debt arises from any explicit legal or contractual obligation of the public sector to service a debt owed by a third-party debtor (involving payments in cash or in kind). A debt is considered contracted when all conditions for its entrance into effect have been met, including approval by the government. Contracting of credit lines with no predetermined disbursement schedules or with multiple disbursements will be also considered as contracting of debt.

19. External debt is any debt contracted or guaranteed by the public sector on both concessional and non-concessional terms with non-residents, excluding nonresidents' holdings of domestically-issued government securities (which are covered under NDF).

Concessionality

20. For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. For debts with a grant element equal or below zero, the PV will be set equal to the nominal value of the debt. The discount rate used for this purpose is the unified discount rate of 5 percent set forth in Executive Board Decision No. 15248-(13/97).

21. For debts carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the debt would be calculated using a program reference rate plus the fixed spread (in basis points) specified in the debt contract. The program reference rate for the six-month USD SOFR is 0.04 percent and will remain fixed for the duration of the program. The spread of six-month Euro EURIBOR over six-month USD SOFR is -56 basis points. The spread of six-month JPY OIS over six-month USD SOFR is -8 basis points. The spread of six-month GBP SONIA over six-month USD SOFR is 1 basis point. For interest rates on currencies other than Euro, JPY, and GBP, the spread over six-month

USD SOFR is 15 basis points.[4] Where the variable rate is linked to a benchmark interest rate other than the six-month USD SOFR, a spread reflecting the difference between the benchmark rate and the six-month USD LIBOR (rounded to the nearest 50 bps) will be added.

22. A performance criterion (ceiling) applies to the present value of external debt, newly contracted or guaranteed by the public sector. The ceiling applies to debt contracted or guaranteed for which value has not yet been received, including private debt for which official guarantees have been extended. The quantitative target does not apply to normal import-related commercial debt having a maturity of less than one year, rescheduling agreements, and IMF disbursements. For the purposes of this continuous PC, which is monitored continuously, the government will immediately report to the IMF staff any new external loans it contracts or guarantees, stating the conditions of these loans.

Consultation Mechanism on Inflation

23. The quarterly consultation bands for the twelve-month average rate of consumer price inflation (as measured by the core consumer price index (CCPI) published by the Uganda Bureau of Statistics (UBOS) are specified in the QPC table. The consultation bands specify the range of admissible CCPI inflation. Observed CCPI inflation for end-September 2021 and end-March 2022 will be subject to the consultation mechanism, while the CCPI inflation for end-June 2021, end-December 2021 and end-June 2022 will be indicative targets.

24. Should the observed average CCPI inflation for the test date linked to a ECF program review (i.e., end-September 2021 for the first review and end-March 2022 for the second review) fall outside the outer band as specified in the QPC table, the authorities will complete a consultation with the Executive Board of the Fund on their proposed policy response before requesting completion of the review under the program. The authorities will not be able to request completing a review under the ECF program if the average CCPI inflation has moved outside of the outer band as of the test date linked to such review, until the consultation with the Executive Board has taken place. In line with the accountability principles, the BoU will report to the public the reasons for any breach of the outer bands, and its policy response. In addition, the BoU will conduct discussions with the Fund staff when the observed average CCPI inflation falls outside the inner band, as specified for September-2021 and March 2022 in QPC table.

Direct Support Programs to Vulnerable Households

25. A floor on total social assistance spending to support vulnerable households will apply. The indicative target on direct support programs includes spending through the Northern Uganda Social Action Fund (NUSAF), the Senior Citizens Grant (SCG), the Urban Labor Intensive Public Works (LIPW), the Social Assistance Grants for Empowerment (SAGE) and the EMYOOGA Initiative. Compliance with the indicative floor for supporting vulnerable households will be verified on the

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[4] The program reference rate and spreads are based on the average projected rate for the six-month USD SOFR over the following 10 years from the Fall 2020 World Economic Outlook (WEO).

basis of data on quarterly releases of social assistance spending for March and September, and actual for June and December, as published in quarterly budget execution reports.

Social Spending

26. A floor on total social spending will be set. It includes all spending in health, education, and social development (excluding external financing). Social spending will be monitored on the basis of the monthly government finance statistics.

Tax Revenues

27. A floor applies on tax revenue of central government measured cumulatively from the beginning of the fiscal year in July. For program monitoring purposes, tax revenue is defined as the sum of direct domestic taxes, indirect domestic taxes, and international trade taxes, as defined by the Government of Uganda's revenue classification.

Floor on Repayment of Outstanding Domestic Arrears (IT)

28. A floor applies to repayment of outstanding domestic arrears of the central government as an indicative target. The target will be a floor on the cumulative gross repayment from July 1, 2020 to June-30, 2021, and from July 1, 2021 to September 30, 2021, December 31, 2021, March 31, 2022, and June 30, 2022.

29. An unpaid bill is defined as any verified outstanding payment owed by any entity that forms part of the central government votes for the following: utilities, rent, employee costs, other recurrent, court awards, compensation, contributions to international organizations, development, taxes, and other deductions. Domestic arrears are the total stock of unpaid bills at the end of the year as reported in the annual audit report of the Auditor General.

Adjustors

30. The NIR and the primary balance targets are based on program assumptions regarding: 1, budget support; 2, recapitalization of the BoU; 3, external financing tied to projects; 4, DSSI relief and; 5, the proposed SDR allocation.

Adjustor Related to Budget Support

31. The Uganda shilling equivalent of projected budget support (grants and loans) on a cumulative basis from the beginning of the relevant quarter is presented under Schedule A. The floor on the stock of NIR of the BoU will be adjusted upward (downward) by the amount by which budget support, grants and loans exceeds (falls short of) the projected amounts. Any downward adjustment to the floor on the stock of NIR will be capped by 10 percent of the amount set out in Schedule A. The floor on the primary budget balance of the central government will be adjusted upward (downward) by the amount by which budget support grants exceeds (falls short of) the projected amounts.

Schedule A: Budget Support 1/

(USh billions)

	2021			2022	
	End-Jun	End-Sept	End-Dec	End-Mar	End-Jun
Budget support grants	627	0	0	52	77
Budget support loans	5,288	120	992	3,212	3,899

1/ Cumulative flows from July 1, 2020 to June 30, 2021, and from July 1, 2021 to September 30, 2021, December 31, 2021, March 31, 2022 and June 30, 2022.

Adjustor Related to Recapitalization of the Bank of Uganda

Schedule B: Recapitalization of the Bank of Uganda 1/

(USh billions)

	2021			2022	
	End-Jun	End-Sept	End-Dec	End-Mar	End-Jun
Recapitalization of BoU	482	0	0	0	0

1/ Cumulative flows from July 1, 2020 to June 30, 2021, and from July 1, 2021 to September 30, 2021, December 31, 2021, March 31, 2022 and June 30, 2022.

32. The floor on primary budget balance of the central government will be adjusted downward (upward) by the amount by which the recapitalization of the BoU exceeds (falls short of) the projected amounts as set out in Schedule B.

Adjustor Related to Externally Financed Projects

Schedule C: External Financing Tied to Projects 1/
(USh billions)

	2021			2022	
	End-Jun	End-Sept	End-Dec	End-Mar	End-Jun
Project loans	4,450	1,234	2,821	3,776	5,152

1/ Cumulative flows from July 1, 2020 to June 30, 2021, and from July 1, 2021 to September 30, 2021, December 31, 2021, March 31, 2022 and June 30, 2022.

33. The floor on primary budget balance of the central government will be adjusted upward (downward) by the amount by which (both concessional and non-concessional) external financing tied to projects falls short of (exceeds) the projected amounts as set out in Schedule C. Any downward adjustment will be capped by 10 percent of the amounts set out in Schedule C.

Adjustor Related to the DSSI Relief

34. The floor on the stock of NIR of the BoU will be adjusted upward (downward) by the amount by which the DSSI relief exceeds (falls short of) the projected amounts as set out in Schedule D.

Schedule D: DSSI Relief 1/
(US$ millions)

	2021			2022	
	End-Jun	End-Sept	End-Dec	End-Mar	End-Jun
DSSI relief	0	107	121	121	121

1/ Cumulative flows from July 1, 2020 to June 30, 2021, and from July 1, 2021 to September 30, 2021, December 31, 2021, March 31, 2022 and June 30, 2022.

Adjustor Related to Direct Support Programs to Vulnerable Households

35. The floor on spending under direct support programs to vulnerable households will be adjusted upward (downward) by the amount by which spending under NUSAF and SCG exceeds (falls short of) the projected amounts as set out in Schedule E.

Schedule E: Direct Support to Vulnerable Households Under NUSAF, Urban LIPW and SCG 1/
(USh billions)

	2021			2022	
	End-Jun	End-Sept	End-Dec	End-Mar	End-Jun
Project grants		0	0	29	72

1/ Cumulative flows from July 1, 2020 to June 30, 2021, and from July 1, 2021 to September 30, 2021, December 31, 2021, March 31, 2022 and June 30, 2022.

Adjustor Related to the Proposed SDR Allocation

36. The floor on the stock of NIR of the BoU is expected to adjust upward by the same amount of the proposed SDR allocation.

Monitoring and Reporting Requirements

37. The Government of Uganda will submit information to IMF staff with the frequency and submission time lags as indicated in Table 1. The quality and timeliness of the data submission will be tracked and reported by the IMF staff. The information should be mailed electronically to AFRUGA@imf.org.

Attachment Table 1. Uganda: Summary of Reporting Requirements

Reporting Institution	Report/Table	Submission Frequency	Submission Lag
I. Bank of Uganda	Operations in the foreign exchange market and the level of BoU's international reserves	Weekly	5 working days
	Private sector credit growth by shilling and forex, and excess reserves of commercial banks	Monthly	5 working days
	Disaggregated consumer price index	Monthly	2 weeks
	Balance sheet of the BoU, consolidated accounts of the commercial banks, and depository corporations' survey	Monthly	4 weeks
	Monthly balances of net foreign assets, net domestic assets, and base money of the BoU	Monthly	4 weeks
	Details on the government position at the central bank including deposits broken down by i) government project accounts (both donor and government funded), and ii) administered funds (including the petroleum funds, agriculture credit facility and development finance scheme projects). Detailed information about the recording of the recapitalization of the central bank, and government securities that are used for monetary purposes.	Monthly	4 weeks
	Monthly foreign exchange cash flow table of BoU.	Quarterly	4 weeks
	Summary of (i) monthly commodity and direction of trade statistics;	Quarterly	6 weeks

Attachment Table 1. Uganda: Summary of Reporting Requirements (continued)			
Reporting Institution	**Report/Table**	**Submission Frequency**	**Submission Lag**
	Standard off-site bank supervision indicators for deposit money banks.	Quarterly	4 weeks
	Summary table of preliminary program performance comparing actual outcome with adjusted program targets for (i) net claims on central government by the central bank; (ii) new nonconcessional external borrowing; and (iii) net international reserves.	Quarterly	4 weeks
	Currency composition of the BoU's international reserves at end of each quarter.	Quarterly	6 weeks
II. Ministry of Finance	Summary of central government accounts. Revenues shall be recorded on a cash basis, with a breakdown including infrastructure levy. Expenditures shall be recorded when checks are issued, except for domestic and external debt-service payments,[1] cash transfers to districts & missions abroad, and externally funded development expenditures. Expenditures on domestic interest will be recorded on an accrual basis and external debt service will be recorded on a commitment basis (i.e., when payment is due).	Monthly	4 weeks
	Summary of the stock of arrears (or unpaid bills) by government entities contained in the central government votes as reported by the Accountant General and signed by the PS/ST.	Semi-annually	3 months
	Disbursements, principal and interest, flows of debt rescheduling and debt cancellation, arrears, and committed undisbursed balances—by creditor category.	Quarterly	6 weeks
	Summary of stock of external debt, external arrears, and committed undisbursed loan balances by creditor.	Quarterly	6 weeks

[1] The budget records domestic interest payments on cash-basis while for program purposes this entry will be reported on an accrual basis.

Attachment Table 1. Uganda: Summary of Reporting Requirements (concluded)			
Reporting Institution	**Report/Table**	**Submission Frequency**	**Submission Lag**
	Summary of contingent liabilities of the central government and the BoU. For the purpose of the program, contingent liabilities include all borrowings by statutory bodies, government guarantees, claims against the government in court cases that are pending, or court awards that the government has appealed.	Annual	6 weeks
	Provision of all government guarantees	Quarterly	6 weeks
	Detailed monthly central government account of disbursed budget support and project grants and loans (less change in the stock of project accounts held at the BoU and commercial banks), and external debt service due and paid.	Quarterly	4 weeks
	Privatization receipts	Quarterly	4 weeks
	Detailed central government account of disbursed donor project support grants and loans.	Monthly	6 weeks
	Statement on new external loans contracted or guaranteed by the central government and the BoU during the period according to loan agreements. Parliament resolutions on any new loans.	Quarterly	6 weeks
	Statement of (i) cash balances held in project accounts at commercial banks; (ii) total value (measured at issue price) of outstanding government securities from the Central Depository System (CDS); and (iii) the stock of government securities (measured at issue price) held by commercial banks from the CDS.	Quarterly	6 weeks
	Updated national accounts statistics (real and nominal) according to UBOS and medium-term projections.	Quarterly	12 weeks

INTERNATIONAL MONETARY FUND

UGANDA

June 15, 2021

REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—DEBT SUSTAINABILITY ANALYSIS

Approved By
Catherine Pattillo (IMF), Bikas Joshi (IMF), and Marcello Estevão and Asad Alam (IDA).

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

Risk of external debt distress	Moderate[1]
Overall risk of debt distress	Moderate
Granularity in the risk rating	Limited space to absorb shocks
Application of judgment	No

The authorities have responded to the COVID-19 shock with fiscal support measures leading to a temporary widening of the fiscal deficit and an increase in public debt. Given the planned unwinding of crisis measures and the implementation of fiscal consolidation, Uganda's public debt continues to be sustainable in the medium term.

With debt-carrying capacity revised from strong to medium, Uganda has shifted from low to moderate risk of external and overall public debt distress, with limited space to absorb shocks, relative to the DSA prepared for the disbursement under the Rapid Credit Facility in May 2020. All external PPG debt and total public debt burden trajectories remain below, albeit closer than in the last DSA to their respective indicative thresholds and benchmarks over the medium term under the baseline scenario. Nevertheless, stress tests highlight breaches of external debt burden thresholds and the public debt benchmark, especially in relation to export shocks. Key risks include a slower-than-expected recovery from COVID-19, an increased frequency of climate disasters, higher current spending jeopardizing the consolidation in expenditures, incomplete implementation of the Domestic Revenue Mobilization Strategy (DRMS), slow execution of investment projects, further delays, beyond 2025, in oil exports coming on stream, a shift in the composition of financing towards non-concessional loans, and a potential decline in the capacity and appetite of commercial banks to provide financing.

[1] Uganda's Composite Indicator signals a medium debt-carrying capacity based on the October 2020 WEO and CPIA 2019.

PUBLIC DEBT COVERAGE

1. **Public and publicly guaranteed (PPG) external and domestic debt covers debt contracted and guaranteed by the central government, state and local government, social security fund, and central bank** (Text Table 1). The Uganda Public Debt Management Framework 2013 gives the Ministry of Finance, Planning and Economic Development the mandate to prepare and publish quarterly Debt Statistical Bulletins. The published data covers PPG debt with information on domestic and external debt. In addition, the Bank of Uganda (BoU) provides data on locally issued government debt held by non-residents, which allows a residency-based analysis. However, due to data limitations, debt data does not cover several elements of the general government debt including extra budgetary funds and non-guaranteed debt issued by state-owned enterprise (SOE), although SOEs issue debt only in the domestic market. For the contingent liability stress test, the framework includes the disputed arrears to Tanzania (US$58 million or 0.1 percent of GDP),[2] estimates of SOE debt (9.1 percent of GDP) based on a preliminary report by AFRITAC East, the default PPP shock (i.e., 35 percent of PPP stock, implying 1.7 percent of GDP), and the default financial market shock (5 percent of GDP).

Text Table 1. Uganda: Coverage of Public and Publicly Guaranteed Debt and Parameters for Contingent Liability Shock

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

Subsectors of the public sector	
Central government	X
State and local government	X
Other elements in the general government	
o/w: Social security fund	X
o/w: Extra budgetary funds (EBFs)	
Guarantees (to other entities in the public and private sector, including to SOEs)	X
Central bank (borrowed on behalf of the government)	X
Non-guaranteed SOE debt	

The contingent liability tailored stress test

	Default	Used for the analysis
Other elements of the general government not captured in 1.	0 percent of GDP	0.1
SoE's debt (guaranteed and not guaranteed by the government)	2 percent of GDP	9.1
PPP	35 percent of PPP stock	1.7
Financial market (a minimum starting value of 5 percent of GDP)	5 percent of GDP	5
Total (in percent of GDP)		16.0

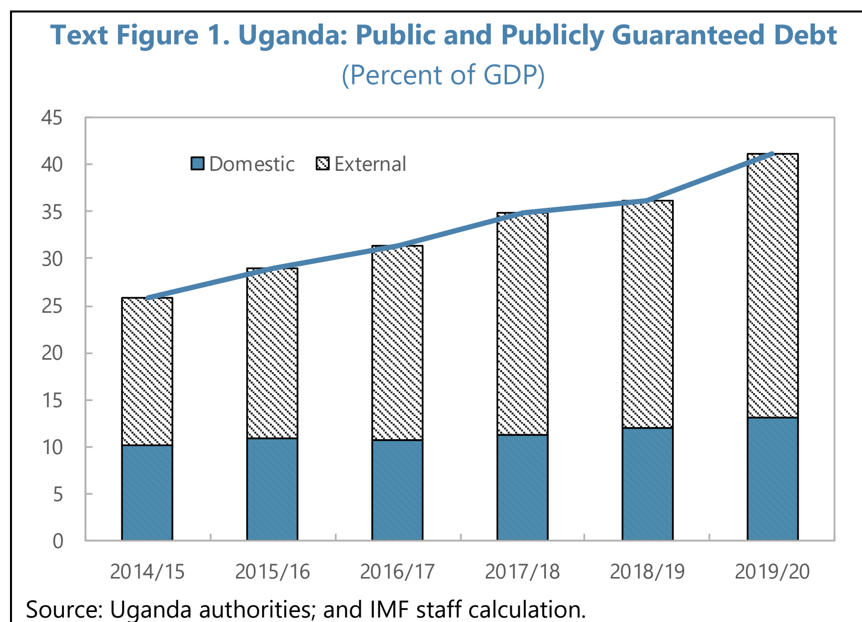
Source: Uganda authorities, IMF staff calculation.

[2] The arrears to Tanzania date back to the Uganda-Tanzania War in 1978-79, with an alleged lack of documentation of the debt, therefore the validity of these arrears is disputed and not included in total external debt. In contrast, arrears to Iraq (US$1,581) and Nigeria (US$19.3 million) are recorded in the official debt statistics. The Iraq and Nigeria arrears are pre-HIPC Initiative arrears to non-Paris Club creditors, which continue to be deemed away under the revised arrears policy for official creditors, as the underlying Paris Club agreement was adequately representative and the authorities continue to make best efforts to resolve the arrears.

BACKGROUND AND RECENT DEVELOPMENTS

2. Public debt has been increasing, reaching 40.8 percent of GDP at the end of FY2019/20 (Text Figure 1). The increase of almost six percentage points in FY2019/20 was primarily driven by external borrowing, with two-thirds of outstanding public debt owed to external creditors (US$10.7 billion or 28.6 percent of GDP) on a residency basis. Domestic debt amounts to about US$4.6 billion (12.3 percent of GDP). In present value terms, total public sector debt amounted to 33.2 percent of GDP at the end of FY2019/20.

Text Figure 1. Uganda: Public and Publicly Guaranteed Debt
(Percent of GDP)



Source: Uganda authorities; and IMF staff calculation.

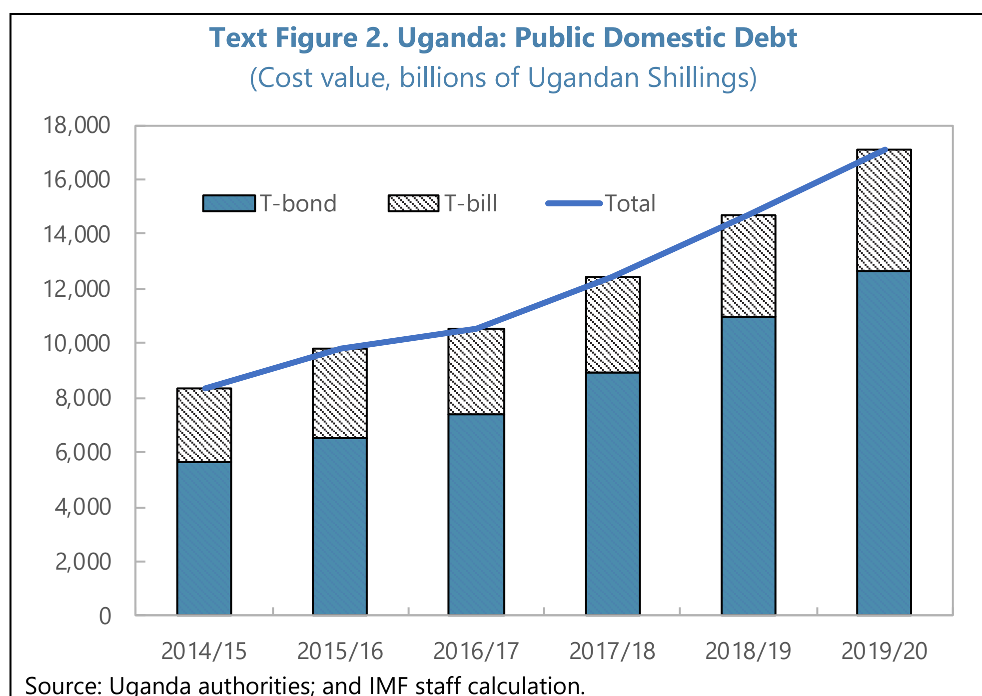
3. While most of the existing stock of external public debt is on concessional terms, the semi-concessional component has been on the rise in recent years. Highly concessional loans from the IMF, the International Development Association (IDA) and the African Development Fund (ADF) account for half of the external debt portfolio, which drives the difference between the nominal value of public debt and its present value (Text Table 2). Other concessional creditors include the International Fund for Agricultural Development (IFAD), the Arab Bank for Economic Development in Africa (BADEA), the Organization of the Petroleum Exporting Countries (OPEC) fund, and some bilateral Paris and non-Paris club creditors. The share of semi-concessional and non-concessional debt has been increasing in recent years. The increase in semi-concessional loans has been driven by official loans from the Export-Import Bank of China, reaching 22 percent of external public debt outstanding at the end of FY2019/20. In response to COVID-19, Uganda also resorted to commercial loans that constitute 7 percent of external public debt, mostly owed to the Trade Development Bank, the Standard Bank of South Africa, and Standard Chartered. Finally, local-currency government securities held by offshore investors amounted to close to 3 percent of external public debt.

Text Table 2. Uganda: Composition of Public and Publicly Guaranteed External Debt
(Millions of U.S. dollars, as of end-FY2019/20)

Creditor	Amount	Share
Total	**10,702**	**100.0%**
Bilateral	3,203	29.9%
ABU DHABI FUND	8	0.1%
AFD	167	1.6%
EXIM BANK OF CHINA	2,362	22.1%
EXIM BANK S KOREA	24	0.2%
GOVT OF NIGERIA	12	0.1%
IRAQ FUND	0	0.0%
JBIC	88	0.8%
JICA	222	2.1%
KUWAIT FUND	36	0.3%
MIN FOR AFF AUSTRIA	3	0.0%
SAUDI ARABIA FUND	35	0.3%
UKEF	245	2.3%
Commercial banks or other financial institutions	748	7.0%
AKA	8	0.1%
COMMERZBANK	2	0.0%
SBSA	280	2.6%
STANDARD CHARTERED	121	1.1%
TDB (PTA)	336	3.1%
Multilateral	6,421	60.0%
ADB	140	1.3%
ADF	1,364	12.7%
BADEA	61	0.6%
EIB	105	1.0%
IDA	3,601	33.6%
IDB	296	2.8%
IFAD	248	2.3%
IMF	498	4.6%
NDF	50	0.5%
OPEC FUND	58	0.5%
Publicly guaranteed external debt	29	0.3%
Local currency debt held by offshore investors	302	2.8%

Source: Uganda authorities, IMF staff calculation.

4. **Public domestic debt (residency based) is dominated by medium-to long-term securities.** T-bonds constituted around three-fourths of public domestic debt at the end of FY2019/20 (Text Figure 2). Moreover, almost half of T-bonds have a maturity of at least 10 years. T-bonds are mostly held by non-banks (around 70 percent), while T-bills were predominantly held by banks (around 80 percent).



Source: Uganda authorities; and IMF staff calculation.

MACRO FORECASTS

5. The medium-and long-term macroeconomic framework underlying this DSA is consistent with the scenario presented in the staff report (Text Table 3). The baseline scenario assumes the following:

- *Real GDP growth*. The growth outlook largely depends on the global recovery from the COVID-19 shock. In Uganda, 900,000 vaccines were received to cater for the most vulnerable groups (i.e., health workers, security personnel, and ages above 50 years). A stronger vaccination effort will take place in the second half of 2021 and well into 2022, with over US$120 million budgeted for purchases and administration of vaccines in FY21/22. Growth is expected at 3.3 percent in FY2020/21, half a percentage point below the projection in the RCF–less than half of the historical average–as external demand recovers only gradually. Over the medium term, growth is projected to return to above 6-7 percent, helped by an acceleration in private consumption due to pent-up demand, and the Final Investment Decision driving foreign and domestic private investment in oil infrastructure, in preparation of the start of oil production in FY2024/25.

- *Inflation*. Following an initial increase driven by demand recovery, inflation is projected to be in line with the BoU's 5 percent target over the medium term.

- *Oil revenue projections*. The Final Investment Decision was taken in April 2021 improving the likelihood of oil production in FY2024/25. Budget revenue net of oil-related expenditures is expected to peak at around 2 percent of GDP in FY2027/28 before gradually declining over the long term. Legislation and institutions have already been established, including the Uganda

Petroleum Fund, The Consolidated Fund, and the Petroleum Investment Fund to ensure fiscal sustainability over the longer run, which should help with managing the Dutch disease crowding out effects. The program also aims to help the authorities transition to a rules-based framework for oil revenue management.

- *Primary fiscal deficit.* The primary fiscal deficit is projected to widen in FY2020/21 partly on the back of COVID-19-related spending. In FY21/22, the large improvement is expected to be driven by the implementation of the DRMS,[3] a decline in both current and capital spending, including thanks to the unwinding of crisis measures, as well as the non-recurrence of one-off items such as the recapitalization of the Bank of Uganda and the on-lending to the Uganda Development Bank. After FY21/22, the cyclical improvement, the implementation of the DRMS, and the elimination of crisis measures will lead to a further improvement in the primary balance, notwithstanding a temporary deterioration associated with some large investment projects in FY24/25. Moreover, spending rationalization and greater spending efficiency under the ECF arrangement are expected to allow for higher social spending and the clearance of arrears during the program.

- *Debt Service Suspension Initiative.* External debt service of US$4 million and US$121 is assumed to be rescheduled from FY2020/21 to the period between FY2022/23 and FY2026/27, and from FY2021/22 to the period between FY2023/24 and FY2027/28, respectively, under the Debt Service Suspension Initiative.

- *Current account deficit.* The import-driven widening of the current account deficit in FY2020/21 will be offset by recovering tourism and remittance receipts from FY2021/22 onward, albeit subject to uncertainty around the pandemic and speed at which international tourism will rebound. This will be followed by a widening of the current account deficit on the back of oil-related investments until oil production expected in 2024/25 starts contributing to an improvement in the current account balance.

- *FDI inflows* are expected to continue to increase, more so than projected under the RCF, largely driven by investments in oil-related projects.

- *Gross official reserves* are expected to gradually rise over the medium term, on the back of an increase in FDI, the recovery of tourism, and the start of oil production

- *Financing mix.* Under the program, the limit on the present value of new external and publicly guaranteed external debt aims to both limit the accumulation of debt and prevent a heavy reliance on non-concessional external financing. Over the long term, financing is assumed to shift gradually towards less concessional debt.

[3] The implementation of the DRMS is projected to raise tax revenues by 0.5 percent of GDP per annum. Its approval is also a prior action under the IMF-supported arrangement.

Text Table 3. Uganda: Macroeconomic Assumptions

	Real GDP growth (percent change)		Primary balance (percent of GDP)		Current account (percent of GDP)		FDI inflows (percent of GDP)	
	RCF	Current	RCF	Current	RCF	Current	RCF	Current
2019/20	3.3	3.0	-5.0	-5.0	-10.1	-5.8	2.7	2.6
2020/21	3.7	3.3	-6.2	-7.1	-8.7	-9.2	2.9	2.0
2021/22	5.7	4.3	-3.0	-3.4	-5.5	-8.2	3.9	2.3
2022/23	6.0	6.4	-3.2	-0.9	-5.0	-8.6	4.1	5.3
2023/24	6.0	7.0	-2.5	-0.9	-3.8	-11.3	3.3	7.8
2024/25	9.2	7.2	-1.6	-1.3	-2.0	-13.2	3.6	9.7
2025/26	10.6	7.0	-1.2	-0.4	-0.5	-11.8	0.3	9.2
Avg 2026/27-2039/40	5.3	6.0	1.5	-0.9	-2.4	-7.0	0.2	4.0

Source: Uganda authorities, IMF staff projections.

6. **The realism tool outputs compared the projections to cross-country experiences and to Uganda's own historical experience** (Figures 3 and 4):

- There are small differences between past and projected debt creating flows. The contributions of past debt creating flows remain relatively the same for the projection period, and unexpected changes in public debt are near the median of the distribution across low-income countries. The smaller increase in average total public debt over the five-year projection horizon is accounted for by the unwinding of crisis measures and the fiscal consolidation under the ECF arrangement.

- Investment is expected to increase, with private investment offsetting a temporary decline in public investment. Relative to the last DSA, private investment has been revised upward, primarily due to higher estimated investments in the oil sector.

- The improvement in the primary balance over the next 3-years is in the top quartile of the distribution, reflecting the cyclical improvement in tax revenues, the unwinding of temporary crisis measures, as well as the adjustment following the fiscal policy response to COVID-19, including the implementation of the DRMS. Given that the first two factors are driven by the economic recovery from the COVID-19 shock, growth is expected to accelerate during the same period. Moreover, the growth outlook is also supported by the recovery in international demand and private investments as well as improved spending efficiency, including through stronger public investment management.

COUNTRY CLASSIFICATION

7. **Uganda's debt-carrying capacity is classified as medium, a downgrade from strong.** The classification of debt carrying capacity is guided by the composite indicator (CI) score, which is determined by the World Bank's CPIA and other variables, such as real GDP growth, import coverage of foreign exchange reserves, remittances, and growth of the world economy. The CI also incorporates forward-

looking elements with the calculation based on the 10-year average (5 years of historical data and 5 years of projection). Uganda's latest CI is 2.95, which lies between the threshold values of 2.69 and 3.05 corresponding to medium and strong capacity, respectively, thereby categorizing the country as having "medium" debt-carrying capacity. The resulting downgrade from "strong" at the time of the 2019 Article IV and the May 2020 RCF is mostly driven by lower global growth, followed by lower reserves and reduced growth in Uganda. As a result, the four external indicative thresholds and the total public debt benchmark, determined by the classification of the debt carrying capacity, have been adjusted downward (Text Table 4).

Text Table 4. Uganda: Composite Indicator, and Debt Thresholds and Benchmark

Debt Carrying Capacity	Medium

Final	Classification based on Oct 2020 vintage	Classification based on Oct 2019 vintage
Medium	Medium	Strong
	2.95	3.08

EXTERNAL debt burden thresholds	Weak	Medium	Strong
PV of debt in % of			
Exports	140	180	240
GDP	30	40	55
Debt service in % of			
Exports	10	15	21
Revenue	14	18	23

TOTAL public debt benchmark	Weak	Medium	Strong
PV of total public debt in percent of GDP	35	55	70

Source: IMF staff projections.

EXTERNAL DEBT SUSTAINABILITY

8. The evolution of external government debt suggests a sustainable path under the baseline (Table 1). Both solvency and liquidity indicators remain below their indicative thresholds over the projection horizon (Figure 1 and Table 3). Specifically, the PV of PPG external debt-to-GDP ratio peaks at 27.5 percent (against the threshold of 40 percent), while the PV of debt-to-exports ratio reaches 160.8 percent before gradually declining below 150 percent over the medium term (against the threshold of 180 percent). The liquidity indicators show a similar path. The debt service-to-revenue ratio peaks at 15.4 percent, well below the threshold of 18 percent, while the debt service-to-exports ratio is close to a one-off breach with its peak reaching 14.9 percent in FY29/30 against the indicative threshold of 15 percent. The weak export base is a source of potential debt vulnerabilities as both debt burden trajectories (debt-to-exports and debt service-to-exports) are on an upward trend after the first two years of oil production.

9. Stress tests and alternative scenarios indicate a moderate risk of debt distress rating. The PV of PPG debt-to-GDP ratio and the debt-service-to-revenue ratio remain under their respective thresholds even under the stress tests (apart from a short-lived breach in 2022/23 in the case of the latter), with the combined contingent liability shock and the depreciation being the most extreme shock, respectively. At the same time, the PV of debt-to-exports ratio and the debt service-to-exports ratio breach their respective

thresholds under several stress tests (Figure 1). Specifically, for the PV of debt-to-exports ratio and debt service-to-exports ratio, the most extreme shock is a shock to exports, with long-lasting breaches of the thresholds. Both indicators breach their thresholds under the combined shock and the combined contingent liability shock.

PUBLIC DEBT SUSTAINABILITY

10. The total public debt-to-GDP trajectory under the baseline shows a declining path (Table 2). The PV of public debt-to-GDP ratio peaks at 43.7 percent in FY2021/22, before declining towards 30 percent by FY2030/31 as oil export receipts ensue (Figure 2 and Table 4). This compares to an indicative benchmark of 55 percent for countries with medium debt-carrying capacity.[4] Notwithstanding the increase in the nominal level of public debt-to-GDP to above 50 percent of GDP over the next few years, the trajectory is expected to decline gradually over the medium-and long-run. The PV of debt-to-revenue ratio and the debt service-to-revenue ratio are expected to decline over the medium term, supported by the implementation of the DRMS and the oil-related revenue inflows from 2024/25 onward. Putting these indicators on a declining path is especially important given that commercial banks' capacity to purchase government securities could be negatively impacted by the increasing weight of those securities in their balance sheets.

11. The stress tests confirm that adding domestic debt to the analysis does not elevate the risk of debt distress. For the PV of debt-to-GDP ratio, the most extreme stress test is the contingent liability shock (Figure 2). Even under this shock scenario, however, the PV of total public debt-to-GDP ratio rises only slightly and temporarily above the benchmark of 55 percent and the ceiling of 50 percent of GDP in the Charter of Fiscal Responsibility. The debt burden indicator remains below the benchmark under all other shocks. The PV of total public debt-to-revenue ratio rises to slightly below 390 percent under the most extreme scenario of the contingent liabilities shock. The most extreme shock to public debt service is also the combined contingent liability shock, under which the debt service-to-revenue peaks at 70 percent.

CONCLUSIONS

12. Uganda's risk of external and overall public debt distress is moderate, with limited space to absorb shocks. External debt burden indicators and total public debt remain below their respective thresholds and benchmark throughout the projection horizon under the program scenario. The stress tests, however, indicate breaches of the thresholds and the benchmark. Although the PV of debt-to-GDP ratio and the debt service-to-revenue ratios indicate some space to absorb shocks without being downgraded to a high risk of debt distress, the PV of debt-to-exports and the debt service-to-exports ratios are close enough to its respective threshold that a median shock would lead to a breach (Figure 5).

[4] The government's Charter of Fiscal Responsibility requires public debt to stay below 50 percent of GDP in present value terms, which is also one of the convergence criteria for monetary union in the East African Community. The government's publicly stated debt ceiling is 50 percent of GDP in nominal terms.

13. Risks to the debt outlook are tilted to the downside. Given the sensitivity of the debt projections to growth and exports, a resurgence of domestic and external lockdown measures linked to another wave of COVID-19 constitutes a downside risk to the outlook. Risks around growth are further aggravated by the uncertainty around the execution of public investment projects, any further delay in oil production, and increased frequency of natural disasters due to climate change. Domestic risks include political pressures for higher current spending, poor prioritization of spending, the insufficient implementation of the DRMS, and a shift in the composition of financing towards non-concessional loans. On the upside, a faster than expected recovery from the pandemic and higher donor financing would help.

14. Mitigating debt risks requires sound macroeconomic management and strong/steadfast policy implementation. This includes:

- *Implementing the DRMS*. Given Uganda's relatively low revenue collection, the strategy is expected to include tax policy reforms, including a rationalization of exemptions, and tax administration reforms to improve compliance.

- *Strengthening overall public financial management (PFM), including efforts to avoid arrears.* The ongoing finalization of the international audit of domestic arrears (structural benchmark) should help the authorities in defining a clear time-bound repayment plan of past arrears by FY23/24. Complementary cash management reforms should include extending the Treasury Single Account to extra-budgetary units and externally funded projects and updating cashflow forecasts monthly as per international good practice.

- *Improving spending efficiency, including the strengthening of public investment management.* Priorities should include improving the use of medium-term fiscal envelope forecasts to achieve better project prioritization and capital expenditure budgeting. Publishing and adhering to clearly defined selection criteria is essential to avoid adding unplanned projects to the budget, and exercise rigorous public investment portfolio oversight.

- *Strengthening debt management.* In line with its medium-term debt strategy, public debt management in Uganda should continue to ensure that the government's financing needs, and its payment obligations are met at the lowest possible cost over the medium to long run, consistent with a prudent risk-taking. Better communication and coordination across government agencies, including on new borrowing plans, would further enhance debt management.

- *Improving debt transparency.* Over the last decade, Uganda has enhanced debt transparency, both in terms of fiscal reporting and publication of explicit and implicit debt and debt management information. However, debt transparency could be further enhanced through more data on state-owned enterprise debt and better communication.

- *Closely monitoring contingent liabilities.* Contingent liabilities have in general been one of the largest sources of fiscal risk across countries, since the materialization of contingent liabilities can contribute to unexpected increases in the debt-to-GDP ratio, crowding out private credit and jeopardizing debt sustainability. Efforts should be stepped up to estimate, disclose, manage, and

contain contingent liabilities, especially those in the financial sector, state-owned enterprises (including through their potential inclusion in government finance statistics), and PPPs.

- *Enhancing governance frameworks.* These are equally essential to safeguard the quality and effectiveness of public investment and other government spending. A better infrastructure and the impact of parallel reforms, e.g., improvements in the business climate, are expected to strengthen Uganda's competitiveness. Sound asset-liability management and avoidance of a premature reliance on uncertain future oil-related flows remain essential preconditions for debt sustainability.

AUTHORITIES' VIEWS

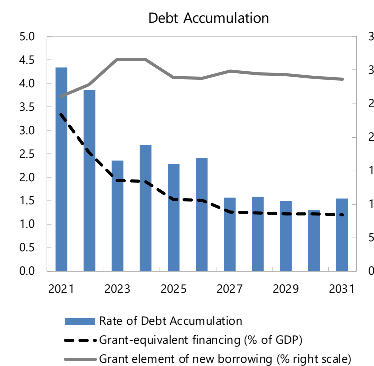
15. The authorities agreed with the assessment of the risk of debt distress. They also emphasized the importance of reducing public debt to below 50 percent of GDP over the medium term through the combination of the implementation of the DRMS and the unwinding of crisis measures introduced in response to COVID-19.

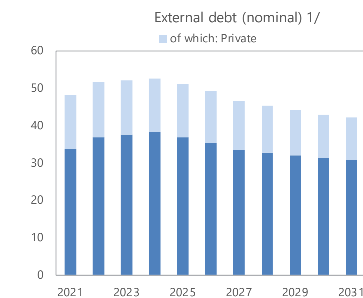
Table 1. Uganda: External Debt Sustainability Framework, Baseline Scenario, FY2017/18-2030/31

(In percent of GDP, unless otherwise indicated)

	Actual			Projections							Average 8/	
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2030/31	Historical	Projections
External debt (nominal) 1/	38.3	38.4	42.9	48.2	51.5	52.0	52.7	51.1	49.2	42.2	33.9	47.8
of which: public and publicly guaranteed (PPG)	24.4	24.1	28.6	33.7	36.9	37.5	38.2	36.8	35.4	30.7	19.9	34.8
Change in external debt	2.6	0.1	4.5	5.3	3.3	0.5	0.7	-1.5	-1.9	-0.8		
Identified net debt-creating flows	0.1	0.6	1.1	5.8	3.9	0.3	0.2	0.1	-0.5	1.6	0.0	1.3
Non-interest current account deficit	4.5	6.0	5.1	8.3	7.3	7.6	10.4	12.3	9.2	5.9	5.9	7.8
Deficit in balance of goods and services	0.2	1.2	1.5	3.9	2.8	3.5	6.1	7.7	4.9	2.2	1.1	3.6
Exports	16.9	18.1	14.8	15.4	17.2	17.2	17.3	16.8	16.9	14.7		
Imports	17.1	19.3	16.4	19.3	20.0	20.7	23.5	24.4	21.8	16.8		
Net current transfers (negative = inflow)	-4.8	-4.9	-4.8	-4.3	-4.1	-4.7	-5.1	-4.9	-4.7	0.0	-5.4	-4.5
of which: official	-0.4	-0.4	-0.4	-0.8	-0.5	-0.3	-0.3	-0.2	-0.2	0.0		
Other current account flows (negative = net inflow)	9.2	9.8	8.4	8.6	8.6	8.8	9.4	9.6	8.9	3.8	10.2	8.6
Net FDI (negative = inflow)	-2.8	-3.4	-2.6	-2.0	-2.3	-5.3	-7.8	-9.7	-9.2	-4.0	-3.4	-5.5
Endogenous debt dynamics 2/	-1.7	-2.0	-1.5	-0.4	-1.0	-2.1	-2.4	-2.5	-0.5	-0.3		
Contribution from nominal interest rate	0.7	0.7	0.7	0.9	0.9	1.0	1.0	0.9	2.7	2.0		
Contribution from real GDP growth	-2.1	-2.3	-1.1	-1.3	-2.0	-3.1	-3.4	-3.4	-3.2	-2.3		
Contribution from price and exchange rate changes	-0.3	-0.4	-1.1	...	...	...	...	...	...	...		
Residual 3/	2.5	-0.5	3.5	-0.5	-0.6	0.2	0.5	-1.6	-1.4	-2.4	0.8	-1.3
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators												
PV of PPG external debt-to-GDP ratio	...	...	20.9	24.3	26.7	27.0	27.5	27.0	26.1	22.8		
PV of PPG external debt-to-exports ratio	...	...	140.6	157.7	155.1	157.2	158.4	160.8	154.6	155.8		
PPG debt service-to-exports ratio	14.6	16.5	8.2	12.3	10.5	12.9	12.3	13.3	13.5	13.9		
PPG debt service-to-revenue ratio	20.5	23.7	9.8	14.4	13.0	15.4	14.3	14.3	13.3	11.7		
Gross external financing need (Million of U.S. dollars)	1,769	2,523	2,818	4,785	4,510	3,686	4,159	4,380	4,479	7,309		
Key macroeconomic assumptions												
Real GDP growth (in percent)	6.3	6.4	3.0	3.3	4.3	6.4	7.0	7.2	7.0	5.8	4.1	5.9
GDP deflator in US dollar terms (change in percent)	0.7	1.1	3.1	0.6	1.1	1.0	1.1	2.8	5.1	2.0	8.2	2.0
Effective interest rate (percent) 4/	2.1	2.1	2.0	2.3	2.1	2.1	2.0	2.0	5.8	4.9	1.8	2.7
Growth of exports of G&S (US dollar terms, in percent)	12.0	15.5	-13.0	7.7	17.8	7.4	9.1	6.6	13.4	2.1	5.3	10.3
Growth of imports of G&S (US dollar terms, in percent)	17.9	21.5	-9.7	22.6	8.8	11.5	22.6	14.8	0.5	6.4	4.6	13.5
Grant element of new public sector borrowing (in percent)	...	...	...	26.1	27.8	31.6	31.6	28.9	28.7	28.7	...	29.1
Government revenues (excluding grants, in percent of GDP)	12.0	12.6	12.4	13.1	13.8	14.4	14.9	15.5	17.1	17.5	12.2	14.8
Aid flows (in Million of US dollars) 5/	-1,684	-1,576	-1,984	1,646	1,426	1,072	970	707	752	981		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	3.3	2.5	1.9	1.9	1.5	1.5	1.2	...	2.1
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	39.1	37.4	38.5	36.6	34.2	32.6	33.5	...	36.4
Nominal GDP (Million of US dollars)	32,912	35,432	37,600	39,052	41,197	44,266	47,887	52,780	59,358	91,715		
Nominal dollar GDP growth	7.1	7.7	6.1	3.9	5.5	7.4	8.2	10.2	12.5	7.9	12.0	7.9
Memorandum items:												
PV of external debt 7/	...	...	35.2	38.8	41.2	41.5	41.9	41.3	40.0	34.3		
In percent of exports	...	...	237.3	251.8	239.7	241.4	241.8	246.1	236.3	234.1		
Total external debt service-to-exports ratio	21.2	25.1	33.3	39.3	35.0	34.9	35.0	33.8	44.8	41.2		
PV of PPG external debt (in Million of US dollars)			7,850	9,482	10,987	11,959	13,149	14,240	15,515	20,928		
(PVt-PVt-1)/GDPt-1 (in percent)				4.3	3.9	2.4	2.7	2.3	2.4	1.6		
Non-interest current account deficit that stabilizes debt ratio	1.9	5.9	0.6	3.0	4.0	7.1	9.7	13.8	11.1	6.8		

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.

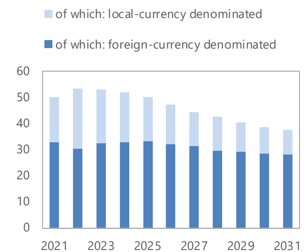
Table 2. Uganda: Public Sector Debt Sustainability Framework, Baseline Scenario, FY2017/18-2030/31

(In percent of GDP, unless otherwise indicated)

	Actual			Projections							Average 6/	
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2030/31	Historical	Projections
Public sector debt 1/	34.8	35.2	40.8	50.2	53.5	53.0	52.0	50.2	47.4	37.7	29.3	47.2
of which: external debt	24.4	24.1	28.6	33.7	36.9	37.5	38.2	36.8	35.4	30.7	19.9	34.8
Change in public sector debt	3.5	0.4	5.7	9.4	3.3	-0.5	-1.0	-1.7	-2.9	-0.9		
Identified debt-creating flows	2.9	0.8	5.2	9.5	3.3	-0.1	-0.7	-1.2	-2.3	-0.7	0.4	0.1
Primary deficit	2.2	3.0	5.0	7.1	3.4	0.9	0.9	1.3	0.4	0.7	2.1	1.3
Revenue and grants	12.7	13.5	13.2	14.6	14.7	14.9	15.3	15.9	17.4	17.7	13.4	16.5
of which: grants	0.6	0.9	0.8	1.5	0.9	0.5	0.4	0.3	0.3	0.2		
Primary (noninterest) expenditure	14.9	16.5	18.2	21.7	18.1	15.8	16.2	17.2	17.8	18.4	15.5	17.9
Automatic debt dynamics	0.6	-2.1	0.2	1.5	0.0	-1.0	-1.6	-2.5	-2.7	-1.4		
Contribution from interest rate/growth differential	-0.5	-0.9	0.3	0.9	-0.2	-1.2	-1.8	-1.8	-1.3	-1.1		
of which: contribution from average real interest rate	1.4	1.2	1.3	2.1	1.8	2.0	1.7	1.7	1.9	1.0		
of which: contribution from real GDP growth	-1.9	-2.1	-1.0	-1.3	-2.1	-3.2	-3.5	-3.5	-3.3	-2.1		
Contribution from real exchange rate depreciation	1.1	-1.3	-0.1	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.1	0.0	0.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1
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	0.0	0.0	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	1.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	0.6	-0.4	0.4	-0.2	0.0	-0.4	-0.3	-0.6	-0.6	-0.2	0.8	-0.5
Sustainability indicators												
PV of public debt-to-GDP ratio 2/	...	...	33.2	41.2	43.7	43.0	41.7	40.4	38.0	30.0		
PV of public debt-to-revenue and grants ratio	...	...	251.6	282.0	296.8	288.8	272.6	254.7	219.1	169.4		
Debt service-to-revenue and grants ratio 3/	59.3	49.0	46.1	55.7	55.9	51.4	40.5	39.3	36.5	24.1		
Gross financing need 4/	7.8	7.7	11.1	16.2	11.6	8.6	7.1	7.5	6.8	5.0		
Key macroeconomic and fiscal assumptions												
Real GDP growth (in percent)	6.3	6.4	3.0	3.3	4.3	6.4	7.0	7.2	7.0	5.8	4.1	6.0
Average nominal interest rate on external debt (in percent)	2.0	1.9	1.8	2.8	2.7	2.5	2.5	2.3	2.1	1.7	1.5	2.2
Average real interest rate on domestic debt (in percent)	-0.1	-0.2	0.3	1.3	0.8	0.6	0.6	0.3	1.1	0.7	-0.2	0.8
Real exchange rate depreciation (in percent, + indicates depreciation)	5.7	-5.6	-0.2	...	...	...	...	...	...	...	-4.2	...
Inflation rate (GDP deflator, in percent)	4.4	3.0	2.7	2.8	4.8	4.6	4.6	4.6	4.9	4.3	14.6	4.3
Growth of real primary spending (deflated by GDP deflator, in percent)	36.2	17.7	14.0	23.0	-13.0	-7.1	9.5	13.8	10.8	9.3	3.4	6.2
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-1.3	2.6	-0.6	-2.3	0.0	1.4	1.9	3.0	3.3	1.6	0.2	1.5
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.2	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, FY2020/21-2030/31

(In percent)

	Projections										
	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
PV of debt-to GDP ratio											
Baseline	**24.3**	**26.7**	**27.0**	**27.5**	**27.0**	**26.1**	**24.8**	**24.0**	**23.6**	**23.1**	**22.8**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2041 1/	24.3	23.8	23.4	23.2	22.5	23.3	22.3	22.4	22.3	21.6	20.8
B. Bound Tests											
B1. Real GDP growth	24.3	28.2	31.2	31.7	31.1	30.2	28.6	27.7	27.2	26.6	26.3
B2. Primary balance	24.3	27.4	28.6	29.1	28.6	27.7	26.4	25.7	25.3	24.7	24.4
B3. Exports	24.3	28.7	31.9	32.2	31.5	30.3	28.6	27.7	27.1	26.3	25.8
B4. Other flows 2/	24.3	28.5	30.5	30.8	30.2	29.1	27.5	26.6	26.1	25.3	24.9
B6. One-time 30 percent nominal depreciation	24.3	33.5	32.1	32.7	32.2	31.3	29.7	28.8	28.4	27.8	27.6
B6. Combination of B1-B5	24.3	31.1	34.1	34.4	33.7	32.5	30.8	29.7	29.1	28.3	27.9
C. Tailored Tests											
C1. Combined contingent liabilities	24.3	33.8	35.1	35.6	34.9	33.8	33.2	32.5	32.0	31.3	30.9
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	**40**	**40**	**40**	**40**	**40**	**40**	**40**	**40**	**40**	**40**	**40**
PV of debt-to-exports ratio											
Baseline	**157.7**	**155.1**	**157.2**	**158.4**	**160.8**	**154.6**	**139.7**	**142.6**	**145.8**	**149.0**	**155.8**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2041 1/	157.7	138.7	136.2	133.6	134.0	137.8	125.8	133.2	137.5	139.3	141.7
B. Bound Tests											
B1. Real GDP growth	157.7	155.1	157.2	158.4	160.8	154.6	139.7	142.6	145.8	149.0	155.8
B2. Primary balance	157.7	159.4	166.3	168.0	170.6	163.9	148.9	152.8	156.2	159.5	166.4
B3. Exports	157.7	**206.0**	**258.2**	**258.1**	**260.6**	**248.9**	**224.3**	**228.4**	**232.5**	**235.9**	**244.7**
B4. Other flows 2/	157.7	165.5	177.7	177.9	179.8	172.0	155.1	158.0	160.9	163.5	169.9
B6. One-time 30 percent nominal depreciation	157.7	154.5	147.9	149.6	152.3	146.7	132.7	135.7	138.9	142.4	149.3
B6. Combination of B1-B5	157.7	**199.4**	174.6	**220.8**	**223.4**	**213.8**	**192.8**	**196.5**	**200.0**	**203.5**	**211.6**
C. Tailored Tests											
C1. Combined contingent liabilities	157.7	**196.7**	**204.1**	**205.3**	**208.2**	**199.6**	**187.2**	**192.8**	**197.5**	**202.1**	**210.9**
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	**180**	**180**	**180**	**180**	**180**	**180**	**180**	**180**	**180**	**180**	**180**
Debt service-to-exports ratio											
Baseline	**12.3**	**10.5**	**12.9**	**12.3**	**13.3**	**13.5**	**12.5**	**12.7**	**13.2**	**14.9**	**13.9**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2041 1/	12.3	9.8	11.4	10.5	11.1	11.3	10.6	10.6	10.6	11.7	10.6
B. Bound Tests											
B1. Real GDP growth	12.3	10.5	12.9	12.3	13.3	13.5	12.5	12.7	13.2	14.9	13.9
B2. Primary balance	12.3	10.5	13.0	12.6	13.5	13.7	12.7	13.2	14.0	**15.8**	14.8
B3. Exports	12.3	13.0	**18.5**	**18.2**	**19.5**	**19.7**	**18.2**	**18.5**	**19.7**	**22.8**	**21.4**
B4. Other flows 2/	12.3	10.5	13.1	12.8	13.7	13.9	12.9	13.0	13.9	**15.9**	14.9
B6. One-time 30 percent nominal depreciation	12.3	10.5	12.9	12.1	13.1	13.3	12.3	12.5	13.1	14.5	13.5
B6. Combination of B1-B5	12.3	12.3	**16.7**	**16.1**	**17.3**	**17.5**	**16.2**	**16.4**	**17.6**	**19.9**	**18.6**
C. Tailored Tests											
C1. Combined contingent liabilities	12.3	10.5	14.0	13.6	14.5	14.7	13.5	13.9	14.5	**16.3**	**15.3**
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	**15**	**15**	**15**	**15**	**15**	**15**	**15**	**15**	**15**	**15**	**15**
Debt service-to-revenue ratio											
Baseline	**14.4**	**13.0**	**15.4**	**14.3**	**14.3**	**13.3**	**12.3**	**11.8**	**11.9**	**13.0**	**11.7**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2041 1/	14.4	12.2	13.6	12.2	12.0	11.2	10.5	9.9	9.6	10.2	8.9
B. Bound Tests											
B1. Real GDP growth	14.4	13.8	17.8	16.5	16.5	15.4	14.2	13.6	13.8	15.1	13.5
B2. Primary balance	14.4	13.0	15.5	14.6	14.6	13.6	12.5	12.3	12.6	13.8	12.4
B3. Exports	14.4	13.1	15.9	15.2	15.2	14.0	12.9	12.4	12.8	14.3	12.9
B4. Other flows 2/	14.4	13.0	15.7	14.9	14.8	13.8	12.7	12.2	12.6	13.9	12.5
B6. One-time 30 percent nominal depreciation	14.4	16.4	**19.4**	17.7	17.8	16.6	15.3	14.7	14.9	16.0	14.3
B6. Combination of B1-B5	14.4	13.9	18.0	16.8	16.8	15.5	14.3	13.7	14.3	15.6	14.1
C. Tailored Tests											
C1. Combined contingent liabilities	14.4	13.0	16.8	15.8	15.7	14.5	13.3	13.0	13.1	14.2	12.8
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	**18**	**18**	**18**	**18**	**18**	**18**	**18**	**18**	**18**	**18**	**18**

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.

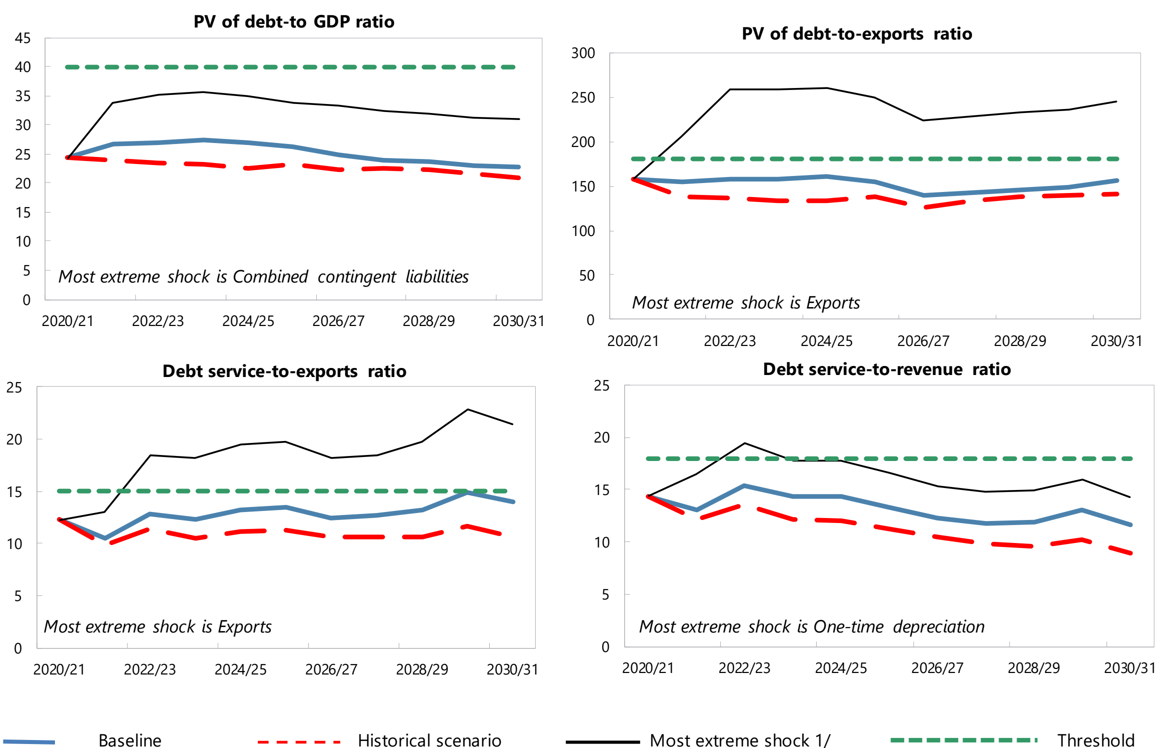
2/ Includes official and private transfers and FDI.

Table 4. Uganda: Sensitivity Analysis for Key Indicators of Public Debt, FY2020/21-2030/31

	Projections										
	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
PV of Debt-to-GDP Ratio											
Baseline	**41.2**	**43.7**	**43.0**	**41.7**	**40.4**	**38.0**	**35.8**	**34.1**	**32.3**	**30.7**	**30.0**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2041 1/	41	39	37	34	32	29	27	26	25	24	23
B. Bound Tests											
B1. Real GDP growth	41	47	51	52	51	50	49	49	49	49	50
B2. Primary balance	41	45	45	44	42	39	36	34	33	31	30
B3. Exports	41	46	48	46	45	42	39	37	36	34	33
B4. Other flows 2/	41	46	47	45	44	41	39	37	35	33	32
B6. One-time 30 percent nominal depreciation	41	48	45	42	39	35	31	29	26	23	22
B6. Combination of B1-B5	41	44	44	42	40	37	35	33	31	30	29
C. Tailored Tests											
C1. Combined contingent liabilities	41	**57**	**56**	54	51	48	45	43	40	39	38
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	**55**	**55**	**55**	**55**	**55**	**55**	**55**	**55**	**55**	**55**	**55**
PV of Debt-to-Revenue Ratio											
Baseline	**282.0**	**296.8**	**288.8**	**272.6**	**254.7**	**219.1**	**196.1**	**186.3**	**177.7**	**170.7**	**169.4**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2041 1/	282	267	248	226	202	169	150	142	137	132	130
B. Bound Tests											
B1. Real GDP growth	282	316	344	336	322	288	269	268	269	271	281
B2. Primary balance	282	306	304	285	263	224	199	188	179	171	169
B3. Exports	282	310	320	302	281	241	215	205	195	187	185
B4. Other flows 2/	282	309	313	295	275	236	211	201	191	183	181
B6. One-time 30 percent nominal depreciation	282	325	303	275	245	201	171	156	142	129	123
B6. Combination of B1-B5	282	296	295	273	252	215	192	182	173	166	164
C. Tailored Tests											
C1. Combined contingent liabilities	282	388	373	351	324	277	245	233	223	214	212
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	**55.7**	**55.9**	**51.4**	**40.5**	**39.3**	**36.5**	**30.3**	**33.9**	**29.8**	**30.4**	**24.1**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2041 1/	56	52	43	34	31	28	20	24	21	21	17
B. Bound Tests											
B1. Real GDP growth	56	59	60	49	49	46	40	47	44	46	40
B2. Primary balance	56	56	53	43	41	38	33	37	32	32	25
B3. Exports	56	56	52	41	40	37	31	34	31	32	25
B4. Other flows 2/	56	56	52	41	40	37	31	34	30	31	25
B6. One-time 30 percent nominal depreciation	56	54	52	42	41	38	32	34	31	31	25
B6. Combination of B1-B5	56	55	52	41	40	37	31	35	31	32	25
C. Tailored Tests											
C1. Combined contingent liabilities	56	56	70	48	45	41	48	41	34	34	28
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 Alternative Scenarios, FY2020/21-2030/31 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	2.2%	1.5%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	19	38
Avg. grace period	5	6

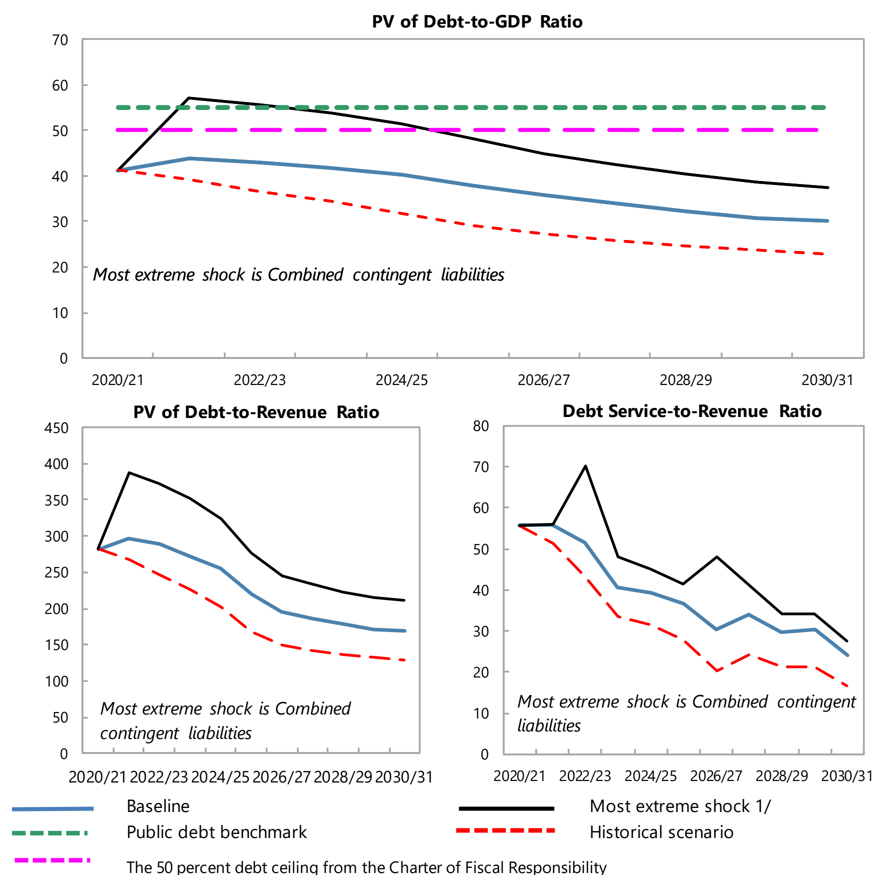
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

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 2031. 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, FY2020/21-2030/31



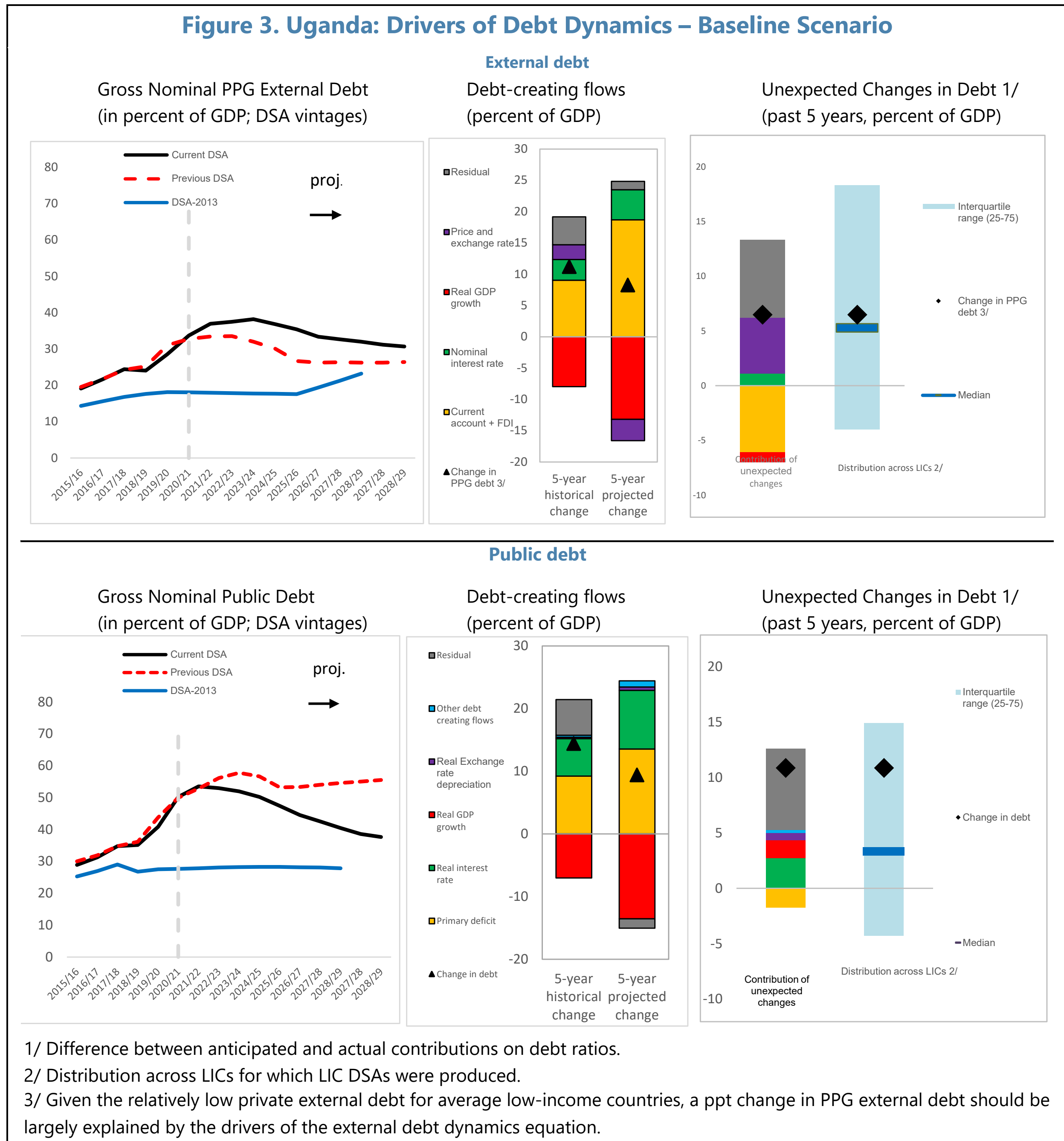
Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	60%	60%
Domestic medium and long-term	27%	27%
Domestic short-term	13%	13%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	2.2%	2.2%
Avg. maturity (incl. grace period)	19	19
Avg. grace period	5	5
Domestic MLT debt		
Avg. real interest rate on new borrowing	9.5%	9.5%
Avg. maturity (incl. grace period)	5	5
Avg. grace period	4	4
Domestic short-term debt		
Avg. real interest rate	6.0%	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 2031. 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.

Figure 3. Uganda: Drivers of Debt Dynamics – Baseline Scenario



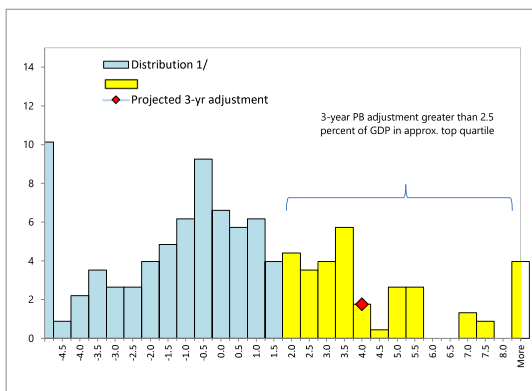
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

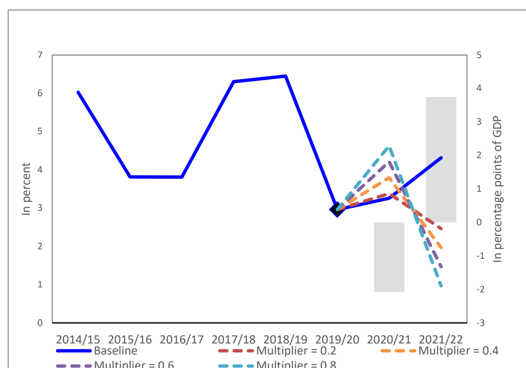
Figure 4. Uganda: Realism Tools

3-Year Adjustment in Primary Balance(Percentage points of GDP)



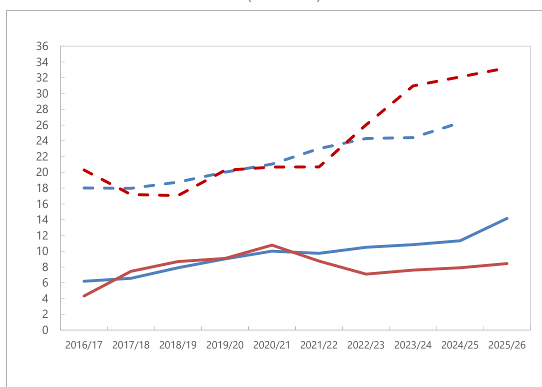
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(% of GDP)



Contribution to Real GDP growth
(percent, 5-year average)

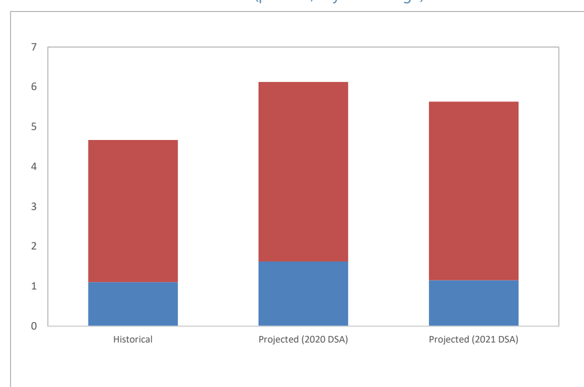


Figure 5. Uganda: Qualification of the Moderate Category, 2021-2031 1/

Sources: Country authorities; and staff estimates and projections.

1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.

INTERNATIONAL MONETARY FUND

UGANDA

REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—SUPPLEMENTARY INFORMATION

June 23, 2021

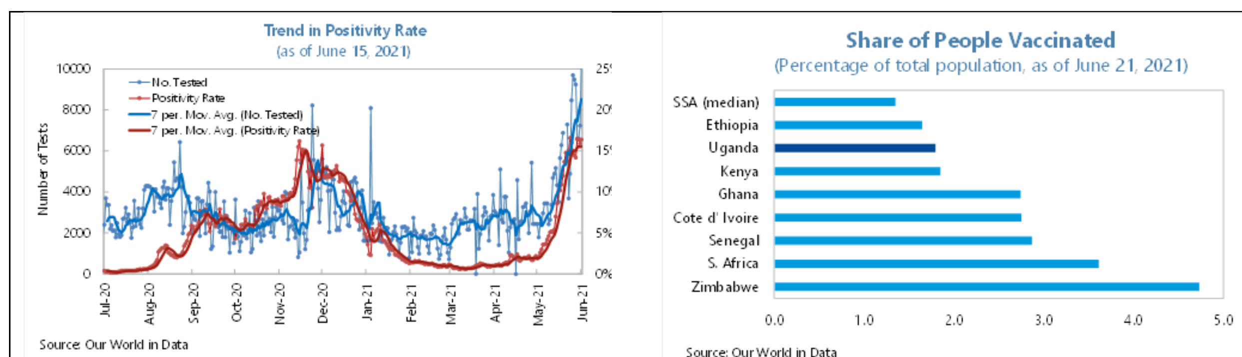
Approved By
Catherine Pattillo (AFR) and Bikas Joshi (SPR)

Prepared by the African Department, in consultation with other departments.

1. This supplement reports on the latest COVID-19 developments and on new information available to staff since the Staff Report was issued to the Board. It does not alter the thrust of the staff appraisal.

2. Strict lockdown measures have been introduced as a new COVID-19 wave hits Uganda. The COVID-19 positivity rate—which had already increased to 10 percent at the end of May—is now at 17.5 percent and rising. With only 2 percent of the Ugandan population vaccinated (and 900,000 doses administered) and hospitals reporting shortages of oxygen and capacity, President Museveni extended on June 18 the partial lockdown introduced earlier in June to a full lockdown for a period of 42 days (text table). While this lockdown is expected to impact economic activity in the next quarter, the authorities expect the full impact to be less than last year's, in view of borders remaining open and stronger external demand. As underlined under the program, they plan on using contingency measures identified—including reprioritizing non-essential capital projects—to ensure program objectives are achieved in case the new wave leads to revenue shortfalls and higher spending on health.

Containment measures introduced for 42 days announced on June 18
Mobility
Only vehicles of registered tourists/emergency/security/essential workers are allowed to move
Cargo truck drivers are tested at land-border crossings
Non-cargo cross-border movement, except for licensed tourist vehicles, is suspended
Food market vendors and factory workers stay in their places of work overnight
Curfew time is extended to 7 pm (from 9pm) - 5:30am
Closures
All schools and educational institutions
Places of worship, bars, sports and other mass events
Kikuubo and other business centers
Burials are restricted to the core family
Fully functioning sectors
Agriculture, industry, manufacturing, tourism, medical services, security, utilities, cargo transport, and goods distribution.



3. The Bank of Uganda (BoU) lowered the policy rate in its June Monetary Policy Committee (MPC) meeting. With core inflation (using new rebased CPI) at 3.1 percent year-on year in May, close to the lower band of the BOU's inflation target, the MPC announced on June 16 a 50 basis points cut in the policy rate to 6.5 percent, its lowest historical level under the inflation targeting framework. Staff supports the BOU's accommodative monetary policy stance in view of the downside risks to inflation, mainly reflecting the recently introduced lockdown, negative output gap, and uncertainties surrounding economic activity.

4. The COVID-19-related expenditure audit report for the first three quarters of FY20/21 has been finalized. This audit, which was completed under difficult circumstances, as the Office of the Auditor General staff was battling COVID-19, will be published after its presentation to Parliament later this year. While this audit will be updated when the full-year accounts become available, its main preliminary findings, covering an amount of Ush 2.4 trillion (1.6 percent of GDP, and of which donor financing represents 75 percent), revealed that some of the same weaknesses identified in the FY19/20 audit remain. In particular, some of the funds allocated to alleviate the impact of the COVID-19 pandemic were not used on time, including those channeled through the Uganda Development Bank, while others were used for unintended purposes. It also revealed that part of the acquired health equipment remained uninstalled due to lack of appropriate hospital infrastructure.

5. The authorities reiterated their commitment to strengthen governance in line with the Fund-supported program. In the June 21 swearing-in ceremony of the new cabinet, President Museveni stressed that the fight against corruption is one of the five priorities of the new Cabinet. As part of these efforts, the authorities reiterated they remain committed to address weaknesses raised in the Covid-19 audits, including those linked to the use of emergency procurement procedures.

Statement by Ms. Ita Mannathoko,
Executive Director for Uganda, and Ms. Gonaya Basutli,
Advisor to Executive Director
June 28, 2021

Introduction

1. Our authorities appreciate the constructive engagement during the recent negotiations for an arrangement under the Extended Credit Facility (ECF). We thank staff for an insightful and well-written report. The authorities broadly share staff's assessment and policy recommendations.

2. Notwithstanding the authorities' swift response to the COVID-19 crisis, supported by IMF and World Bank emergency financing, the pandemic has had a significant impact on Uganda, with deterioration in fiscal balances and intensified pressure on external buffers. An aggressive new wave is now underway, and the immediate priority is to limit the spread of the coronavirus disease. Access to vaccines needed for timely vaccination is therefore critical. The authorities envision that the ECF program will help efforts to overcome the pandemic and mitigate its impacts, while preserving macroeconomic stability, and positioning the economy for recovery.

3. Directors' support is sought for an arrangement amounting to SDR722 million under the Extended Credit Facility to navigate the highly uncertain outlook including risks associated with the emergence of new variants of the virus and rapid escalation in infections. The ECF arrangement is expected to play a catalytic role, unlocking additional donor support required to accelerate the vaccination campaign, and effectively tackle the resurgence of the pandemic. It will also buttress reforms geared at placing the country back on a path towards inclusive growth and sustainable development, as encapsulated in the National Development Plan (NDP) III, while backing measures to bolster good governance, transparency and accountability, further advancing the progress the authorities made in implementing governance reforms in line with the commitments made under the Rapid Credit Facility.

4. The authorities have a proven reform track record and have further demonstrated their commitment to reform through a range of prior actions and appropriate policies needed to reach the goals of the program.

Impact of the Pandemic, Recent Economic Developments and Outlook

5. An aggressive new wave of the pandemic is underway with daily infection rates having risen 17-fold to over 1700 in June, compared to less than 100 last month (Reuters' reporting on President Museveni's televised address). Deaths so far are 8 percent of those infected. The latest wave has necessitated renewed containment measures, with a lockdown and other restrictions set to last through end July 2021, with the potential to dampen the already limited recovery momentum, which falls short of what is required to reduce poverty and high unemployment.

6. In addition to the deterioration of fiscal balances, and intensified pressure on external buffers, the COVID-19 pandemic has halved growth, contributing to a decline in per capita GDP growth. In 2020, stringent lockdown measures coupled with the weak global economy, led to depressed economic growth. There was a sharp contraction in services and manufacturing output. Activity in other sectors such as tourism and transport also declined. Fortunately, economic activity improved in the last quarter of 2020 and for FY 2020/21, the Uganda Bureau of Statistics estimates real GDP to have grown by 3.3 percent owing mainly to strong household consumption. GDP is expected to grow by around 3-4 percent in 2021/22, improving in the medium term to around 6-7 percent as international demand and private investment recover.

7. Inflation picked up in 2020, reflecting pandemic-related developments. However, it has started trending downwards, with headline and core inflation falling to around 4 percent and 5 percent respectively, in April 2021, from peaks of 4.5 percent and 6.3 percent respectively, in October 2020. The decrease mainly reflects a reversal of the earlier rising trend in transportation costs and food prices. That said, newly rebased measures of inflation, which staff indicate will be used in the program, show lower inflation, with headline inflation at 1.9 percent and core inflation at 3.1 percent in May 2021, implying some room for policy maneuver. Core inflation is expected to remain within the 5 percent target for the duration of the program.

8. The current account deficit deteriorated from 5.9 percent of GDP in FY19/20 to an estimated 9.2 percent of GDP in FY20/21, reflecting a weaker trade balance and higher interest payments on public debt. International reserves have declined from 4.4 months import cover in FY19/20 to 4.0 months in FY20/21, below the EAC target of 4.5 months. After an initial decline, imports have begun to recover while remittances and tourism receipts remain subdued, implying an urgent need to increase reserve buffers. Going forward, the current account is likely to be shaped by further improvements in global demand and higher imports related to capital investment in oil projects.

The Authorities' Response to the Pandemic

9. When the pandemic struck, the authorities acted swiftly to contain the spread of COVID-19, instituting a four-month lockdown that successfully kept infection and mortality rates low. Emergency financing from the IMF and World Bank supported their multi-pronged response strategy. They deployed budgetary resources to the health sector for the purchase of medical equipment and vaccines, and to support households, firms, and employment. They also postponed tax payments, alongside other limited measures to contain scarring.

10. The Bank of Uganda maintained an accommodative monetary policy stance, with the Central Bank Rate reduced by a cumulative 200 basis points in April and June 2020. Other measures included dividend and bonus payment deferment by all Supervised Financial Institutions (SFIs) to ensure capital adequacy, liquidity support to institutions in need, and purchases of Treasury Bonds held by microfinance deposit taking and credit institutions to ease liquidity pressures. SFIs could also restructure loans as needed. Given the evolution of the pandemic, these measures have now been extended through September 2021.

11. At this juncture, the immediate priority is securing vaccines, and successful rapid rollout of vaccinations once vaccines are delivered. Last week, Uganda's health minister reported that

her country had received only 1.1 million vaccine doses for a population of 45 million (one dose for 2.4% of population or two doses for 1.2% of population), at the same time that the country was dealing with at least five COVID-19 variants with "very aggressive transmission".

12. Uganda's comprehensive national vaccine deployment plan aims to vaccinate 49.6 percent of the total population in a phased manner. The country has requested vaccines under various arrangements, including the COVAX facility. Budget support for vaccines of about US$139 million in FY2020/21 and US$122 million in FY 2021/22, has been allocated.

Macroeconomic Policies

13. The three-year ECF will backstop the authorities' goal to recover from COVID-19 in the near term while accelerating inclusive growth and sustainable development as articulated in the NDP III. The priorities of the NDP include maintaining public debt on a sustainable path while improving spending composition and providing space for much needed private investment. Structural reforms will include strengthening the governance framework and financial sector development and inclusion, consistent with the ECF program.

Fiscal Policy

14. Our authorities continue to seek an appropriate policy mix within government's financing constraints, to mitigate the impact of the COVID-19 crisis and support economic recovery. In the near-term, they are focused on crisis mitigation measures. The ECF program will also help close the financing gap and free up resources for priority social spending.

15. The authorities intend to contain widening fiscal deficits with pro-poor fiscal consolidation over the medium term, leading up to the time that new export projects under development come on stream and boost revenues. The domestic revenue mobilization strategy—which relies on both tax policy, and customs and revenue administration reforms, was recently adopted by the Ministry of Finance and the Commissioner of the Uganda Revenue Administration and is being implemented starting in FY21/22. It will add at least 0.5 percent of GDP in revenue a year in the medium term, with even higher revenue gains in the FY21/22 fiscal year. Planned reforms also include removal of some exemptions and increases in excise duties on fuel, measures to collect arrears, broadening the tax base and enhancing tax audits and investigations.

16. On spending, as space is created for much-needed investment, improvements in public investment management and composition and prioritization of spending are envisaged. In the medium-term, spending composition will shift to a higher share for education, health and social development, while rolling back security spending to normal levels. The authorities will target debt levels of 50 percent of GDP, as codified in the authorities' Charter of Fiscal Responsibility.

Monetary and Exchange Rate Policies

17. The authorities will maintain an accommodative monetary policy stance and focus on maintaining price stability in line with the 5 percent core inflation target. They recognize the importance of containing inflation and its associated impacts on the poor while curbing escalating costs for small businesses. The Bank of Uganda (BoU) will continue to monitor

price developments and respond appropriately, should core inflation breach the upper limit. The authorities also note that deficit financing has had a detrimental effect on the impact of monetary policy and expect the envisaged fiscal adjustment and reduced dependence on domestic financing to support policy effectiveness. The BoU will continue fine-tuning its liquidity forecasting and use liquidity management tools such as repos and FX swaps, while limiting its direct financing of fiscal operations in line with program requirements. Furthermore, following the July 2020 recapitalization of the central bank, the authorities intend to further recapitalize BOU and strengthen safeguards for institutional autonomy. Cabinet is expected to approve the amended central bank law in December 2021.

18. The authorities remain committed to the exchange rate flexibility required to adjust to external shocks. They will continue to limit foreign exchange interventions to smoothing out excess volatility.

Financial Sector Policies

19. The financial system remains liquid and well-capitalized, and stress tests show that banks remain resilient to capital risk. That said, the authorities remain vigilant and committed to ensuring financial sector stability. The 2020 Financial Institutions Regulations aimed at enhancing resilience, introduced capital buffers, while Domestic Systemically Important Banks were encouraged to hold additional capital. The authorities will ensure adherence to loan classification and provisioning rules as well as prudential and accounting requirements. They will also enhance bank oversight and follow through with the transition to Basel II and III, strengthen bank supervision, enhance the resolution framework, and modernize the financial market infrastructure, while guarding against cyber risks.

20. The authorities plan to strengthen the AML/CFT framework and are working together with the Financial Action Task Force towards full implementation of the grey list action plan. They are also working to ensure compliance following the adoption of the National AML/CFT Strategy.

Structural Reforms

21. The authorities' structural reform agenda is aimed at strengthening governance while fostering private sector activity and enhancing human capital development. Reforms include measures to improve transparency and accountability, and to reduce the cost of doing business and foster financial inclusion. On transparency, the authorities have published the independent audit report on expenditure arrears as well as the first annual tax expenditure statement for FY2019/20. They have also taken advantage of ongoing Fund technical assistance to create a system for tracking COVID-19 spending. They published a comprehensive COVID-19 spending report for FY2019/20, and a list of procurement contracts; and conducted and published an independent audit of COVID-19 spending. Furthermore, they have committed to improve the asset declaration regime during the program, and plan to leverage the enhanced regime to fight corruption vulnerabilities.

22. The authorities are committed to tackling corruption and are prioritizing the implementation and enforcement of the anti-corruption legal framework. Uganda recently joined the Extractive Industries Transparency Initiative (EITI), and, as part of their commitments to the EITI, the authorities stand ready to disclose contracts and licenses for oil and gas production

and beneficial owners of corporate entities that hold legal interests. More broadly, the authorities will establish legal and regulatory mechanisms for timely access to accurate and basic beneficial ownership information to strengthen governance.

23. In addition to ongoing work to reduce legal and administrative impediments to doing business, the authorities' pro-business reforms will support efforts to increase the value of manufactured exports in total exports, improve access to electricity for processing and manufacturing enterprises and improve ICT access, quality and coverage.

Conclusion

24. The Ugandan authorities remain committed to maintaining macroeconomic stability even as they work to exit from the COVID-19 crisis, and to support sustainable growth and an inclusive recovery. They envision a transition to higher middle-income status by 2040. The authorities look forward to the support of Executive Directors for this arrangement under the ECF.