INTERNATIONAL MONETARY FUND

IMF Country Report No. 22/77

UGANDA

March 2022

2021 ARTICLE IV CONSULTATION AND FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUESTS FOR MODIFICATIONS OF PERFORMANCE CRITERIA—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR UGANDA

In the context of the 2021 Article IV Consultation and First Review under the Extended Credit Facility Arrangement and Requests for Modifications of Performance Criteria, 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 and summarizing the views of the Executive Board as expressed during its March 9, 2022, consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 9, 2022, following discussions that ended on December 8, 2021, with the officials of Uganda on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on February 23, 2022
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staff[s] of the IMF and the World Bank.
- 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

PR22/70

IMF Executive Board Concludes First Review Under the Extended Credit Facility Arrangement and 2021 Article IV Consultation with Uganda

FOR IMMEDIATE RELEASE

- The Ugandan authorities are implementing their reform agenda steadfastly, in a complex environment still marked by the pandemic, and remain committed to the Extended Credit Facility Arrangement.
- The IMF Board today completed the first review of the ECF Arrangement and 2021 Article IV Consultation with Uganda. Approval of the first review enables the immediate disbursement of about US$ 125 million.
- Implementation of structural reforms—including through continued progress in strengthening governance—along with reduced financing needs and improved budget composition will help enhance private sector growth and improve social outcomes.

Washington, DC – **March 9, 2022:** The Executive Board of the International Monetary Fund completed the first review of the Extended Credit Facility (ECF) Arrangement and 2021 Article IV Consultation[1] with Uganda. The completion of the first review allowed an immediate disbursement equivalent to about US$ 125 million for budget support, bringing the aggregate disbursement-to-date to US$ 385 million.

Uganda's ECF Arrangement for a total of SDR 722 million (200 percent of quota) or about US$ 1 billion at the time of program approval on June 28, 2021 (see Press Release 21/197), is aimed at supporting the near-term response to the COVID-19 pandemic and boosting more inclusive private sector-led long-term growth. Reforms focus on creating fiscal space for priority social spending, preserving debt sustainability, strengthening governance, and enhancing the monetary and financial sector frameworks.

The authorities have skillfully managed the second wave of the pandemic in July last year, which has however implied a lower growth rebound, and some additional fiscal support to cushion the revenue shortfall from the lockdown and expand cash transfers to the vulnerable. Real growth was revised down to 3.8 percent from 4.3 percent for FY21/22. The fiscal deficit will be higher than programmed at the time of the ECF approval (7.5 percent of GDP, up from

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

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6.5 percent) to accommodate new demands on security and social sectors approved in the supplementary budget. The social impact of the pandemic is, however, profound, with deep scars on human capital potentially persisting over the medium term.

In spite of a challenging environment and some technical and legislative delays, all quantitative performance criteria were met, and the reform agenda implementation is progressing. Of note, progress was made in strengthening fiscal transparency, the budgetary planning framework and the governance framework by: (i) institutionalizing the use of guidelines for prioritizing public investments and a framework for rationalizing tax expenditures, (ii) tracking, auditing, and publishing of COVID-19 spending and (iii) upgrading the anti-corruption legislation, among others.

At the conclusion of the Executive Board's discussion, Mr. Bo Li, Deputy Managing Director and Acting Chair stated:

"The Ugandan authorities remain firmly committed to their economic program amidst a challenging environment. Program performance has been satisfactory. All quantitative targets were met, except one, and all but three structural benchmarks for 2021 were completed.

"The slight relaxation of the fiscal deficit in fiscal year 2021/22 relative to the programmed target was necessary to mitigate the impact of the pandemic's second wave and address higher security tensions. Returning to the programmed fiscal consolidation path remains essential to keep debt sustainable while creating more space for private sector credit. Enhanced domestic revenue mobilization, rationalization of non-priority spending, and shifting the composition of spending towards priority social areas will help achieve the fiscal objectives and address Uganda's large development needs. Improving budget preparation—including through fewer supplementary budgets— and strengthening cash and arrears management remain essential.

"The banking system is well-capitalized and financial stability risks should continue to be minimized. Further monetary policy accommodation is needed as fiscal support is removed but uncertain external conditions call for monetary policy to remain data dependent. Greater exchange rate flexibility is needed to preserve external buffers, with foreign exchange interventions limited to smoothing excessive exchange rate fluctuations.

"Accelerating the momentum on structural reforms is essential to limit pandemic scars and help move Uganda towards its goal of middle-income status. Progress on governance reforms—including through regular audits of COVID-19 expenditures, publication of beneficial owners' information and enhanced scrutiny of politically exposed persons—should be sustained. Accelerating financial inclusion, fostering climate adaptation policies and improving trade integration are also essential for building a faster-growing greener economy."

Table 1. Uganda: Selected Economic Indicators, FY2019/20-2022/23

	2019/20 Act.	2020/21 Act.	2021/22 Proj.	2022/23 Proj.
Output				
Real GDP Growth (%)	2.9	3.4	3.8	6.0
Prices				
Headline Inflation - average (%)	2.3	2.5	3.5	4.6
Core Inflation - average (%)	2.2	3.5	3.0	4.4
Central Government Finances (FY)				
Revenue (% GDP)	13.2	14.4	14.8	14.6
Expenditure (% GDP)	20.3	23.7	22.2	19.3
Primary Balance (% GDP)	-5.0	-6.7	-4.4	-1.8
Fiscal Balance (% GDP)	-7.1	-9.4	-7.5	-4.7
Public Debt (% GDP)	41.9	49.1	52.9	53.1
Money and Credit				
Broad Money (% change)	23.2	8.5	9.1	11.5
Credit to Private Sector (% change)	8.8	8.3	12.0	13.5
Policy Rate, EOP (%)	7.0	6.5	6.5	…
Balance of Payments				
Current Account (% GDP)	-6.7	-10.2	-8.0	-8.8
Reserves (in months of next year's imports)	3.9	4.2	3.8	3.3
External Debt (% GDP)	28.6	31.7	34.1	34.1
Exchange Rate				
REER (% change)	2.3	1.3	…	…

INTERNATIONAL MONETARY FUND

UGANDA

February 23, 2022

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION AND FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA

EXECUTIVE SUMMARY

Context. The authorities have reacted to the COVID-19 crisis in an appropriate manner, including through increased spending on health and a rollout of the vaccination program. Nevertheless, the deterioration of socio-economic indicators during the pandemic could create scars that would significantly lower growth if left unaddressed.

Program status. In June 2021, the IMF's Executive Board approved a 36-month arrangement under the Extended Credit Facility (ECF) in an amount equivalent to 200 percent of quota. Full implementation of the ECF-supported program will help support Uganda's economic recovery from the COVID-19 crisis and boost the country's growth potential, thereby contributing to the achievement of the SDGs over the long run.

Program performance. Program performance has been broadly satisfactory, against the backdrop of a challenging environment. All end-September QPC and ITs were met, with the exception of the IT on tax revenues against the backdrop of the slowdown in the economy. Despite some delays, all but three structural benchmarks for 2021 were completed. The benchmarks on the beneficial ownership registry, the upgrade of the national social registry, and the introduction of a sanction regime for unauthorized spending have not been completed and were reset for end-June 2022 to allow for inter-agency consultations, and proper legislative and technical requirements.

Requests. The Ugandan authorities request modification of the QPCs for March 2022 on the primary balance to reflect the slowdown of the economy and the fiscal response to the second wave of the pandemic; on the net claims on the government by the central bank to reflect tighter financing conditions and higher financing need; on the PV of new external borrowing on the back of delays in the case of some loans; and higher net international reserves to demonstrate their continued commitment in maintaining an adequate level of external buffer in light of riskier composition of external financing.

Risks to the program. Further waves of COVID-19 and rising security challenges represent the main risks. Uganda's moderate level of public debt and continued access to concessional financing would provide space to still achieve program objectives.

Approved By
Catherine Pattillo and Bikas Joshi

The mission team consisted of Mr. Mati (head), Messrs. Bannister, Csonto, and Melina (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. Sozi (local economist). Discussions were held remotely from Washington DC during November 29 – December 8, 2021, and in Kampala during December 9 – December 16, 2021. The team met with his Excellency Mr. Museveni, President of Uganda; Mr. Kasaija, Minister of Finance, Planning and Economic Development; Mr. Kamuntu, Minister of Water and Environment; Mr. Ggoobi, Permanent Secretary and Secretary to the Treasury; and Mr. Atingi-Ego, Deputy Governor of the Bank of Uganda (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. Abu Sharar, Mr. Ouattara and Ms. Khandelwal provided excellent assistance for the preparation of this report.

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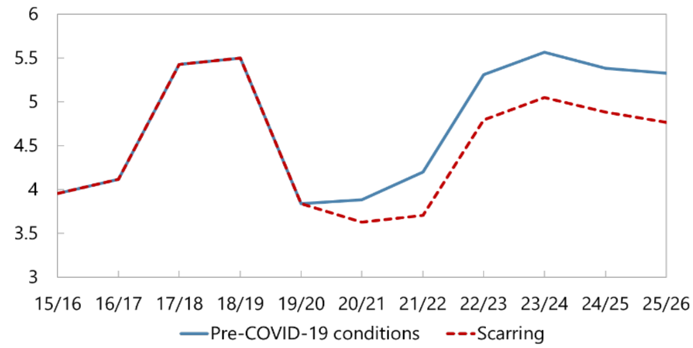
CONTEXT

1. The COVID-19 pandemic has exacerbated Uganda's development challenges. The growth recovery of 2017-18—which started reversing the slowing per capita income growth observed since 2011—came to a halt in FY19/20 following a collapse in external demand and stringent lockdown measures introduced to alleviate the impact of the COVID-19 pandemic. By June 2021, Uganda's poverty ratio worsened, formal employment fell, subsistence agriculture increased, private savings declined, child labor rose, and schools remained closed (Box 1). If left unaddressed, the impact of the COVID-19 pandemic could create scars that would significantly lower potential growth, in the face of the continuing challenge to create at least 600,000 jobs per year for Uganda's growing population.

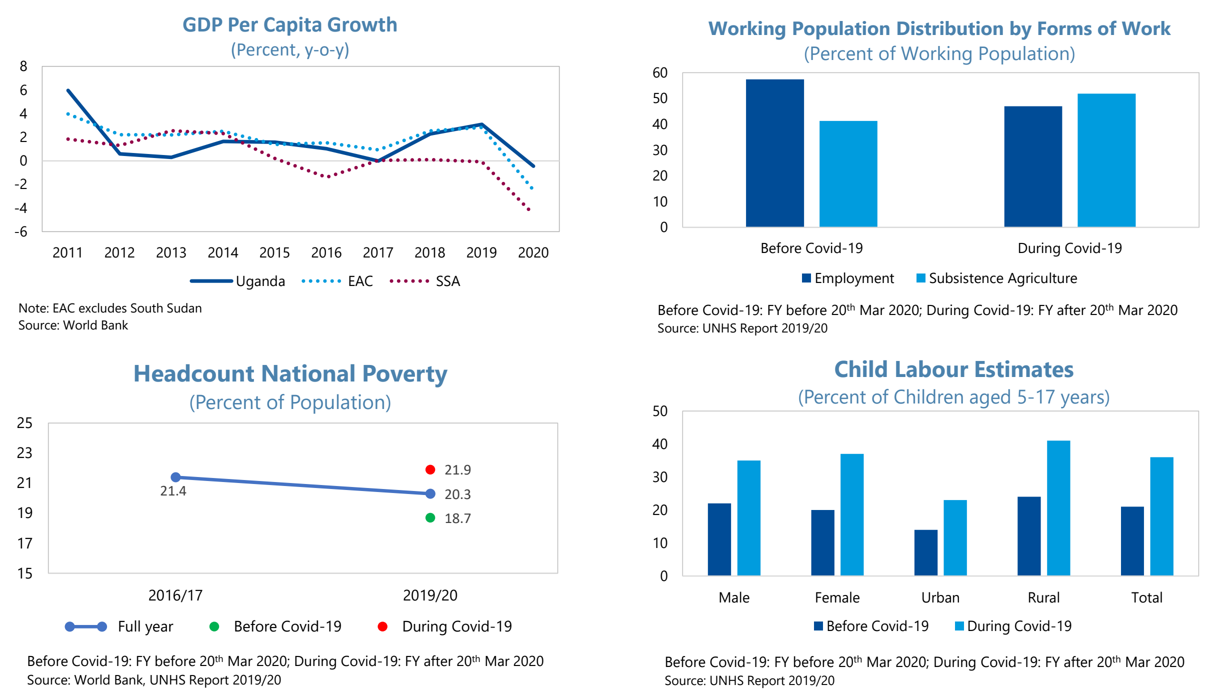
Text Figure. Potential Real Non-oil GDP[1,2]

(Percent, y-o-y change)



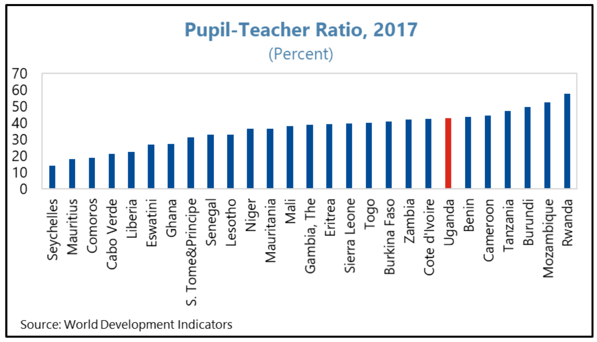
1/ Potential real GDP is estimated with the production function approach
2/ Scarring effects are computed using estimates in June 2020 GEP by World Bank
Sources: Ugandan authorities, World Bank and IMF staff estimates and projections

Text Figure. Growth and Social Indicators

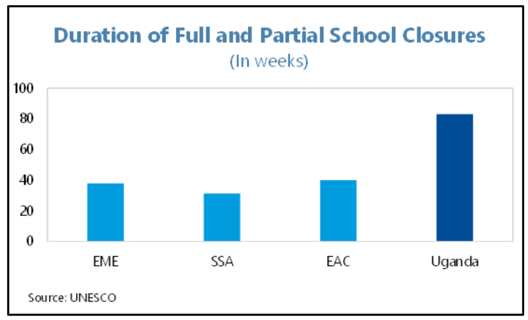


Box 1. Bringing Uganda's Students Back in School Durably

The education system in Uganda has been under strain before the pandemic. At only 3 percent of GDP in 2020, public education expenditure has failed to keep up with the growing number of pupils. Private schools, which rely on fees and commercial loans, play a significant role in bridging the gap. But poor educational outcomes prevail across the system, as primary completion rates are low and student/teacher ratios are high. Average years of schooling are below the SSA average.



The lockdown has made the situation worse, potentially leaving scars for years to come. Between March 2020 and January 2022, schools were closed for 83 weeks, the longest period in the world. Limited access to technology and low electricity penetration, especially in rural areas, precluded virtual learning during school closures. In at least half the primary schools and two-thirds of the secondary schools, students could not learn because of casual labor. Schools provide more than education in Uganda: they ensure social inclusion, a safe environment, nutrition, and access to vaccination. Between March 2020 and June 2021, there was a 22.5 per cent increase in pregnancies among girls aged 10-24.



The government has launched measures to facilitate school reopening in January 2022. Private schools in financial distress can tap into the recovery fund for SMEs while BoU has directed banks to continue providing credit relief for the education sector upon expiration of initial measures. For public schools, the near-term funding gap as of December 2021 is estimated at Ush 162 billion, as new investment is needed in many schools that were abandoned and permanently damaged during the lockdown. A review of the learning curricula is also underway.

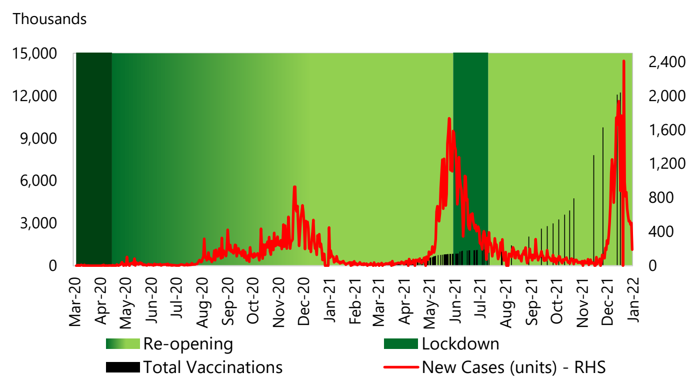
Focus Area	UShs. bn
Promotion of Community-Led Learning (CLL)	78.7
Revision of the school curriculum	2.4
Review of the current formative and summative assessment systems	2.0
Re-orientation of tutors and lecturers	3.4
Strengthening COVID-19 surveillance system in schools	72.2
Promotion of safe learning	3.0
Total	**161.7**

Source: Ministry of Education and Sports

Higher public spending and broad-based interventions are needed to bring Uganda's students back in school safely and durably. Even before COVID-19, households faced steep out-of-pocket expenses for schooling, including in the public system that accounted for 58, 63 and 78 percent of the average per-pupil costs of primary, lower, and upper secondary schooling, respectively. Bringing pupils back in school will entail lowering costs for families and increasing teachers' wages to bring them back into teaching from other professions with more stable incomes they are currently occupying. With students behind on learning targets, adjusting the level of instruction to capabilities will be more important than closing the learning gap quickly, which will require tailoring special educational programs and instructional materials at additional cost.

2. **The authorities have undertaken timely and commendable actions to counter the impact of COVID-19 on Uganda's economy and livelihoods**. They have increased fiscal support while utilizing higher concessional financing, eased the policy rate to its lowest level since inflation targeting was introduced, and put in place extraordinary liquidity support and credit relief measures (EBS/21/141). During the recent June-July lockdown, the authorities also mobilized funding for emergency COVID-19 cash transfers while vaccinations have picked up (Text Figure). Against a backdrop of declining COVID-19 cases and a full reopening of the economy in January 2022, the ECF-supported program is also expected to help accelerate sustainable growth and development and to mitigate the potential effects of scarring, including through spending prioritization and enhancing governance and public sector accountability.

Text Figure. COVID-19 Developments



Source: Our World in Data

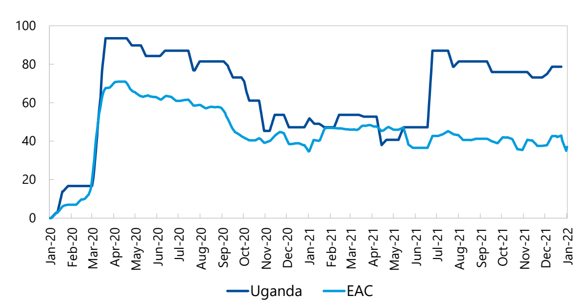
3. **Full implementation of the ECF-supported program is needed for Uganda to recover from the COVID-19 crisis and avoid permanent scars to the economy.** Recommendations of the 2019 Article IV were broadly implemented but had to be adjusted to mitigate the impact of the COVID-19 crisis (Annex I). While progress on the ECF-supported program is good, the structural reform agenda has been progressing at a slower pace than initially envisaged. Downside risks remain high, with the recent IS-claimed terrorist attacks in Kampala creating additional pressures for higher security spending.

RECENT ECONOMIC DEVELOPMENTS

4. **Economic activity is gradually recovering.** At 3.4 percent, growth in FY20/21 remained at about half its pre-COVID level. The rapid resumption of activity registered in Q3/Q4 of FY 20/21, once the first four-month lockdown ended and external demand improved, was not enough to offset the severe contraction earlier in the year. The partial lockdown of June-July 2021, introduced to mitigate the impact of the second wave, initially slowed the recovery (Text Figure). This is currently gaining momentum as leading indicators show some strengthening of activity, including employment rising for the first time in six months (Text Figure).

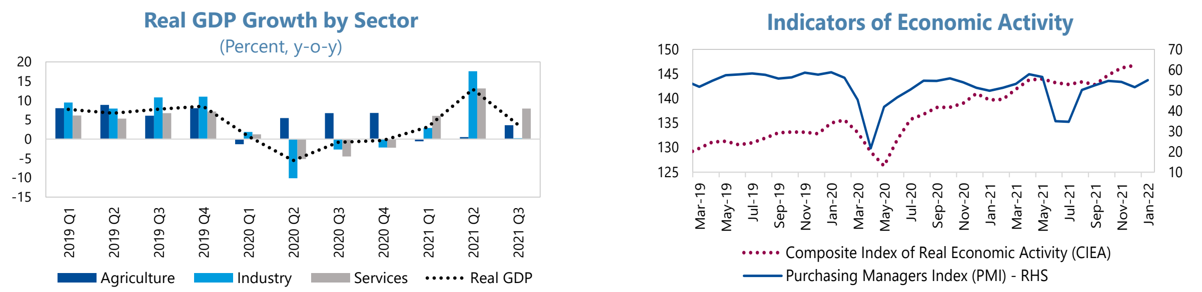
Text Figure. Stringency of Lockdowns

(Index, max. = 100)



Source: Oxford COVID-19 Government Response Tracker

Text Figure. Economic Activity

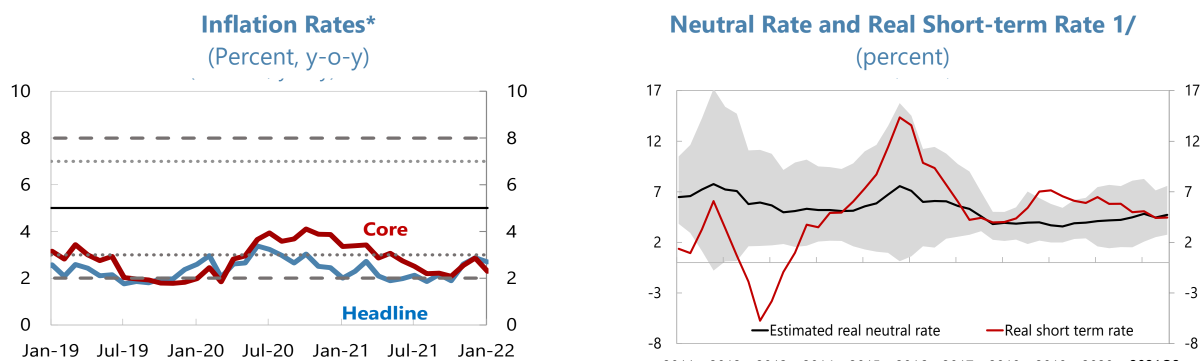


Source: Haver, IMF staff calculations

Source: Haver

5. Inflation remains well below the BoU's target of 5 percent. Figures from the new rebased Consumer Price Index recently show core inflation at about 2.5 percent and significantly below target since May 2017. During the same period, headline inflation remained below 3 percent, despite rises in food, energy, and transportation prices. Nonetheless, since June 2021, the Monetary Policy Committee has kept the policy rate unchanged at 6.5 percent, a value broadly in line with a neutral rate, as concerns about monetary policy normalization in advanced economies and capital outflows offset worries about domestic excess capacity.

Text Figure. Inflation and Interest Rates

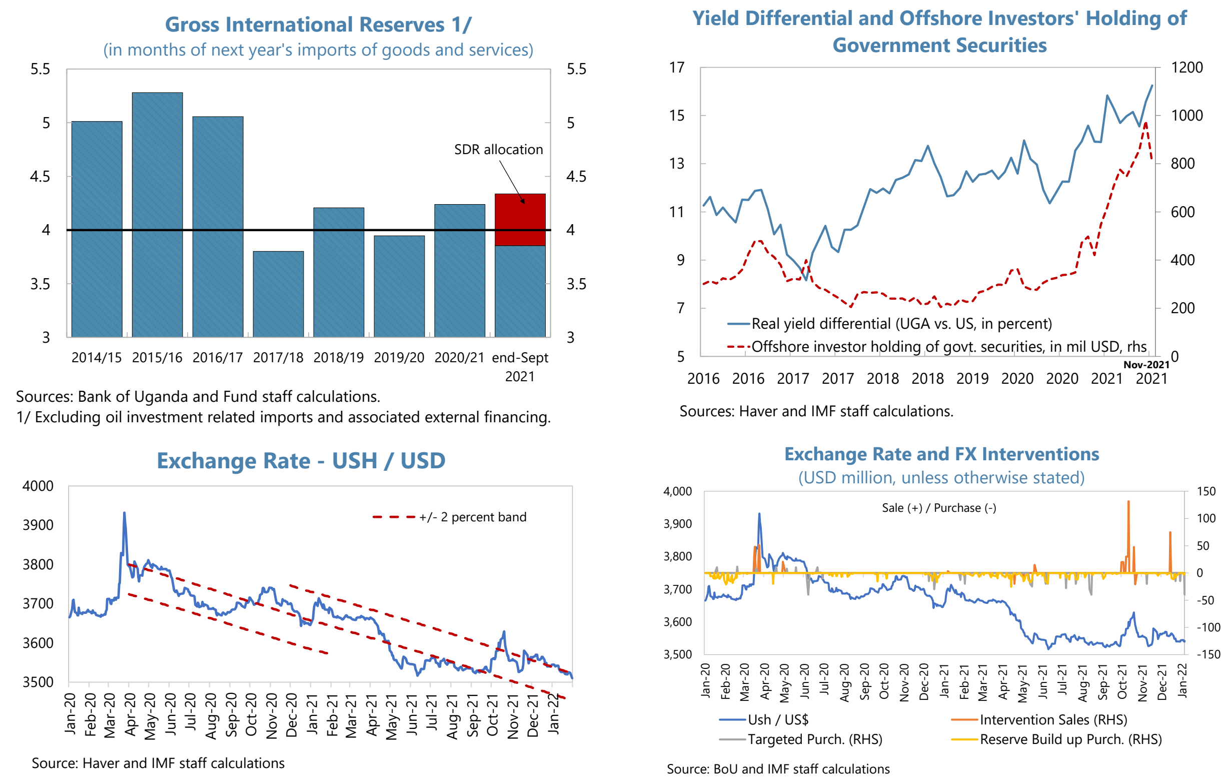


Source: BoU and IMF Staff calculations
* Black solid line denotes medium-term core inflation target (5 percent). Dash and dot lines show the outer and inner bands of average core inflation target.

Sources: IMF staff calculations.
1/ Neutral rate refers the real rate that, in the absence of temporary disturbances, is consistent with output at potential and price stability.

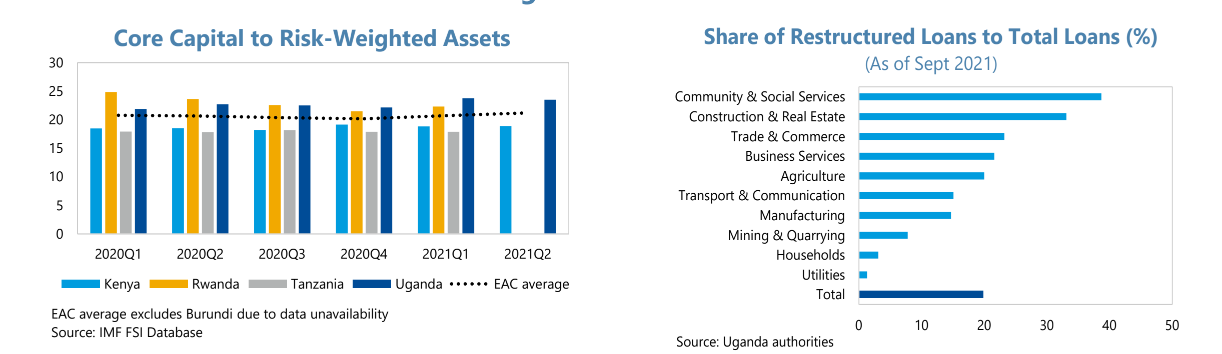
6. The current account deficit deteriorated to its highest recorded level. Driven by a broad-based increase in imports, weak tourism receipts and an overvalued currency, the current account deficit widened to 10.2 percent of GDP in FY20/21, mainly financed through budget support and project loans. Off-shore investors' holdings of government bonds accounted for 15 percent of net financing for the period, indicating their strong appetite despite some recent outflows. The Ugandan shilling appreciated by 3.5 percent in 2021 (y-o-y), with gross external reserves, including the recent Special Drawing Rights (SDR) allocation, increasing to $4.4 billion (4.2 months of imports) in December 2021, despite BoU FX sales of $306 million in October that were partly offset by $140 million FX purchase in January 2022.

Text Figure. External Developments



7. The banking sector is well capitalized but near-term aggregate risks to financial stability remain elevated. Most banks have strong capital, high liquidity buffers and growing profitability. Private sector credit growth rose by 9.2 percent year-on-year in September 2021, up from 8.1 percent the previous year, which is mostly attributable to a resumption of economic activity following the lockdown in June, lower government financing needs, and some improvement in credit standards. Given that 40 percent of banking sector loans (around Ush 7.4 trillion) have benefited from at least one form of relief/restructuring, NPLs—which have increased to 5.4 percent of total loans in September 2021—could increase further now that credit relief measures have expired for most sectors (MEFP¶11). However, the recent stress testing results indicate that most banks have sufficient capital to absorb higher levels of loan loss (Annex VI).

Text Figure. Financial Sector



8. The fiscal deficit for FY20/21 came in lower than expected. Despite a slightly higher-than-expected arrears clearance and lower non-tax revenue (mostly linked to the lockdown), the FY20/21 deficit came in smaller than expected, mainly because of a positive surprise in tax revenues on the back of strong efforts in tax administration and capacity constraints lowering the execution of public investment projects, and postponed cash payment of some expenditure commitments from FY20/21 to FY21/22 (MEFP¶8).

9. Notwithstanding the lower deficit and higher non-bank financing, delays in the disbursement of external loans impeded the repayment of BoU advances in FY20/21. Non-bank financing was almost 60 percent higher than programmed as offshore investors' holdings of Treasury securities more than doubled. However, commercial bank and external financing by African Export-Import Bank and African Development Bank fell short of the target, as administrative obstacles delayed loan disbursements. This financing shortfall contributed to the non-repayment of BoU advances which had been provided for the redemption of Treasury securities (around 2 percent of GDP).

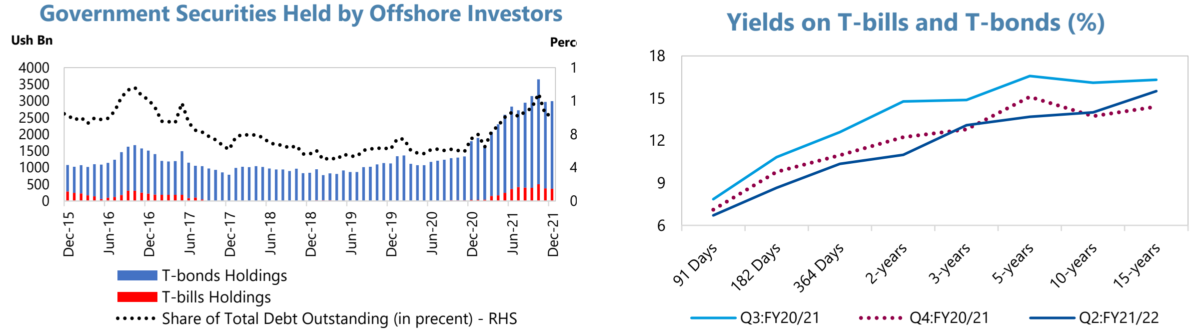
Text Table. Uganda: Fiscal Operations, FY20/21

	Percent of GDP	
	ECF Request	Actual
Total revenue and grants	**14.6**	**14.4**
Revenue	13.1	13.4
Tax	12.1	12.4
Nontax	1.1	1.0
Grants	1.5	0.9
Expenditures and net lending	**24.5**	**23.7**
Primary current expenditures	9.8	9.6
Interest expenditures	2.8	2.7
Development expenditures	10.4	10.2
Net lending and investment	1.0	0.7
Other spending (arrears clearan	0.5	0.5
Overall balance	**-9.9**	**-9.4**
Primary balance	**-7.1**	**-6.7**
Financing	**9.9**	**9.0**
External financing (net)	5.7	4.4
Disbursements	6.6	5.0
Budget support	3.6	2.2
Project	3.0	2.8
Amortizations	0.8	0.6
Domestic financing (net)	4.1	4.6
Bank of Uganda	-0.7	0.1
Commercial banks	3.0	1.5
Nonbank financing	1.9	3.0
Errors and omissions	**0.0**	**0.4**
Debt	**50.2**	**49.1**

Source: MoFPED, IMF staff calculations

Text Figure. Treasury Securities

Government Securities Held by Offshore Investors | **Yields on T-bills and T-bonds (%)**



Source: Uganda authorities, IMF staff calculations

Source: BoU and IMF staff calculations

10. The lower fiscal deficit in FY 20/21, together with the more appreciated exchange rate helped contain the public debt-to-GDP ratio at 49.1 percent (including outstanding advances to the BoU)**,** below the projection of 50.2 percent under the ECF-supported program. In line with lower government financing needs and large interest from investors, government bond yields have recently declined significantly across all maturities.

PROGRAM PERFORMANCE

11. All end-September QPC and ITs, with one exception, were met (Table 1 and ¶12, MEFP)**.**[1] Against the backdrop of a slowdown in economic growth during the lockdown, the IT on tax revenues was not met despite the implementation of the planned domestic revenue mobilization measures. Notwithstanding the revenue shortfall, the QPC on the primary balance was met by a large margin as a result of low execution on some spending. Moreover, the floors on the repayment of domestic arrears, support to vulnerable households (Text Table), and social spending, were all met, with the latter also helped by the postponed payment of some items committed in FY20/21. Similarly, the ceilings on the net claims on the government by the central bank and the PV of newly contracted public and publicly guaranteed external debt were met by a large margin, while there was no accumulation of external arrears. The end-September QPC floor on net international reserves (NIR) was also met but the end-December indicative NIR target was missed due to unexpectedly large portfolio outflows in October 2021 and subsequent BoU FX sales to smooth out excess exchange rate volatility. Some corrective steps were subsequently taken as the BoU purchased $141 million in January to strengthen reserves and ensure it can meet the 4-month reserve target objective set for March 2022.

Text Table. Uganda: Social Assistance Programs

Name	Beneficiaries	Status
Northern Uganda Social Action Fund (NUSAF)	3,000,000	Negotiations ongoing with World Bank
Urban Labor - Intensive Public Works Program	637,000	Targeted launch date is 2022.
Seno Citizen Grant (SAGE) coverage expansion	350,000	Expansion of coverage and plans to resolve arrears of USh36.7 billion accumulated in FY20/21.
Emyooga (President's Wealth and Job Creation Initiative)	3,814,200	Financed by the Ministry of Finance with USh100 billion seed capital and is implemented by the Microfinance Support Center Ltd.

Source: Uganda authorities and IMF Staff calculations

12. The implementation of structural benchmarks (SBs)—some of which became prior actions (PAs) because of their critical role in supporting program objectives—has advanced after some delays earlier in the year (Table 2a-c, and ¶13, MEFP). The framework for tracking COVID-19 spending (SB end-August) was adopted on time. One SB was met, while nine SBs were not met. However, six out of these nine SBs were subsequently completed, including the signature of the Service Level Agreement (SLA) between MoFPED and the BoU and its addendum, the

[1] The performance was broadly satisfactory based on the June and December 2021 indicative targets as well (MEFP¶12 and Table 1 in MEFP).

publication of project selection criteria and public investment projects that are ready for inclusion in the annual budget, the regulation on enhanced due diligence for domestic politically exposed persons, the publication of the FY 20/21 tax expenditure statement and adoption of the tax expenditure framework, and the quarterly report on unpaid invoices. Yet, three SBs were not completed, particularly on the beneficial ownership registry, the upgrade of the national social registry, and the introduction of a sanction regime for unauthorized spending. For those SBs, the authorities requested that test dates be reset to end-June 2022 to allow for inter-agency consultations and provide adequate time to: (i) solve technical difficulties; (ii) meet the needed legislative requirements; and (iii) address data privacy concerns. Future benchmarks and program objectives remain within reach, assuming performance remains consistent with fiscal and monetary targets.

MACROECONOMIC OUTLOOK AND RISKS

13. The overall macroeconomic outlook will require full reform implementation (Text Table, MEFP¶15-16). Growth for FY21/22—which is expected to average 3.8 percent—incorporates the impact of a rebound in the second half of the year following more rapid vaccine rollout, the lifting of the curfew and reopening of schools, which will be accompanied by a pickup in manufacturing, services, and construction. In the medium term, baseline projections assume the implementation of a reform package restoring the pre-pandemic growth trend of around 6 percent (Text Figure), while improving fiscal and debt outcomes and making the economy more resilient to future shocks. Measures include more productive government spending, supported by spending and tax collection efficiency gains, and governance and product market reforms boosting private investments (Box 2).

Text Table. Uganda: Key Economic Indicators

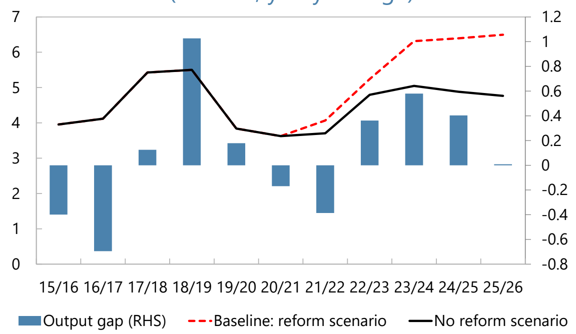
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Act.				Prog.					
Real GDP growth (percent)	6.3	6.4	2.9	3.4	3.8	6.0	6.5	6.7	7.1	7.0
Core inflation, average (percent)	2.7	3.4	2.2	3.5	3.0	4.4	5.0	5.0	5.0	5.0
Credit to non-government sector (percent growth)	10.8	13.6	8.8	8.3	12.0	13.5	14.0	14.1	15.0	15.4
Net lending/borrowing (percent of GDP)	-4.1	-4.9	-7.1	-9.4	-7.5	-4.7	-3.5	-3.5	-3.0	-2.3
Public debt (percent of GDP)	34.8	35.6	41.9	49.1	52.9	53.1	52.1	50.8	48.8	45.6
Current account balance (percent of GDP) 1/	-5.3	-7.0	-6.7	-10.2	-8.0	-6.6	-5.1	-4.9	-5.2	-4.0
Gross International Reserves (months of imports) 1/				4.2	4.2	4.0	4.1	4.4	4.6	5.2

Source: Uganda authorities and IMF staff estimates and projections
1/ Excluding oil project financing and investment related imports and exports.

14. Recent developments solidify the prospects of oil production in the medium term. Following the agreement on the oil pipeline between the French oil company Total, the Chinese oil company CNOOC and the governments of Uganda and Tanzania, and the parliamentary approval of three bills regulating the oil sector (Annex II), the signing of the Final Investment Decision on February 1, 2021 is expected to lead to additional private investment and to oil production starting in FY24/25. Consequently, growth is expected to reach 7 percent in the medium term (Text Figure), with Uganda reaching Middle Income Status in FY 26/27 if reforms are fully implemented (Box 2).

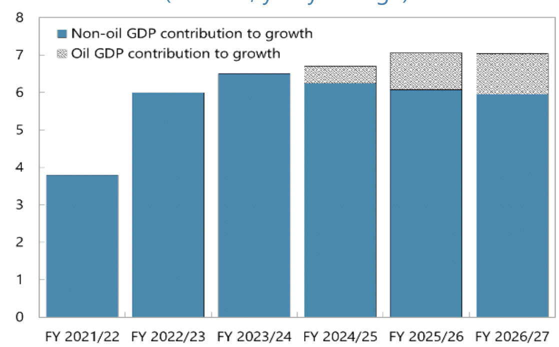
Text Figure. Growth Outlook

Potential Real Non-Oil GDP
(Percent, y-o-y change)



Notes: (1) Potential real GDP is estimated with the production function approach.
(2) Scarring effects are computed using estimates in June 2020 GEP by World Bank.
(3) Reform effects are estimated with the IMF DIGNAR-19 model.
Sources: Ugandan authorities, World Bank and IMF staff estimates and projections

Real GDP
(Percent, y-o-y change)



Sources: Ugandan authorities and IMF staff calculations.

15. The outlook is subject to considerable uncertainty and risks are tilted to the downside (Annex III). With only 23 percent of the target population (about half of Ugandans) fully vaccinated as of end-January; Uganda remains exposed to additional COVID-19 waves that will continue to threaten the recovery. A less benign external environment—including a slowdown in the global recovery, further tightening of global financial conditions and higher oil prices—could also weigh on the outlook in the near term, including through lower-than-expected external financing. Increased frequency and intensity of climate shocks could undermine agricultural activity, increasing poverty and food insecurity, while social or security tensions could affect confidence. On the domestic side, slower-than-expected reform implementation could lead to slower growth and worse fiscal and balance of payment outcomes.

Authorities' Views

16. *They authorities agreed that growth in the short term will be supported by the opening of the economy and the removal of lockdown restrictions, which should release pent-up demand and provide some breathing room for economic operators. Over the medium term, they argued that reform implementation and increased productivity in agriculture and manufacturing will help sustain growth, albeit their FY25/26 growth rate of 7.5 percent is higher than staff's, mostly because of higher oil production assumptions. The authorities agree that risks are tilted to the downside and also emphasized the large uncertainty around the outlook, particularly in view of risks to the external environment and the possible resurgence of pandemic pressures.*

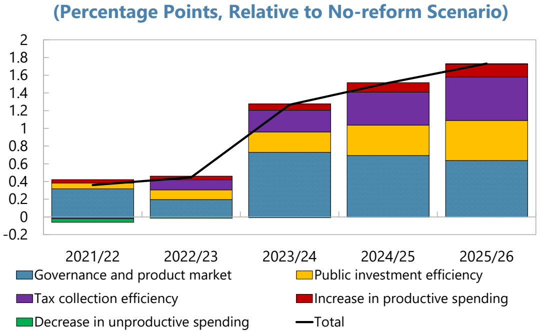
Box 2. Estimating Reform Gains

Simulations conducted with the IMF's DIGNAR-19 dynamic general equilibrium model, calibrated to Ugandan data, are leveraged to quantify growth dividends form a reform package. The reform scenario—consistent with the IMF-supported program—includes measures in four areas: (1) governance and product market reforms that reduce distortions in private firms' decisions are calibrated to bring private investment from the observed 16.9 percent of GDP (which places Uganda above the SSA median) to 19.4 percent of GDP (the 75th percentile for SSA) gradually over the next five years; (2) public investment efficiency set to gradually increase from 42 percent to 58 percent (the median of SSA); (3) government spending composition changed such that unproductive expenditures decrease on average by 0.8 percentage points of GDP per year until FY25/26 and productive expenditures increase on average by 0.7 percentage points of GDP per year (broadly in line with the authorities' medium term expenditure framework); (4) tax collection efficiency increased through widening of the tax base, such that government revenues increase by 0.5 percent of GDP per year.

The combined effect of the reform package would yield a medium-term increase in non-oil real GDP growth of 1.8 percentage points. The growth dividends are non-negligible already at a one-year horizon (almost ½ percentage point) and grow over time, becoming more substantial at a three-year horizon, as reform indicators improve, and the effects of measures adopted in the first two years positively compound. In the first year of the simulation horizon, governance and product market reforms enhancing the business environment and boosting private investment account for most of the potential output gain (Figure 1). Afterwards, fiscal reform measures account for at least half of the increase in potential output growth. The combined effects of fiscal measures, structural and governance reforms would lift non-oil growth potential to almost 6.5 percent in the medium term, allowing the Ugandan economy to offset the effects of COVID-19 scarring.

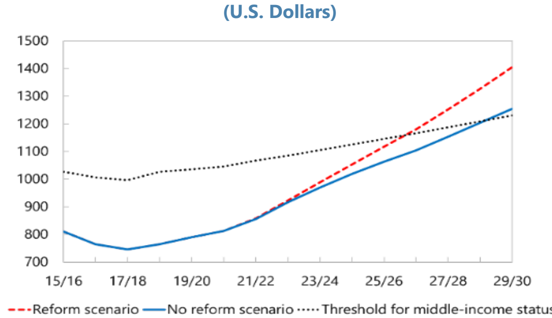
Under the reform scenario, Uganda would reach Middle-Income Status by FY2026/27. Using U.N. population growth projections, the World Bank's Atlas Method for the exchange rate computation and the GDP growth projections under the reform scenario, Ugandan income per capita would increase from US$812 in FY20/21 to US$1180 in FY26/27. This level of per-capita income would exceed the World Bank threshold for achieving Middle-Income Status, assuming that the latter will increase in line with inflation in advanced economies (Figure 2). In the no reform scenario, the achievement of Middle-Income status would be delayed by three fiscal years.

Box2.Figure 1. Non-oil GDP Growth Gains from Reforms (Percentage Points, Relative to No-reform Scenario)



Note: Reform effects are estimated with the IMF DIGNAR-19 model.
Sources: Ugandan authorities and IMF staff estimates

Box 2. Figure 2. Gross National Income (U.S. Dollars)



Sources: Ugandan authorities, World Bank and IMF staff estimates and projections

POLICY DISCUSSIONS

Policies aim to mitigate the impact of the pandemic—including through the vaccine rollout— in the near term and support more inclusive growth over the medium term. Key priorities include: (i) creating fiscal space for priority COVID-19-related and development spending while preserving debt sustainability and preparing for oil; (ii) pursuing an accommodative monetary policy to support the recovery, while remaining mindful of inflation pressures and safeguarding financial stability; and (iii) raising medium-term potential growth through structural reforms, including by reducing vulnerability to corruption, which will help Uganda reach the Sustainable Development Goals and converge towards middle income status.

A. Addressing COVID-19 Needs and Creating Fiscal Space for Priority Spending

17. The second wave of the pandemic, impact of the lockdown, and increasing security tensions created new financing needs. With no offsetting measures, the FY21/22 fiscal deficit would have increased by 3.4 percent of GDP through (MEFP¶20):

- **Revenue shortfalls (0.6 percent of GDP).** Against the backdrop of the economic slowdown, a revenue shortfall of almost Ush700 billion (0.4 percent of GDP) was recorded in the first four months of FY21/22, mostly driven by lower contributions from large taxpayers, and sales of fuel products and consumption goods. The shortfall was limited as the authorities continued to implement the domestic revenue mobilization (DRM) measures announced in June 2021, including politically difficult measures such as the increase in fuel excises, the introduction of new excise duties, and the strengthening of audit and arrears management practices (Text Table). This, combined with the reopening of the economy in January 2022, will increase revenue collection in the second half of the year, thereby keeping the annual shortfall contained at USh924 billion (0.6 percent of GDP).

Uganda: Tax Measures, FY21/22

	ECF Request		Current	
	Billions of USh	Percent of GDP	Billions of USh	Percent of GDP
Total measures	**1,255**	**0.8**	**1,118**	**0.7**
Tax policy	**461**	**0.3**	**367**	**0.2**
Increase excise duty on petrol and diesel	193	0.1	180	0.1
Intoduce a harmonised excise duty rate on airtime, VAS and internet data	60	0.0	60	0.0
Reduce depreciation rates for automobiles	30	0.0	22	0.0
Impose export levy on refined gold and other gold exports	30	0.0	3	0.0
Other	147	0.1	103	0.1
Tax administration	**795**	**0.5**	**751**	**0.5**
Arrears management	196	0.1	500	0.3
Science-facilitated audits (e.g., input-output analysis, enhanced forensic lab)	95	0.1	0	0.0
Data and information sharing	85	0.1	10	0.0
Leverage technology (e.g., use of drones, enhanced eTAX)	75	0.0	24	0.0
Agents managements, enhanced licensing requirements	60	0.0	30	0.0
Other	285	0.2	187	0.1

Source: MoFPED, URA, IMF staff calculations

- **Unpaid invoices from FY20/21 (0.4 percent of GDP**), as lower capacity absorption of budgetary institutions to execute spending in FY20/21 led to the postponement of these payments to FY21/22, including for social and security spending (0.05 and 0.02 percent of GDP, respectively).

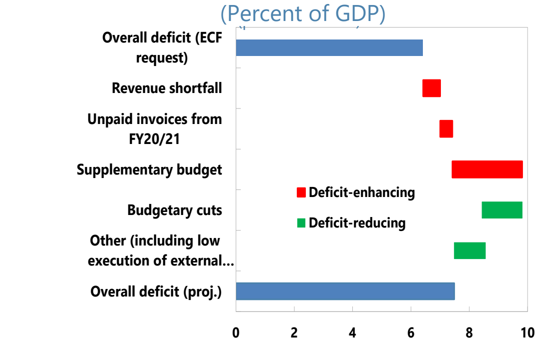
- **A supplementary budget, allocating an additional spending of USh3.8 trillion (2.4 percent of GDP),** was approved by Parliament in November 2021, with the aim of accommodating the challenges arising from the new wave of the pandemic. This also led to 0.5 percent of GDP higher security spending than originally programmed to reflect costs for enforcement-linked activities during the COVID-19 lockdown and curfew, operational shortfalls in the military needed to respond to terror attacks, and possible troop deployment at the border with the Democratic Republic of Congo. At the same time, social spending was increased by 0.4 percent of GDP to accommodate the procurement of vaccines, including through the World Bank grant of US$117 million for about 17.7 million doses of vaccines (covering about 26.4 percent of the overall population).

18. To accommodate some of the additional spending needs, staff and the authorities agreed to relax the FY 21/22 fiscal deficit by a full percentage point of GDP. In line with the program commitment to deploy contingency measures in case downside risks materialize, the authorities put in place spending cuts of about 2.3 percent of GDP to partially offset the deficit widening measures. Main measures included eliminating workshops and travel, an across-the-board reduction of 40 percent in the non-priority spending of unprotected budgetary votes, the non-implementation of some items in the supplementary budget, and the lower-than-expected execution of externally financed projects. With additional measures difficult to identify without cutting priority spending or curtailing essential operations, staff agreed with the authorities' proposal to keep the deficit contained at 7.5 percent of GDP (one percent of GDP higher than at the approval of the ECF-supported program).

Text Figure. Fiscal Deficit Target and Spending Measures, FY21/22

Change in the Fiscal Deficit Target

(Percent of GDP)



Source: MoFPED, IMF Staff calculations

Cuts in Spending

	Billions of USh	Percent of GDP
Total	**3,608**	**2.28**
Spending cuts across budgetary votes	2,175	1.38
o/w: Workshops and travel	203	0.13
o/w: Rehabilitation of the Malaba-Kampala Railway Line	155	0.10
o/w: Funding for Kiira Motors	71	0.04
o/w: Renovation of the National Stadium	34	0.02
Lower execution of externally financed capital expenditures	673	0.43
Lower funding of budgetary votes	759	0.48

Source: MoFPED, IMF Staff calculations

19. To ease financing constraints, the authorities have decided to use half the SDR allocation (about $250 million) to finance the FY21/22 deficit. The SDR allocation—which helped replace more expensive foreign commercial borrowing of the same amount—is to be used on education, health and water and sanitation projects, including to help facilitate school reopening, consistently with Fund advice. A detailed spending plan for SDR use was finalized (¶23

Text Table. Uganda: BoU financing to the government

(Percent of GDP)

	FY21/22	FY22/23	FY23/24
Net financing	0.4	-0.7	-0.6
Deposit withdrawal	0.6	0.0	0.0
Petroleum fund withdrawa	0.1	0.0	0.0
BoU advances	-0.3	-0.7	-0.6
Memo item:			
Outstanding BoU advances	*1.6*	*0.7*	*0.0*

Source: MoFPED, IMF Staff calculations

& Table 3, MEFP), with the authorities helping ensure that disbursed funds are used for intended purposes in a transparent way through a quarterly special monitoring report tracking budget execution. Moreover, the implementation of the public financial management and the AML/CFT reform agenda under the ECF-supported program will also help safeguard the use of SDRs. Notwithstanding strong foreign investor participation in the local currency bond market and higher-than-planned external commercial financing (including the delayed disbursement of the African Export-Import Bank and African Development Bank loans), financing constraints do not allow for the full repayment of BoU advances in FY21/22, which are now expected to be repaid over the next two years (Text Table).

20. In case downside risks materialize, non-priority investment projects will be reduced to safeguard the fiscal goals of the program. This could be done by implementing a temporary freeze on new project commitments or delaying projects that have not started or have yet to receive financing. In case security risks increase further, staff urges the authorities to cover the associated spending need through reprioritization within the current security spending envelope.

Authorities' Views

21. *The authorities remain committed to fiscal consolidation, as shown by their unwavering implementation of politically difficult revenue mobilization measures and extensive cuts in non-priority spending. They welcomed the opportunity to use part of the recent SDR allocation to replace more expensive commercial borrowing and finance urgent spending needs. They argued that a new supplementary budget was necessary to accommodate essential incompressible priorities not included in the original budget, including to mitigate the impact of the COVID-19 pandemic. Increases in security were needed to address operational shortfalls, as illustrated by the recent bombings and need to intervene in the DRC. Increasing education and health spending remains key, but the authorities point out that no hospital or school can operate without security.*

B. Preserving Uganda's Debt Sustainability and Preparing for Oil

22. Fiscal consolidation—while safeguarding social spending—remains essential to return debt below the 50 percent of GDP anchor set by the authorities in their new Chart of Fiscal responsibility (CFR) (Annex IV). The halving of the fiscal deficit by FY23/24 will remain front loaded, with the pace of adjustment aligned with what was programmed, albeit with a higher deficit level in FY21/22 (as discussed above) and in FY 22/23 to accommodate higher capital expenditures related to the preparation of oil production[2] (Text Figure). The debt-to-GDP level, which will initially peak at 53.1 percent of GDP in FY22/23, will remain mostly below levels envisaged at program approval and the median level in Sub-Saharan Africa and converge below the 50 percent of GDP

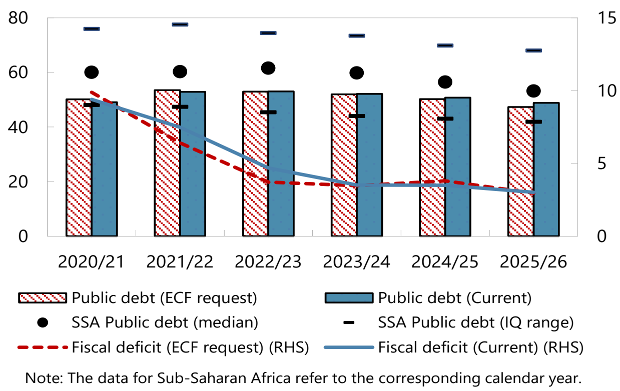
[2] Contrary to expectations at program approval, the authorities informed staff that they were unable to negotiate for International Oil Companies to pay for needed infrastructure investments in the next three years in exchange for a share of oil related proceeds once oil production starts. In consequence, some of the costs (construction of oil jetty, equity participation in oil pipeline, etc.) have now to be budgeted by the authorities upfront.

target by FY25/26 (Text Figure). In addition to the start of oil production in FY24/25, the medium-term fiscal consolidation strategy relies on (MEFP¶25-26):

Text Figure. Public Debt and Fiscal Deficit

Public Debt and Fiscal Deficit

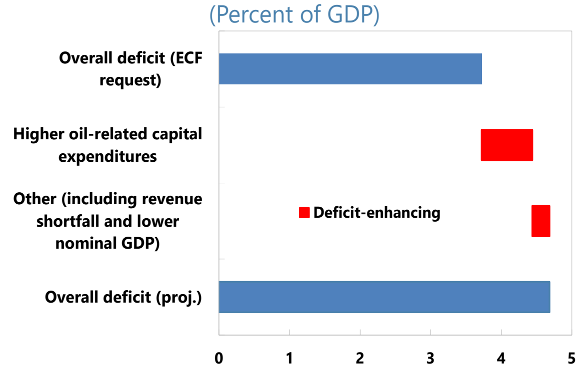
(Percent of GDP)



Source: MoFPED, IMF WEO (October 2021), IMF staff calculations

FY22/23: Contribution to Higher Deficit

(Percent of GDP)

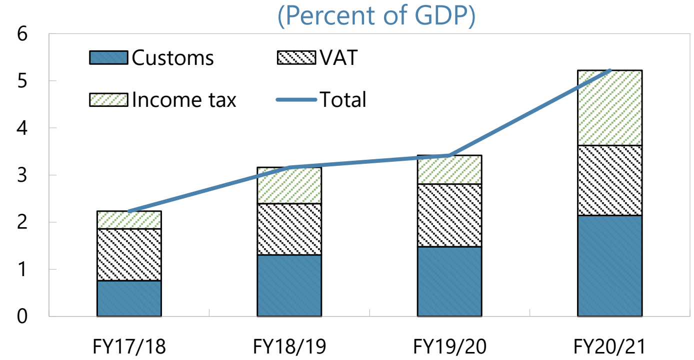


Source: MoFPED, IMF staff calculations

- **DRMS Implementation.** Following revenue gains of 0.7 percent of GDP in FY21/22, this will lead to an increase in tax revenues by at least 0.5 percent of GDP annually over the medium term through tax policy and administration measures that are regularly reviewed and updated. As part of the DRMS, the newly adopted tax expenditure framework—developed with help from World Bank TA—will establish a tax rationalization plan that identifies savings of at least 0.1 percent of GDP in FY22/23 and at least 0.2 percent of GDP thereafter (new SB). The regular publication of the tax expenditure since FY 19/20 is improving transparency and continues to illustrate the potential for large savings in this area (Text Figure).

Text Figure. Tax Expenditures

(Percent of GDP)



Source: MoFPED, Staff calculations

- **Reduction of one-off spending and enhancement of spending efficiency.** A reduction of primary spending of 2.7 percent of GDP is expected in FY22/23, including through the phasing-off of time-bound increases in spending linked to COVID-19 (0.4 percent of GDP) and a decline in security spending (1.3 percent of GDP). In addition to efficiency improvements from the use of the recently published project selection criteria to include a pipeline of projects in the budget, public investment management (PIM) shortcomings will be addressed by reducing overcommitment in multi-year projects and reducing or eliminating the use of emergency procurement procedures, fostering open and competitive bidding while refraining from procuring through direct channels. The forthcoming IMF mission to conduct a Public Investment Management Assessment will further help identify reforms needed to bring Uganda's practices in line with international standards.

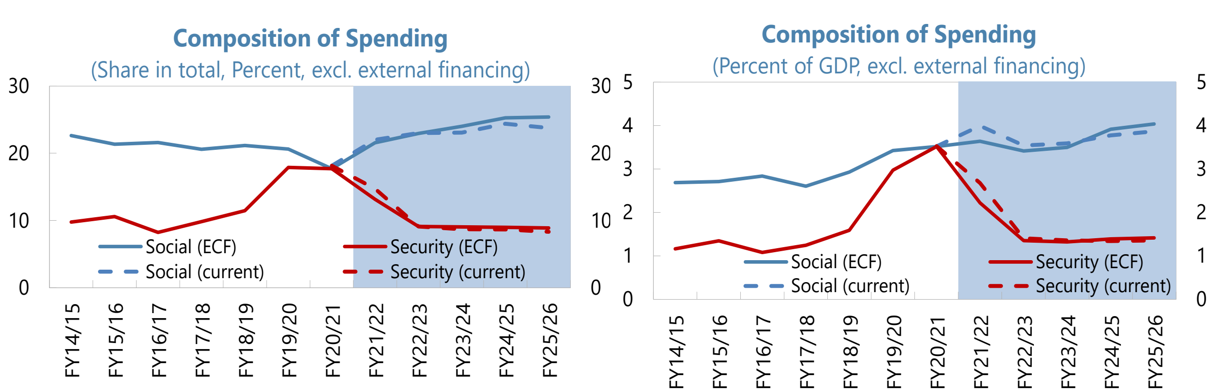
23. Budget composition will remain appropriate, focused on increasing priority education and health spending, and allowing for investments needed to start oil production. In addition to accommodating new oil investment commitments (Text Table), social spending is targeted to increase over the medium term by 0.7 percent of GDP. To support the targeting of beneficiaries, the national identification database, and the unified national registry of all social assistance programs (SB, now reset to June 2022) will also be expanded. To support vulnerable households, the following actions are to be taken: (i) the fourth Northern Uganda Social Action Fund (NUSAF 4) will be implemented in the next fiscal year and expanded to the eastern region; (ii) the Urban Labor-Intensive Public Works Program will be launched; and (iii) the Senior Citizen Grant's coverage will be expanded by reducing eligibility age from the current 80 years to 75 years (MEFP¶28).

Text Table. Uganda: Fiscal Operations, FY2021/22-FY2023/24

	FY21/22		FY22/23		FY23/24	
	ECF request	Current	ECF request	Current	ECF request	Current
Total revenue and grants	**14.7**	**14.8**	**14.9**	**14.6**	**15.3**	**15.1**
Revenue	13.8	13.6	14.4	14.1	14.9	14.8
Tax	12.9	12.9	13.4	13.4	13.9	13.9
Nontax	1.0	0.8	1.0	0.8	1.0	0.9
o/w: Oil revenues	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.9	1.1	0.5	0.5	0.4	0.4
Expenditures and net lending	**21.2**	**22.2**	**18.6**	**19.3**	**18.8**	**18.7**
Primary current expenditures	9.1	9.6	8.5	8.1	8.5	8.1
Interest expenditures	3.1	3.1	2.8	2.9	2.6	2.8
Development expenditures	8.7	9.0	7.1	8.1	7.6	7.6
External	4.0	3.6	3.5	3.7	4.1	3.0
Domestic	4.7	5.4	3.6	4.4	3.5	4.6
o/w: Oil-related investment	0.0	0.5	0.0	0.7	0.0	0.5
Net lending and investment	0.1	0.1	0.0	0.0	0.0	0.0
Other spending (arrears clearance)	0.2	0.4	0.2	0.2	0.1	0.1
Overall balance	**-6.4**	**-7.5**	**-3.7**	**-4.7**	**-3.5**	**-3.5**
Overall balance excl. oil-related investmen	**-6.4**	**-7.0**	**-3.7**	**-4.0**	**-3.5**	**-3.1**
Primary balance	**-3.4**	**-4.4**	**-0.9**	**-1.8**	**-0.9**	**-0.7**
Primary balance excl. oil-related investmer	**-3.4**	**-3.9**	**-0.9**	**-1.0**	**-0.9**	**-0.2**
Memorandum items:						
Social spending	3.6	4.0	3.4	3.5	3.5	3.6
Security spending	2.2	2.7	1.4	1.4	1.3	1.4

Source: MoFPED, IMF Staff calculations

Text Figure. Composition of Spending



Source: MoFPED, IMF Staff calculations

24. Uganda's risk of debt distress remains moderate. The gradual fiscal consolidation and the continued prioritization of concessional financing will help keep debt sustainable, despite increasing resort to non-concessional loans under the program. The Debt Sustainability Analysis (DSA) indicates that external debt burden and public debt indicators would remain below their respective thresholds and benchmarks under the baseline scenario. 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 under the program on the PV of new public and publicly guaranteed external debt. The debt management framework will be further strengthened, including through more transparency by publishing disaggregated data on state-owned enterprise debt and contingent liabilities (MEFP¶31).

25. Reforms to strengthen public financial management over the medium term are advancing around four pillars (MEFP¶29):

- **Improvement of the budget preparation process.** The authorities agreed with staff that the frequency or size of supplementary budgets, which had in some cases exceeded the total budgeted appropriation (e.g., through four supplementary budgets in 2020), has shown in some cases poor planning and budgeting process. To remedy that, the authorities have requested that ministries submit all foreseeable expenditures during the preparation of the FY22/23 budget and stated that no "foreseeable" spending will be in any supplementary budget, which will be limited, as per the law, to "unabsorbable, unforeseen, and unavoidable" expenditure (MEFP¶29).

- **Strengthening cash management**. There has been significant progress in advancing further the Treasury Single Account (TSA) reform by extending the TSA to ten extra-budgetary entities while pursuing the integration of remaining ones. Monthly cash flow forecasting is improving as major spending entities now report their spending projections and all agencies are expected to do so by end-March 2022. Closer coordination between cash and debt management is planned through the preparation of an aggregate borrowing plan taking into account the government's consolidated cash position. The authorities have expressed need for further Fund TA in this area but point out that donors not disbursing externally funded projects through the TSA risks undermining the reform.

- **Clearance of domestic arrears and prevention of further accumulation**. In addition to increased provisions for arrears clearance in FY21/22, the modification of the reporting mechanism to now produce quarterly reports on unpaid invoices (PA) is an important first step to keep track of possible arrears and identify early on remedial actions to prevent accumulation. These efforts would also be supplemented by other implementable actions from the June 2021 domestic arrears strategy (MEFP¶29), including by the ongoing strengthening of commitment controls through automatic confirmation of fund availability. Arrears accumulation would also be discouraged by elevating sanctions for unauthorized spending to PFM regulations (SB) and enforcing existing sanctions, thus also addressing concerns over timely clearance raised in the Auditor General report (Box 4).

- **Improving budget transparency**, including through reporting on risks in the FY22/23 budget and publishing the medium-term fiscal framework in line with the GFSM2014 by May 2022 (SB).

26. The imminent development of the oil sector in Uganda requires strengthening accountability mechanisms to manage oil revenues (MEFP¶30). The fiscal rule in the CFR will establish the non-oil primary balance as the operational fiscal target over the medium term. Moreover, an amendment to the PFM Act would allow the Uganda National Oil Company (UNOC) to retain a portion of its proceeds from the sale of petroleum to meet the public financial obligations in the Tariff and Transportation Agreement, the Production Sharing Agreements, and the Joint Operating Agreements. Staff urged the authorities to put in place appropriate accountability mechanisms on the portion retained by UNOC and ensure proper scrutiny of its cost recovery arrangements.

Authorities' Views

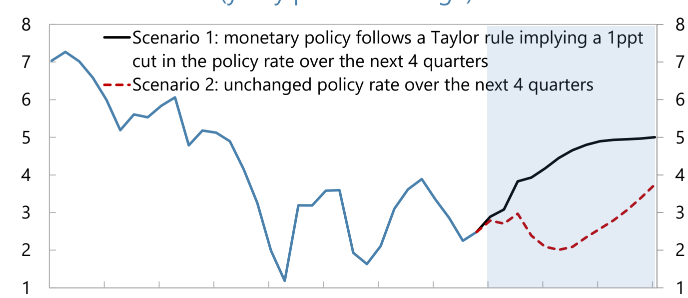
27. *The authorities reiterated their commitment to adhere to the previously agreed fiscal consolidation path, arguing that the uninterrupted pursuit of the domestic revenue mobilization agenda and actions taken on politically difficult spending cuts reinforces the credibility of their fiscal consolidation efforts. They believe that their reforms of the budget process—including to limit supplementary budgets and to increase social spending—will help provide sustainable solutions to recurrent challenges while mitigating risks.*

C. Strengthening the Monetary and Exchange Rate Policy Framework

28. A more accommodative monetary policy stance is needed to return inflation to target while supporting economic activity. Core inflation has consistently remained close to the lower end of the inflation target and is projected to continue undershooting the BoU's 5 percent medium-term inflation target. More accommodation—including through further policy rate cuts—would support economic activity at a time where liquidity measures introduced at the onset of the COVID-19 crisis are being removed and the fiscal deficit is halved over the next two years.[3] The smaller fiscal deficit would also enhanced the effectiveness of monetary policy transmission, which has been weak due to long-standing structural factors, as fiscal dominance is being reduced through lower financing needs and repayment of

Text Figure. Model Based Core Inflation Projections

(y-o-y percent change)



Note: Illustrative simulations were conducted with a Quarterly Projection Model (QPM) developed with support from IMF Institute for Capacity Development. A similar framework is used as a core model in the BoU's Forecasting and Policy Analysis (FPAS): Bank of Uganda (2019) Working Paper No.15/2019.
Sources: Fund staff calculations.

[3] See Chapter 2 of the Selected Issues paper.

domestic arrears. Nonetheless, measures to tackle the structurally high operational costs in the banking system, such as digitalization, remain essential to improve the pass-through and achieve the desired effect on lending rates (Box 3).

29. Staff and the authorities agreed that the BoU should closely monitor price developments and keep monetary policy data dependent. In light of rising international energy prices and monetary policy normalization in advanced and emerging economies, the BoU should stand ready to adjust its stance if forward-looking inflation is set to persistently rise above the target in the forecast horizon.

30. An independent central bank remains essential to maintaining Uganda's hard-earned macroeconomic stability and monetary policy credibility (MEFP¶33). In line with the safeguard assessment's recommendations and the BoU's reform agenda, the governance principles to the BoU Amendment Act—which include safeguards for institutional autonomy and clarification for limits on advances to government—were submitted to Cabinet in January 2022 (end-December 2021 SB), with its adoption by Parliament planned by September 2022 (new SB).

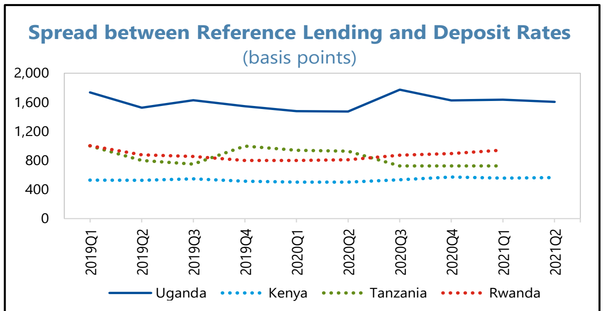
31. Greater exchange rate flexibility would be needed to help absorb external shocks and preserve external buffers. The shilling has been appreciating with little fluctuation since the beginning of 2020 (¶4). Staff reiterated its advice that FX interventions should be limited to smoothing large foreign exchange fluctuations and maintaining adequate reserve buffers. This is even more important going forward as the economic recovery increases imports and as non-resident holdings—which are very sensitive to external conditions and tightening of global conditions—now represent a quarter of all foreign exchange reserves. Staff's assessment indicates that the external position is assessed to be weaker than implied by fundamentals and desirable policy settings—reinforcing the need for exchange rate flexibility, fiscal consolidation and structural reforms to boost growth (Annex V).

Authorities' Views

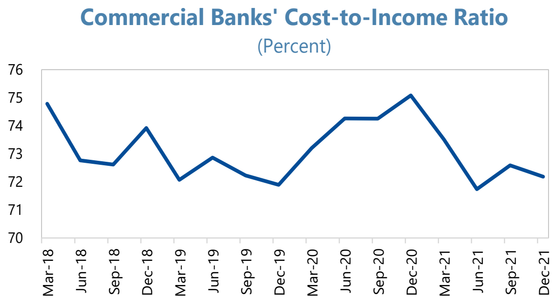
32. *The authorities consider the current monetary policy stance to be accommodative and consistent with a 5 percent inflation target in the medium term as the output gap closes once the economy recovers. In view of possible tightening of external conditions and higher oil prices, they agree that the monetary policy framework should remain data dependent. The authorities reiterated that they are not targeting any level of the exchange rate, with their FX interventions only occurring to smooth out large excess volatility as was the case in October 2021 when facing capital outflows. They share staff's view that the shilling is currently overvalued, albeit note that they expect some appreciation pressures in the medium term once oil production starts.*

Box 3. Sticky Lending Rates and Monetary Policy Transmission

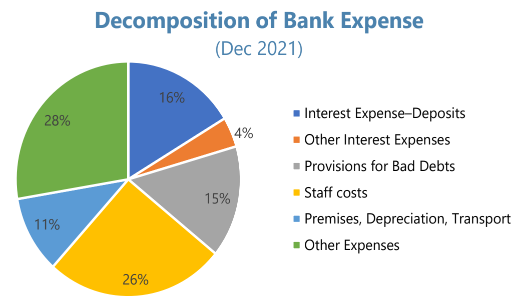
Lending interest rates in Uganda—averaging around 20 percent since the early 1990s –have long been of concern to policymakers. The country's interest rate spreads— the gap between lending and deposit rates—closely follow lending rates and have remained high relative to peers, mostly because of high operational costs, high loan loss provision, banks' growing preference for high-yield government bonds relative to risky lending, and an oligopoly market structure. Among them, recent studies have demonstrated high operational costs as being by far the largest contributor, accounting for around 60 percent of the interest rate spread since 2008.



Source: IMF FSI Database

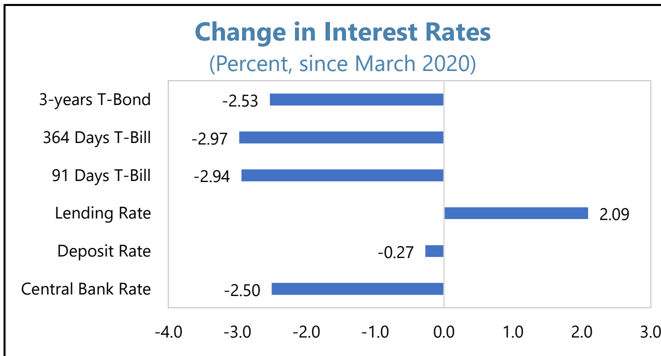


Source: BoU



Source: BoU

Those longstanding structural challenges make it even more difficult for monetary policy to be effective. More recently, as the BoU tried to manage the fallout from the COVID-19 pandemic, it reduced its policy rates by an additional 250 basis points to 6.5 percent, the lowest level since inflation targeting was introduced. However, since June 2020, while bond yields have moved, including because of lower financing needs recently, the weighted-average lending rates on shilling denominated-loans have gone the other way, possibly indicating banks' higher risk aversion dominating over the period (Text Figure). At the same time, operational costs—driven largely by personal expense (40 percent of total non-interest cost)—continued to rise, making the cost to income ratio increase from 71.9 percent in the end of 2019 to 75 percent in December 2020, the highest level recorded over the past three years.



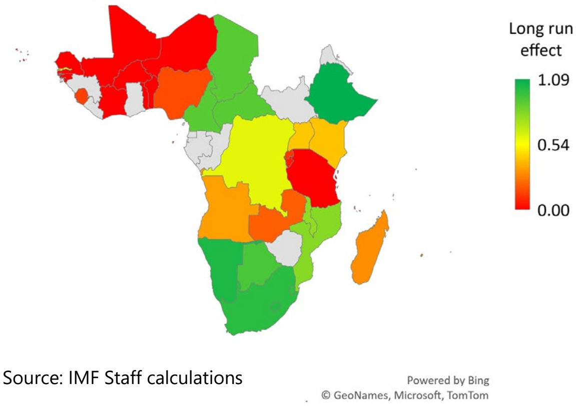
Source: BoU

This general trend over the past year confirms a pattern observed over the past decade of a slow transmission channel. Specifically, recent staff analysis has shown that a 1 percentage point change in the policy rate is found to be associated with a 14 basis points change in the lending rate, albeit not significant, in the short run and 43 basis points in the long run.

Box 3. Sticky Lending Rates and Monetary Policy Transmission (concluded)

Lowering lending rates may thus initially require larger cuts in the policy rate. The effectiveness of such cuts would be improved by a continued reduction of fiscal dominance, which helps alleviate the crowding out effect of government debt on private sector credit. Ongoing moves towards digitalization—which could increase costs in the short-term through IT investments— and deeper capital markets would contribute over the long term in reducing operational costs and strengthening the transmission channel.

Lending Rate Response to Policy Rate Change



Source: IMF Staff calculations

D. Safeguarding Financial Sector Stability

33. **Capital buffers continue rising as pandemic relief measures are unwinding (MEFP¶35).** Banks' capital buffers are being strengthened through increased provisioning (17.7 percent y-o-y over the past year), dividend distribution restrictions, and introduction of systemic risk buffers for Domestic Systematically Important Banks (DSIBs) and capital conservation buffers. To better evaluate existing and emerging risks, banks' internal capital adequacy assessment process (ICAAP) was conducted in October 2021 in line with Basel II guidelines. With uncertainties around the pandemic remaining, staff recommended to the authorities that they maintain some flexibility in the use of capital buffers to avoid prematurely hurting the economic recovery. Staff supports the authorities' commitment to proper loan classification rule and appropriate monitoring of restructured loans, particularly for the education and hospitality sector, where relief measures were extended for another year.

34. **Strengthening the supervisory framework remains a priority** (MEFP¶36-37). Continuing shift to risk-based supervision, strengthening of stress testing capacity—including through a full-fledged scenario as the economy implements IFRS9— and the monitoring of corporate and households' balance sheets remain key priorities.

35. **The authorities are staying the course on implementing structural reforms that would help address vulnerabilities that rose from the Crane bank failure (Annex VI).** The coming-into-force of the new corporate governance guidelines (MEFP¶36) in January 2022 will help ensure that financial institutions operate according to best principles, with the authorities planning to extend that further through implementing regulations ensuring fit and proper test criteria for bank owners (new SB). The operationalization of the new Resolution Policy Framework earlier this year—including detailed processes for pre- and post-intervention and the operationalization of the Resolution Unit—will also help strengthen financial stability.

Authorities' Views

36. *The authorities noted that they are pursuing a multi-faceted reform agenda to reduce financial sector vulnerabilities, albeit paying particular attention to mitigating credit risks following the expiry of credit relief measures. On the mandated increases in capital buffers, they remain convinced that this is necessary now that banks have to implement IFRS 9 and that the BoU has provided sufficient transition time for implementation. They noted that the subdued pickup in private sector credit is likely to be from commercial banks' risk aversion, rather than capital increase requirements. The BoU considers that its banking supervisory framework—which is consistently being strengthened, including with help from Fund TA—has the appropriate tools to monitor risks. They pointed out that their corporate governance reforms and the new banking laws (Banking Act, resolution framework) will help ensure that weaknesses/loopholes that caused past bank failures do not materialize.*

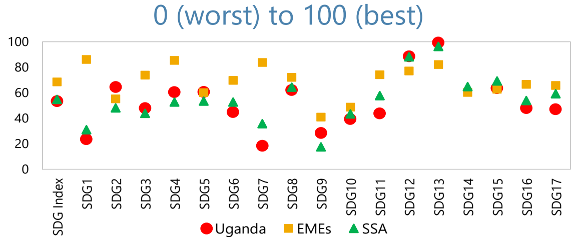
E. Structural Reforms – Raising Medium-Term Growth Potential and Accelerating Structural Transformation

37. Structural reforms are key for unlocking the post-pandemic growth potential and creating jobs for Uganda's rapidly growing population. In addition to policies needed to boost education and health spending, and to provide better access to water and electricity, reforms will be needed to help remove constraints to doing business and achieve the Sustainable Development Goals (SDGs). The authorities' implementation of their structural transformation priorities outlined in the National Development Plan (NDPIII) will put particular emphasis on governance, financial inclusion, trade, and climate change.

Text Figure. SDG and Competitive Indicators

SDG Index Scores

0 (worst) to 100 (best)



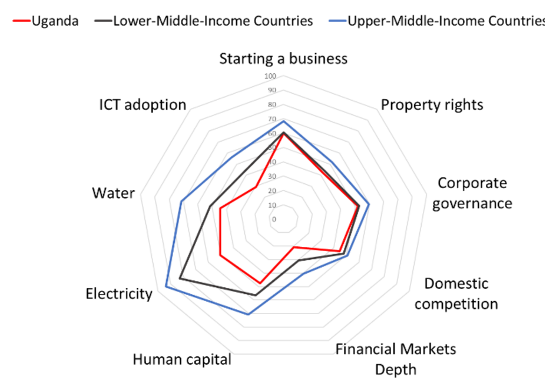
SDG1: No Poverty
SDG2: Zero Hunger
SDG3: Good Health and Well Being
SDG4: Quality Education
SDG5: Gender Equality
SDG6: Clean Water and Sanitation
SDG7: Affordable and Clean Energy
SDG8: Decent Work and Economic Growth
SDG9: Industry, Innovation and Infrastructure
SDG10: Reduced Inequalities
SDG11: Sustainable Cities and Communities
SDG12: Responsible Consumption and Prod.
SDG13: Climate Action
SDG14: Life Below Water
SDG15: Life on Land
SDG16: Peace, Justice, Strong Institutions
SDG17: Partnership for the Goals

Source: IMF staff calculations using Sachs, J., Kroll, C., Lafortune, G., Fuller, G., Woelm, F. (2021). The Decade of Action for the Sustainable Development Goals: Sustainable Development Report 2021. Cambridge: Cambridge University Press.

Note: AE = Advanced Economies, EME = Emerging Market Economies, LIDC = Low Income Developing Countries; SDG7 is access to electricity as percentage of population; and SDG9 is the 2018 World Bank's Logistics Performance Index's Quality of Trade and Transport Infrastructure Component Score ranging from 1 to 5 (available from: http://lpi.worldbank. org/international/global).

Competitiveness Indicators

(Index Number: 0-100)



Sources: World Economic Forum and Fund staff calculations.

38. A dynamic and sustained post-pandemic recovery requires good governance (MEFP¶39-44, Annex VII). Tackling high-level corruption and safeguarding anti-corruption bodies and judiciary from undue influence and external interference will underpin the governance reform program, including, inter alia, guidelines on the voluntary settlement of anti-corruption investigations and increased transparency of government expenditures. To support anti-corruption efforts, enhanced due diligence measures, including source of wealth and funds checks, have been applied to all domestic politically exposed persons, their family members, and close associates (PA). Reforms are ongoing on four main pillars of the authorities' extensive governance agenda:

- **Greater accountability on the use of COVID-19 spending**. After having published the audit for FY19/20, the authorities have reiterated their commitment to full transparency of COVID-19 spending by publishing the FY20/21 full-year audit (PA, Box 4). To improve the transparency of public spending, the mechanism for collecting and publishing the beneficial ownership of companies awarded COVID-19-related procurement has been implemented (PA) starting with the procurement contracts of January 2022. The authorities have also taken the commendable step of making this reform more widespread and permanent by collecting beneficial ownership information in all procurement contracts, a significant reform to promote transparency and anti-corruption safeguards in procurement. To ensure a robust approach and that weaknesses identified in the COVID-19 processes are addressed by the government, the Secretary to the Treasury will issue a memorandum addressing corrective actions that will be taken to remedy gaps raised by the FY20/21 audit (June 2022 SB).

Box 4. Audit of COVID-19-Related Expenditures in FY 2020/21

Resources ring-fenced in the FY20/21 budget for COVID-19 interventions were predominantly used for intended purposes. The recently published audit that was discussed in Parliament in February 2022 shows that about 2.4 trillion shilling was dedicated to addressing needs arising from the COVID-19 pandemic, of which about a third was used to settle domestic arrears and thus boost liquidity of businesses. Of the remaining amount, as agreed under the Rapid Credit Facility (RCF), about Ush 700 billion went to support international reserves, about Ush 500 billion to recapitalize Uganda's Development Bank (UDB) and the rest to the budget. Another Ush 260 billion was dedicated from the budget to the Microfinance Support Center (MSC) to support on-lending through rural cooperatives (SACCOs), increase employment opportunities and help households. The Ministry of Health also received about Ush 250 billion for the procurement of vaccines, medical supplies, intensive care equipment and for medical staff allowances.

Under execution of expenditures is mostly attributed to the UDB while other irregularities were found for other institutions. Of the funds released to the UDB, more than half was placed in commercial banks, with only 44 percent "used" for intended purposes. Of the resources used, 18 percent were on-lent and only about 26 percent disbursed to sectors indicated by Parliament. Operational obstacles, phased implementation of projects, and the need to comply with high liquidity requirements were the main reasons advocated by the UDB for delayed disbursements. Funds disbursed to the MSC and on-lent to SACCOs under the EMYOOGA initiative were found to have suffered from inadequate documentation, low uptake of grants, default on loans and, to a smaller extent, embezzlement. Due to the emergency, procurement under the Ministry of Health did not follow standard procedures rigorously and has encountered many obstacles including delays in obtaining vaccines due to the global shortage.

Uganda: DB support 2020/21

	Billions of USh	Percent
Total	531.8	100.00
Placed in commercial banks	297.2	55.9
Utilized	234.6	44.1
On-lending	95.0	17.9
Financial institutions	65.0	12.2
SACCO capital	30.0	5.6
Sectors	139.6	26.3
Agro industrialization	42.8	8.0
Manufacturing	69.0	13.0
Primary agriculture	27.8	5.2

Box 4. Audit of COVID-19-Related Expenditures in FY 2020/21 (concluded)

The Auditor General Recommendations identified four priority areas; (i) clear communication by Ministry of Finance to implementing agencies about intentions of given initiatives before funds are disbursed to avoid mismatches between intended objectives and outputs; (ii) ensuring that all the approved funds are disbursed to avoid partial implementation of programs; (iii) timely settling all arrears; and (iv) detailing outputs and planned activities to facilitate follow up, performance management and reporting.

- **Strengthening of the accountability of high-level officials**. The vacancies of the Inspector General of Government (IGG) and deputies were filled, and the Leadership Code Tribunal operationalized, which have enabled sanctioning of the officials that breach the Leadership Code. The implementation of the newly amended Leadership Code Act will be monitored, including by publishing statistics on the requests for asset declarations (AD) granted/rejected and on enforcement and adjudication of breaches. Going forward, the AD regime should be more aligned with international best practices through the online publication of asset declarations of high-level officials and the strengthening of sanctions for breaches of AD obligations. In the meantime, the amendment of the AD regulations by the IGG will lower the barriers to public access to ADs and require asset declaration of spouses and children, as well as those owned beneficially (March 2022 SB).

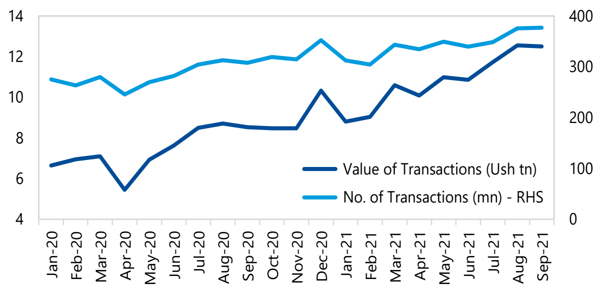
- **Strengthening of AML/CFT regime (MEFP¶42, Annex VII**), by accelerating the implementation of the National AML/CFT Strategy and the FATF “grey list” action plan, including establishing a centralized registry of beneficial ownership (June 2022 SB), as well as strengthening the BoU’s AML/CFT supervisory capacity by developing and implementing a risk-based approach, including a sectoral risk assessment, updated inspection manual, and a dedicated AML/CFT supervisory process (October 2022 SB).

- **Implementation and enforcement of the anti-corruption legal framework (Annex VII).** While legal and institutional frameworks are broadly in place, effective anti-corruption enforcement needs significant strengthening. Judicial integrity and transparency should be promoted, including through the extension of the comprehensive electronic case management tools to all courts.

39. Advancing the authorities’ financial inclusion agenda would help sustain more inclusive growth (MEFP¶47). The pandemic has doubled the value of mobile money transactions over one year and extensive awareness campaigns have increased e-payments. The authorities’ financial inclusion strategy will be updated later this year, building on progress made by strengthening regulations for payment system operators and efforts to enhance SME financing. The modernization of the financial infrastructure is expected to remain a key priority, particularly through enlarging credit bureau coverage by consolidating credit and transaction data from all lenders, which will enable data sharing among financial Institutions, mobile money companies, agent banking and Credit Reference Bureau, and finally developing an effective credit scoring mechanism using traditional and alternative data.

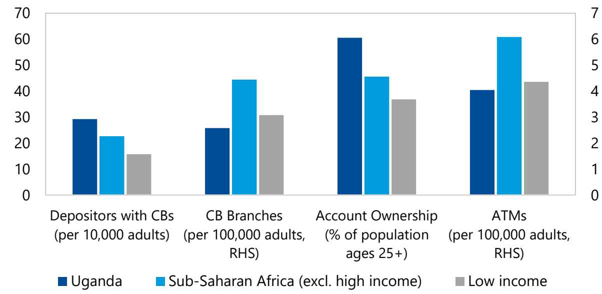
Text Figure. Financial Sector Indicators

Mobile Money Transactions
(Value and Volume)



Source: BoU and IMF staff calculations

Financial Inclusion

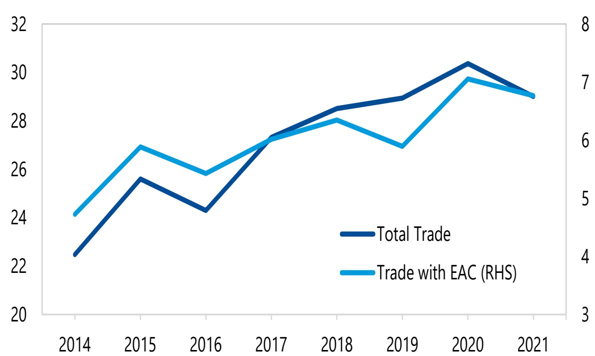


Note: The data for Account Ownership is from Global Financial Inclusion Database 2018, while the data for Depositors with CBs (per 10,000 adults), CB Branches, and ATMs per 100,000 adults are from IMF Financial Access Survey for the years of 2018, 2019 and 2019 respectively.
Source: World Development Indicators

40. Further enhancement of trade integration will help spur growth (MEFP¶46). Recent non-tariff barriers introduced during the pandemic to protect strategic industries during COVID-19—such as basic manufactures, food processing and pharmaceuticals—should be phased out once the crisis has passed. This would help promote dynamic and inclusive growth consistent with the WTO, EAC, COMESA, and African Continental Free Trade Area (AfCFTA) provisions for international trade. Uganda's commitments to the AfCFTA will require removing non-tariff barriers and harmonizing standards with trading partners, in preparation for the continental single market and to continue the recent upward trade trend toward higher levels achieved by peers (Text Figures).

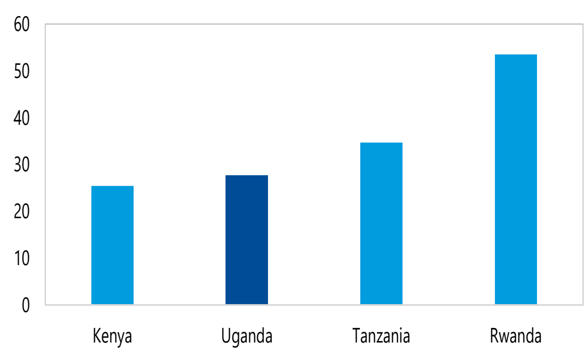
Text Figure. Trade Indicators

Ugandan Trade: Recent Trends
(Percent of GDP)



Note: Trade is the sum of exports and imports.
Source: BoU and Haver

Ugandan Trade versus Peers
(Percent of GDP)



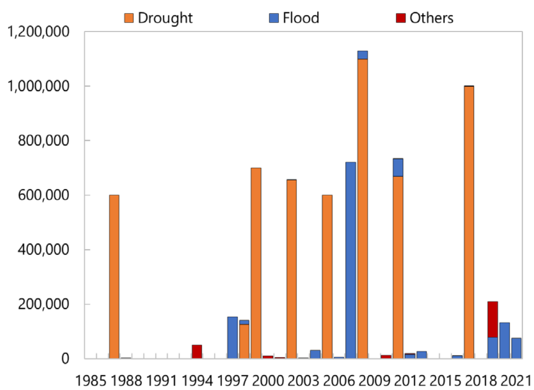
Trade is the sum of exports and imports and chart reports average from 2015-2020.
Source: Haver

41. Fostering climate adaptation policies would lead to more resilient growth (MEFP¶48). The authorities estimate that climate change damage in the agriculture, water, infrastructure, and energy sectors could collectively amount to US$273-437 billion (2.8-4.5% of cumulative prospected GDP) between 2010 and 2050.[4] Droughts and floods have affected the largest number of people but scaling up adaptation would reduce economic losses (Text Figures and SIP).[5] Priority areas in the immediate short term, which remain aligned with the NDPIII include: (i) strengthening water catchment ability; and (ii) increasing forest coverage from 14 percent to 21 percent by 2030, despite the challenges posed by COVID-19 pandemic, which diverted some of the initial reforestation funding to the health emergency. As the economy recovers, adequate resources should be reallocated to forestry projects, to halt soil erosion and foster resilience to floods, while helping reduce net carbon emissions.

Text Figure. Natural Disasters

People Affected by Disasters in Uganda (1985-2021)

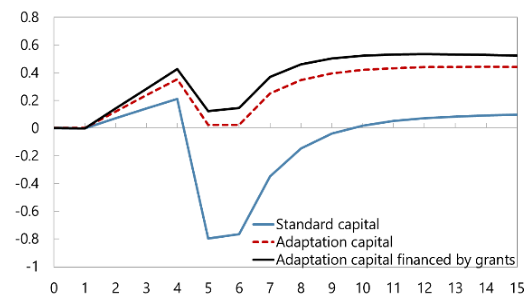
(Number of People)



Sources: EM-DAT and Fund staff calculations.

Impact of a Stylized Disaster Shock on Ugandan Real GDP

(Percent Deviations from Initial Year)



Sources: Authorities' data and IMF staff simulations with DIGNAD model.
Notes: The same budget envelope of 0.5 percent of GDP for 5 consecutive years is assumed for building standard or adaptation infrastructure. A natural disaster triggering a 1 percent decline in real GDP, in the absence of adaptation capital, is assumed to occur as soon as the investment plan is completed.

Authorities' Views

42. *The authorities agree that transformative structural reforms are essential to lift growth and create much needed employment. They see governance as a pre-requisite for private sector development, noting the progress on asset declaration but also around procurement, where work on beneficial owners is being pursued for all contracts. They highlighted their unwavering commitment to ensuring disbursed funds are used for intended purposes through regular audits. They noted that industrial sectoral policies will be needed to promote exports of high value-added products but remain committed to deeper regional trade integration in the context of the EAC and AfCFTA. They argued that climate adaptation policies would need to be aggressively pursued to limit high costs from climate change but noted that higher donor grants are needed to ensure adequate financing for this important area.*

[4] See Ministry of Water and Environment (2015), "Economic Assessment of the Impacts of Climate Change in Uganda."

[5] Staff simulations (see SIP) underscore that building adaptation infrastructure can reduce by two thirds the GDP losses at the trough triggered by a disruptive disaster and almost halve the resulting fiscal gap.

PROGRAM MODALITIES, CAPACITY BUILDING, AND OTHER ISSUES

43. The revised ITs/QPCs in FY21/22 and the new ITs/QPCs for September and December 2022 reflect the changing environment, including the latest wave of the pandemic and additional spending under the supplementary budget (Table 1, MEFP). The slowdown in growth and the extra spending to accommodate COVID-19 necessitate a downward revision in the primary balance and tax revenues program targets in December 2021 and March and June 2022. At the same time, the target on social spending has been revised upward to account for the additional spending commitments made in response to the pandemic. Similarly, to support the economy, the clearance of domestic arrears will be higher in FY21/22 than originally programmed. Revisions in the NCG target reflect deposit drawdown, partial BoU advances repayment, and the use of SDR allocation. Finally, the increased ceiling on the PV of newly contracted external public and publicly guaranteed debt is primarily driven by the postponement of a few external loans from FY20/21.

44. New PAs and SBs reinforce the goals of the program (Tables 2a, 2b and 2c, MEFP). PAs focus on: (i) completing macro-critical reform priorities that were expected to be frontloaded under the program, such as SBs on the SLA between MoFPED and BoU, the quarterly report on unpaid invoices, the regulation for enhanced due diligence for domestic politically-exposed persons; (ii) ensuring RCF governance commitments (e.g., publication of beneficial ownership of companies awarded COVID-19-related procurement contracts); and (iii) identifying measures to achieve the revised FY21/22 deficit target. Moreover, new SBs will further enhance governance, including by (i) adopting regulations and forms to lower the barriers to asset declaration access and include assets of spouses and children (SB, March 2022); (ii) establishing legal and regulatory mechanisms for timely access to accurate basic and beneficial ownership information for legal entities (June 2022); and (iii) developing and implementing tools for risk-based AML/CFT supervision (October 2022). The issuance of treasury memoranda addressing weaknesses raised by the FY20/21 audit (SB, June 2022, see Box 4) and the adoption by Parliament of the CFR (SB, July 2022) will enhance fiscal transparency. Moreover, the publication of a regulation introducing a strict sanction regime for officers responsible for unauthorized spending commitments will strengthen expenditure control (SB, June 2022), while the adoption of a tax exemption rationalization plan (SB, June 2022) will contribute to the DRMS. Finally, the expansion of Credit Bureau coverage (SB, August 2022) will enhance financial inclusion, while the Parliamentary adoption of the BoU Amendment Act (SB, September 2022) and the issuance of regulations to define proper fit and test criteria for bank shareholders (SB, September 2022) will strengthen BoU governance.

45. The program is fully financed. Since the program request, delayed funding expected for FY20/21 has been disbursed, WB funding on vaccines is now largely a grant, while new commercial syndicated loans are expected (Text Table, Table 10). Moreover, the use of the SDR allocation will also contribute to closing the financing gap in FY21/22. There are firm commitments for the first 12 months, and good prospects for financing are in place for the remainder of the arrangement.

Staff will continue to encourage the authorities to seek donor grants and IFIs' concessional lending that would be supported by the full implementation of the reform agenda.

46. Uganda retains an adequate capacity to repay the Fund (Table 10). The total amount of Fund outstanding credit would peak at SDR1,083 million, or 300 percent of quota in 2024, equivalent to around 3 percent of GDP, 17.8 percent of exports of goods and services and 38.4 percent of gross international reserves. IMF repurchases and charges peak at 2.2 percent of exports of goods and services and 8.4 percent of reserves in 2029. If COVID-19 or other risks linked to a sudden stop or increased security tensions, were to materialize, this would most likely result in a more gradual recovery, lower government revenue and a slower accumulation of reserves, which would adversely affect Uganda's capacity to repay. However, even under these circumstances, and in light of Uganda's strong track record of servicing debt, Uganda's capacity to repay would remain adequate.

Text Table. Uganda: External Financing between FY20/21 and FY23/24

(Millions of US$)

	FY2020/21		FY2021/22		FY2022/23		FY2023/24	
	ECF request	Actual	ECF request	Rev. Prog.	ECF request	Rev. Prog.	ECF request	Rev. Prog.
Financing needs	3,553	4,312	3,409	3,322	4,165	4,104	5,934	5,654
Current account deficit	3,585	4,132	3,376	3,536	3,821	4,194	5,427	5,196
Net payment to the IMF	0	0	0	0	0	0	0	0
Reserve accumulation (+=increase)	-32	180	33	-214	344	-90	507	458
Financing sources	2,701	2,824	3,031	3,308	3,909	3,850	5,702	5,400
ow World Bank 1/	404	374	234	199	100	126	103	126
ow AfDB	32	0	0	33	0	0	0	0
ow commercial banks	700	289	500	818	200	0	100	100
BOP financing gap	261	253	378	253	256	253	232	253
Prospective ECF	257	253	257	253	257	253	257	253
DSSI	4	0	121	0	-1	0	-25	0

Sources: Authorities and IMF staff estimates and projections.

1/ It includes Covid-19 Economic Crisis and Recovery Development Policy Financing approved by the Bank prior to FY20/21 and disbursed in FY20/21, UGIFT and financing for vaccination (both loans and grants, given the higher share of grants following the shift to moderate debt distress as a result of the previous DSA).

47. Safeguards Assessment. The principles amending the BoU Act that have been submitted to Cabinet address many of the concerns raised on autonomy, including by clarifying safeguards on credit provision to the government. These principles are yet to be incorporated into a draft amendment Act, following which adoption by the Parliament shall finalize the central bank legal reform. The risk management framework was revised to ensure that the risk and compliance department carries out an independent review of the BoU's risk assessments and action plans. Reporting and control of currency operations continue to be strengthened with continuous review of periodic currency reports by the Board. Work is also underway to review and approve the currency masterplan and a market study has been initiated to carry out currency costs analysis.

48. Program risks and mitigation measures. The program faces manageable risks: further waves of COVID-19; social unrest or security challenges; delayed implementation of fiscal measures and social spending; higher frequency and severity of natural disasters. In each of these cases, risks are mitigated by Uganda's moderate level of public debt and continued access to concessional financing, which would provide space to address risks and resume program implementation.

49. Data provision and Capacity Development (CD). Data provision is broadly adequate for surveillance and program monitoring. Further progress is needed in statistics, particularly on fiscal and real sectors (MEFP¶50). CD is well-aligned with program objectives (Annex VIII), with priorities focusing on revenue mobilization, public financial management, banking supervision and governance, payment systems and central bank communications.

STAFF APPRAISAL

50. The economic recovery is underway, but the pandemic has exacerbated Uganda's development challenges. While leading indicators show some strengthening of activity, the deterioration of socio-economic indicators— unemployment, poverty and learning losses from schools—could create scars that would significantly lower potential growth if left unaddressed**.**

51. Risks around the recovery remain high. New COVID-19 waves, a less benign external environment—including tighter global financing conditions— and delayed reform implementation could weigh on the outlook and increase pressures on the external and fiscal positions.

52. Program performance remains satisfactory despite the difficult environment. While all quantitative performance criteria were met, most structural reforms were completed with a delay because of low capacity in some ministries, technical difficulties, and legal/legislative requirements. In view of the uncertainties surrounding the recovery, staff supports the authorities' request to relax the FY21/22 budget target to mitigate the impact of the second COVID-19 wave and respond to new security challenges. The authorities' commitment to medium-term fiscal consolidation and four-month reserve cover remains essential to achieving program objectives.

53. Broad-based revenue and expenditure measures are needed to support a growth-friendly fiscal consolidation path consistent with a 50 percent of GDP debt anchor. The implementation of the DRMS, which relies on both tax policy—including rationalization of tax exemptions— and tax administration reforms would create revenues of at least 0.5 percent of GDP a year. Preserving and increasing social spending—including through higher budget allocation and increased spending efficiency—will be critical to meeting Uganda's large development needs. Better budget preparation—including less frequent use of supplementary budgets— and strengthened arrears and cash management would support fiscal consolidation.

54. Prudent debt management is important to reduce vulnerabilities. Uganda's debt is sustainable, with a moderate risk of debt distress. The use of half of the SDR allocation for fiscal spending on education, health and water and sanitation projects helped replace more expensive foreign commercial borrowing. In view of increased vulnerabilities, it remains important that every effort be made to seek concessional financing and enhance the debt management framework.

55. While further accommodation is needed, monetary policy should remain data dependent. With inflation subdued and expected to remain below target for some time, monetary policy easing would help support economic activity as COVID-19 crisis measures and fiscal support are being removed. With external conditions evolving rapidly, the BoU should continue to closely monitor prices and adjust its stance if inflation expectations rise persistently above the target.

56. Uganda's external position in 2021 was weaker than implied by fundamentals and desirable policy. Greater exchange rate flexibility is needed to absorb shocks and preserve external buffers. Foreign exchange interventions should be limited to smoothing excessive exchange rate fluctuations.

57. Financial stability risks should be minimized. The banking system remains well capitalized and liquid. Rising capital buffers will help reduce vulnerabilities, but care should be taken to ensure new capital regulations do not undermine the economic recovery. Bank oversight has been significantly strengthened by the adoption of the new governance guidelines, the operationalization of the new resolution policy framework and a shift to a risk-based supervisory framework.

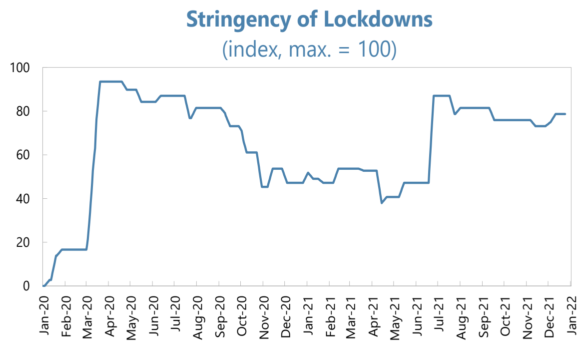
58. Advancing the structural reform agenda is critical to unlocking Uganda's growth potential. The regular audits of COVID-19 expenditures, publication of beneficial owners' information for COVID-19 contracts and enhanced scrutiny of politically exposed persons are strengthening governance reform efforts, which should be sustained—including through a more effective AML/CFT framework and improved accountability of high-level officials. Speeding up financial inclusion, fostering climate adaptation policies and improving trade integration will boost private sector development and build a faster-growing, greener economy.

59. The implementation of the safeguard's assessment recommendations will help strengthen BoU's independence. The proposed BoU Amendment Act and the new risk management framework will help address concerns about governance and minimize risks. Efforts to improve currency operations and reserve management should be pursued vigorously.

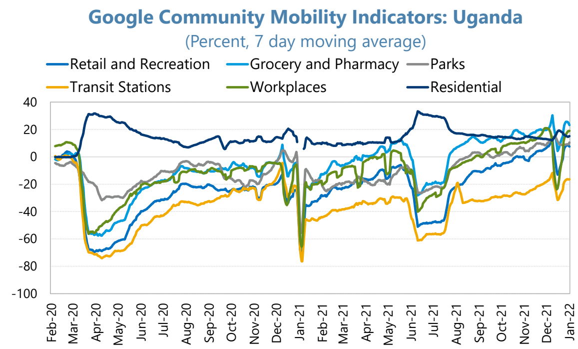
60. Staff supports the authorities' requests for completion of the First Review and modification of PCs, ITs and SBs under the ECF arrangement. The next Article IV consultation is expected to be held within 24 months in accordance with the Executive Board decision on consultation cycles for members with Fund arrangements.

Figure 1. COVID-19 Developments

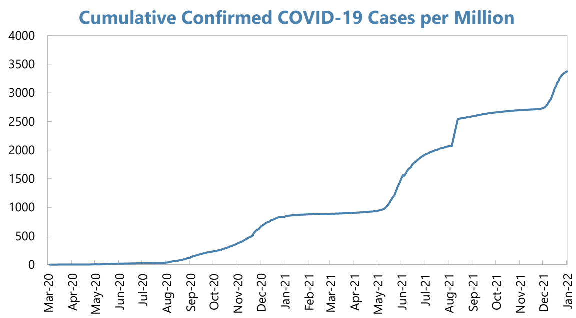
Uganda implemented a very stringent first lockdown that was being eased gradually when the second wave of Covid infections hit, leading to a second partial lockdown…



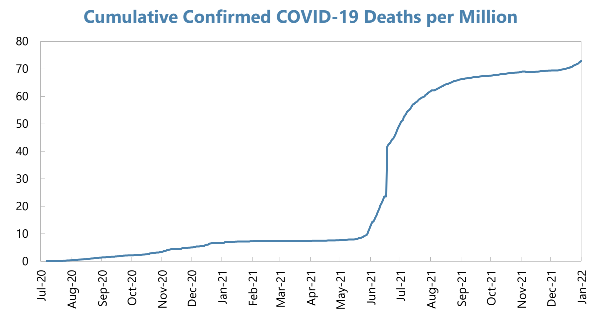
…which again resulted in a sharp decline in mobility followed by a slow and volatile recovery.



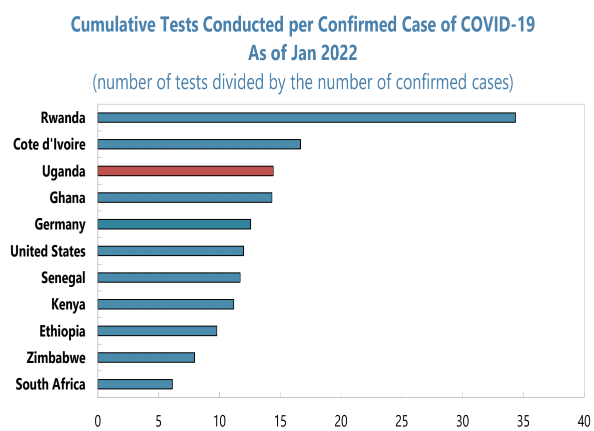
After some flattening in COVID-19 cases, the second wave led to a sharp increase in cases…



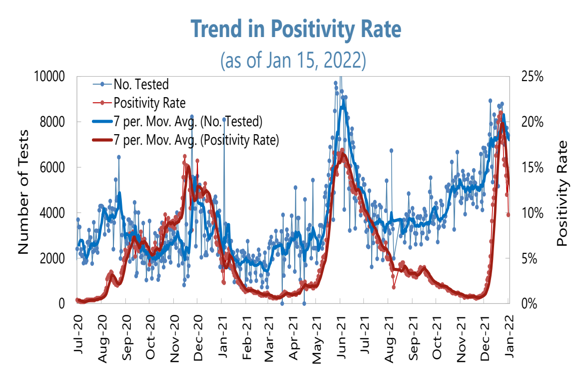
…and some increase in mortality rates.



Testing, weak by international comparison, needs to pick-up …



…but the positivity rate is declining.

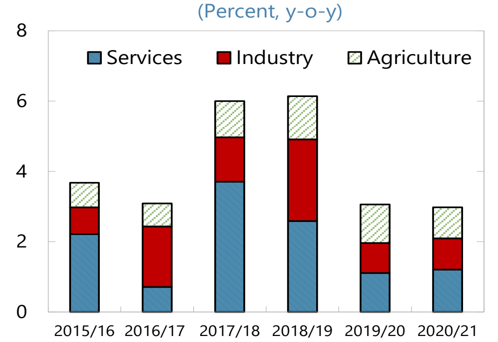


Source: Our World in Data, Oxford COVID-19 Govt Response Tracker, Google COVID-19 Community Mobility Trends

Figure 2. Real Sector Developments

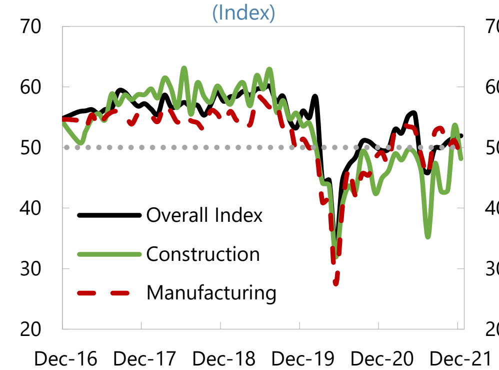
Before being severely impacted by the second COVID-19 wave and the partial lockdown, the services industry was the largest contributor to growth.

GDP Growth Contribution by Sector
(Percent, y-o-y)



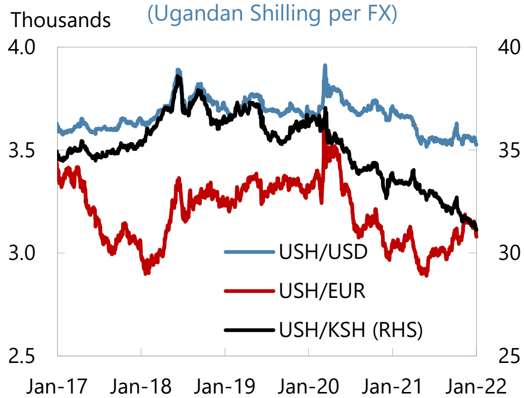
Lately, the decline in services led to strong negative spillovers into the rest of the economy, delaying the recovery that is now under way.

Business Tendency Indicators
(Index)



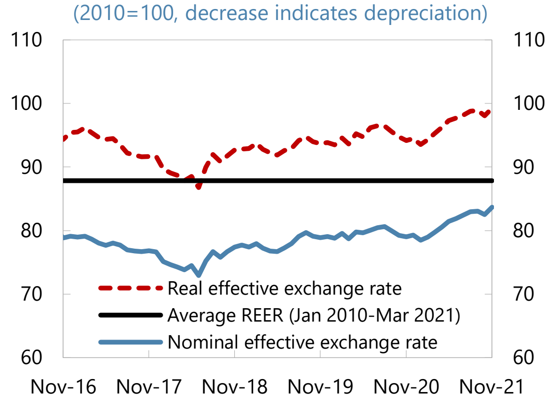
Portfolio inflows contributed to the appreciation of the Shilling, despite some recent depreciation…

Nominal Exchange Rate
(Ugandan Shilling per FX)



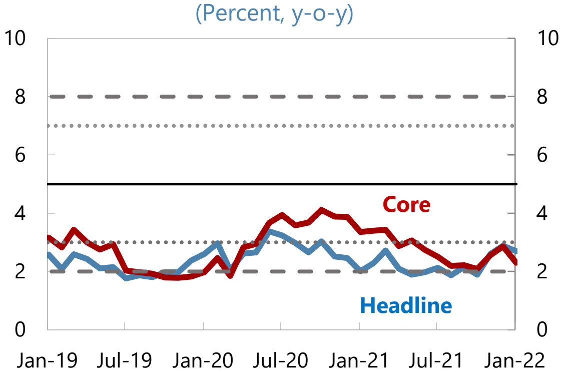
…while the REER continued to appreciate.

Effective Exchange Rates
(2010=100, decrease indicates depreciation)



After an increase between September and December 2021,, inflation came down again in January 2022, with core inflation well below the target.

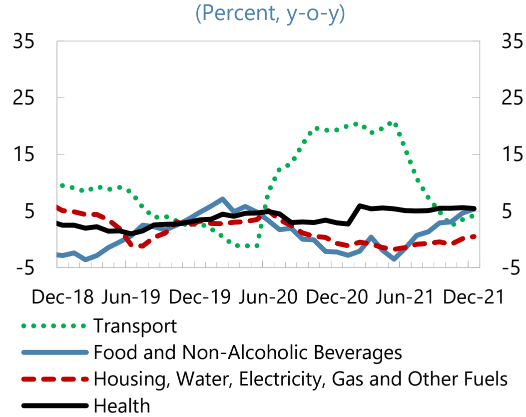
Inflation Rates*
(Percent, y-o-y)



* Black solid line denotes medium-term core inflation target (5 percent). Dash and dot lines show the outer and inner bands of average core inflation target.

In the headline inflation aggregate, the increase in food prices was offset by a decrease in transport.

Inflation by Component
(Percent, y-o-y)

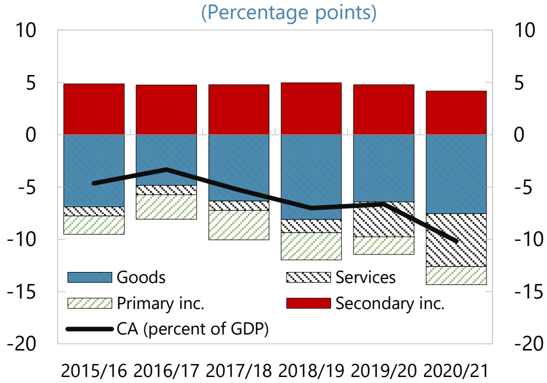


Source: Uganda Authorities and IMF staff calculations

Figure 3. External Sector Developments

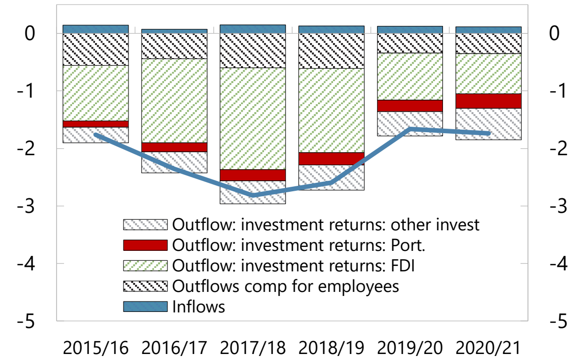
The current account deficit has widened due to higher imports and a decline in services exports…

Contributions to Current Account
(Percentage points)



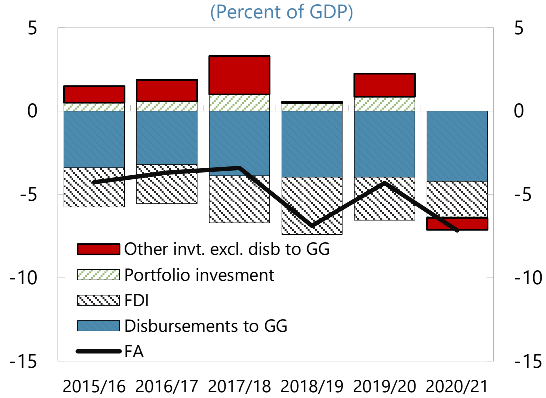
…while the primary income balance remained stable at a low level.

Contributions to Primary Income Balance
(Percent of GDP)



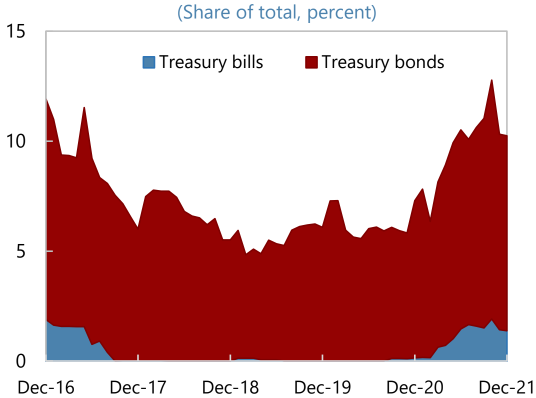
The deficit is mainly financed by budget and project support loans….

Financial Account
(Percent of GDP)



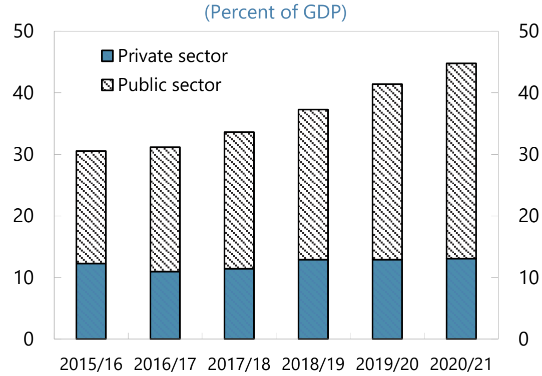
… and foreign investors' holding of government debt – mostly in long-term bonds – is 10% of total.

Government Securities Held by Offshore Investors
(Share of total, percent)



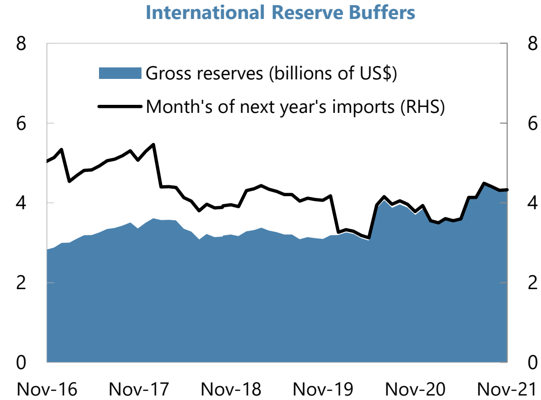
At the same time, the government has increased borrowing in foreign currency…

External Debt
(Percent of GDP)



…that helped avoid sharper decline in reserve buffers in view of the large current account deficit.

International Reserve Buffers

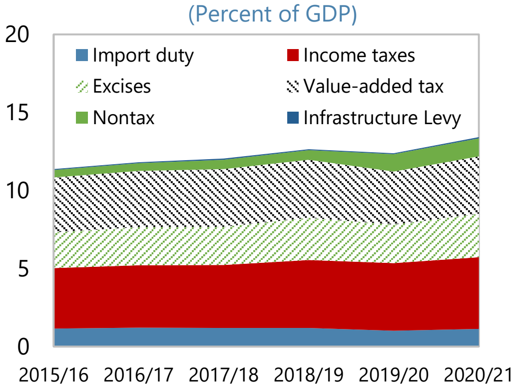


Source: BoU and IMF staff calculations

Figure 4. Fiscal Developments

Tax revenues increased in FY20/21 reflecting the economic recovery…

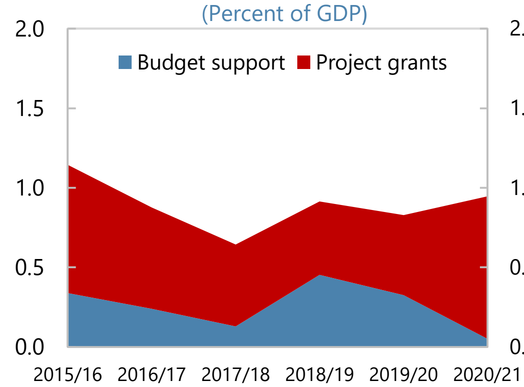
Tax & Non-tax Revenue
(Percent of GDP)



* Nontax revenues include oil revenues as well.

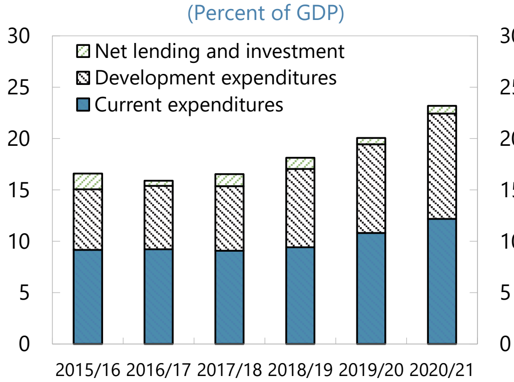
…and grants also increased slightly.

Grants
(Percent of GDP)



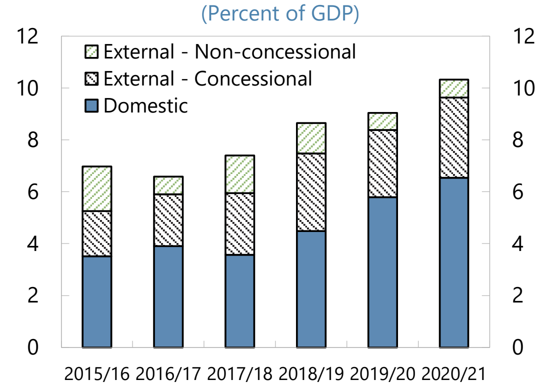
Fiscal support measures in response to the pandemic contributed to an increase in spending…

Total Expenditures
(Percent of GDP)



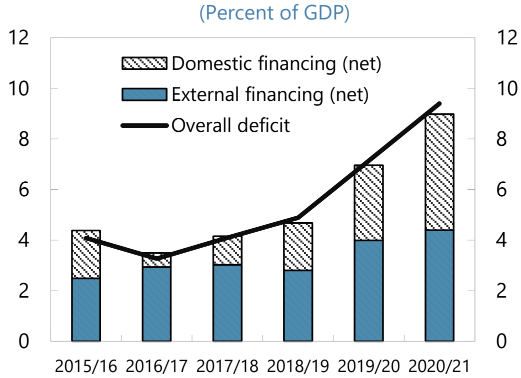
…with development expenditure mainly financed domestically.

Development Expenditures
(Percent of GDP)



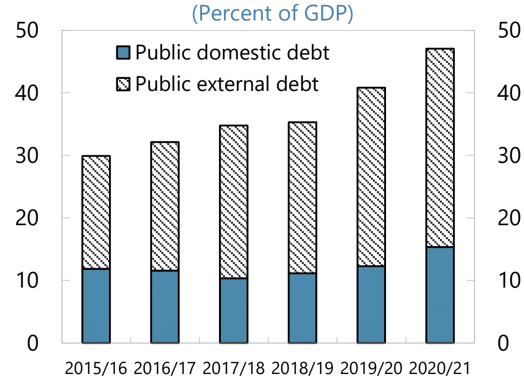
Fiscal deficit was lower than expected, at the June 2021 ECF program request due to higher tax revenues and lower execution of investment projects…

Overall Deficit
(Percent of GDP)



…and was financed through both domestic and external borrowing, leading to an increase in public debt. relative to FY 19/20 (even if lower than initially programmed)

Public Debt
(Percent of GDP)

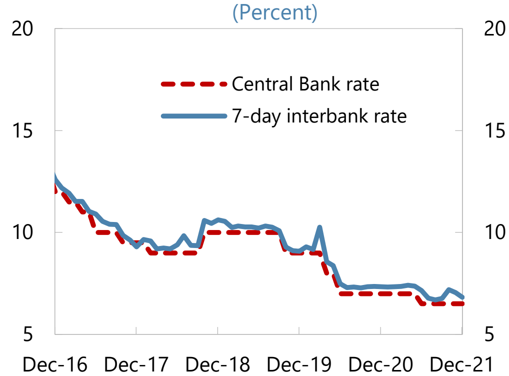


Source: BoU and IMF staff calculations

Figure 5. Monetary Developments

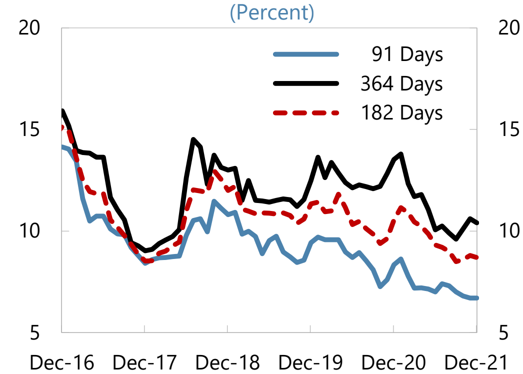
To support the recovery, in June 2021 the policy rate was reduced to its lowest since 2011…

Central Bank and Interbank Rates
(Percent)



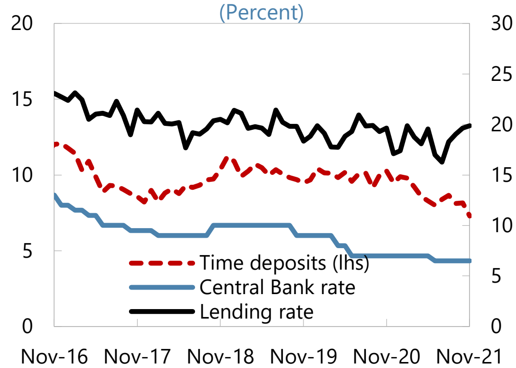
…while short-term yields have declined significantly, mainly as investor appetite for government paper remained strong and financing needs were reduced.

Evolution of Treasury Bill Rates
(Percent)



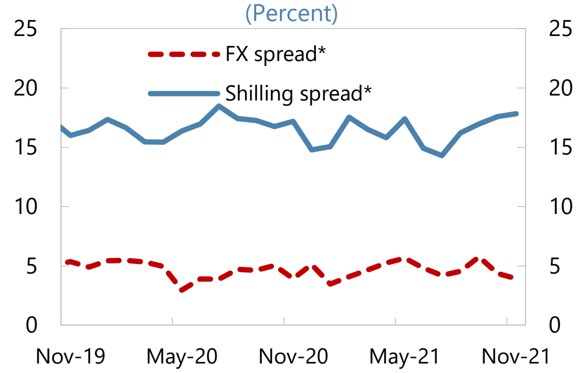
Lending rates have remained sticky…

Interest Rate Structure
(Percent)



…and the spread between FX and shilling rates was stable.

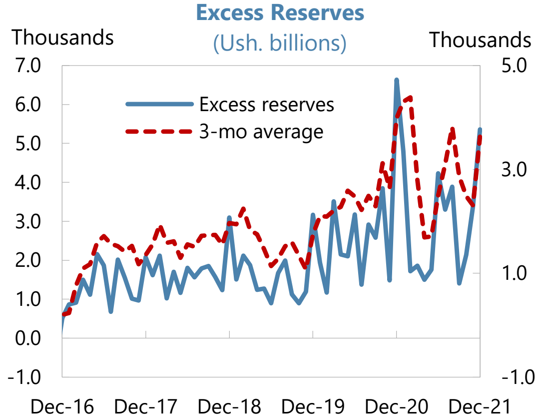
Interest Rate Spreads
(Percent)



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

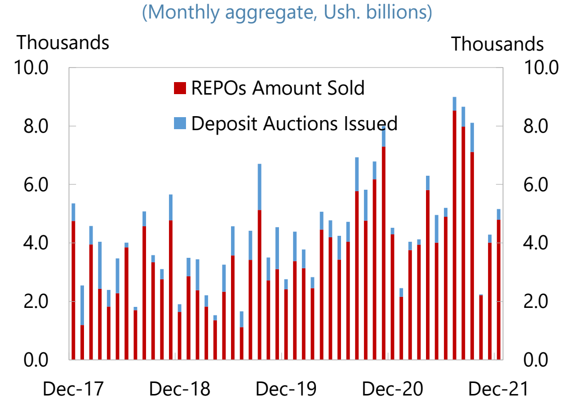
Excess liquidity rose overall in 2021, despite a recent temporary decline…

Excess Reserves
(Ush. billions)



…as the BoU continues to increase its use of mopping up instruments.

Repurchase Agreements and Deposit Auctions
(Monthly aggregate, Ush. billions)



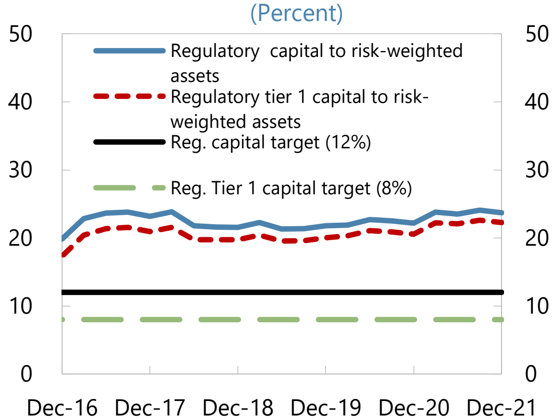
Source: BoU and IMF staff calculations

Figure 6. Financial Sector Developments

Banks remain well capitalized...

Selected Financial Sector Indicators

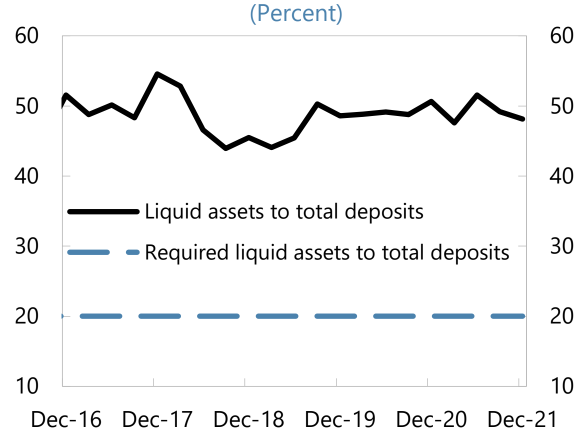
(Percent)



...with comfortable liquidity buffers.

Liquidity Ratio

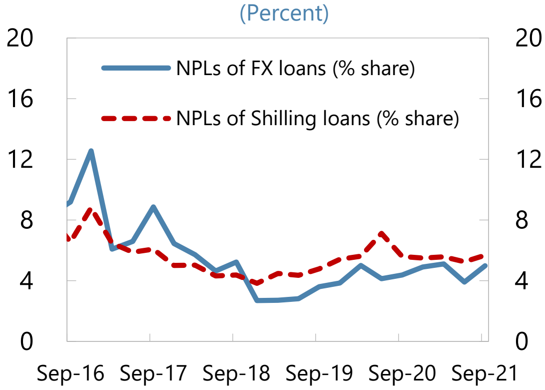
(Percent)



After an initial stabilization, asset quality appears to be marginally deteriorating again...

NPLs by Lending Currency

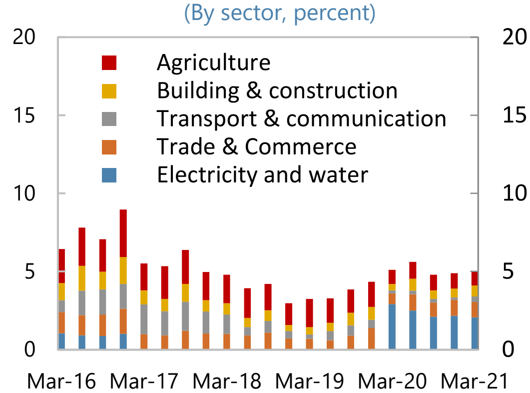
(Percent)



...with water and electricity accounting for the largest share of NPLs.

NPLs as a Share of Total Loans

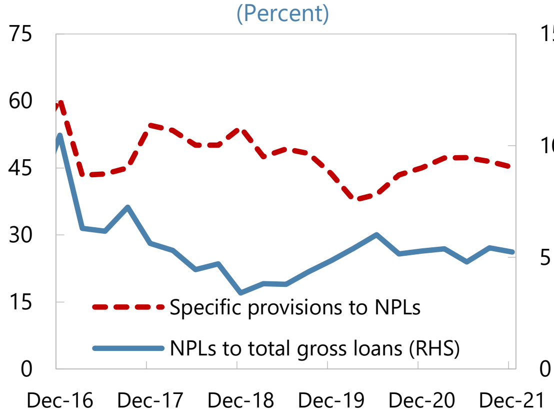
(By sector, percent)



As asset quality declined, provisioning has increased...

Selected Asset Quality Indicators

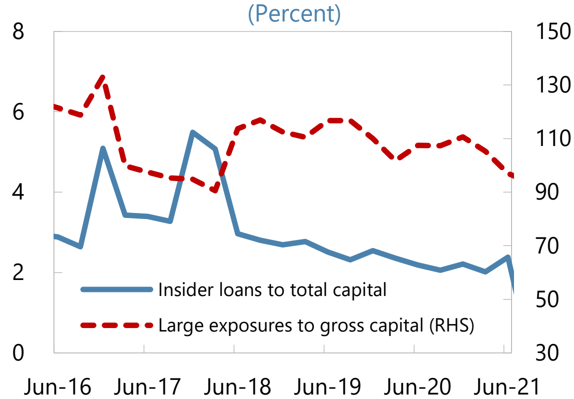
(Percent)



...and while exposure to big loans has started decreasing, insider loans show some recent pick-up after declining.

Asset Quality: Large Exposures [1]

(Percent)



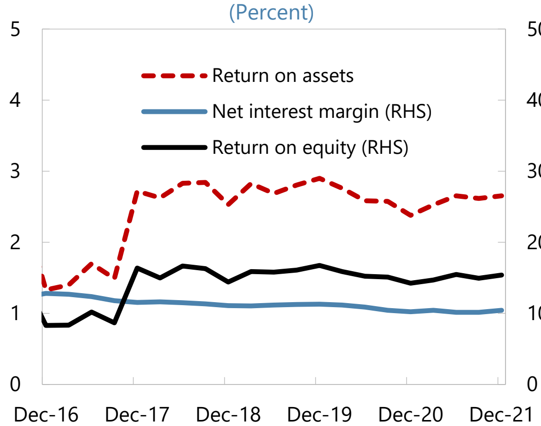
[1] Data include Crane bank that has been taken over and sold.

Source: BoU and IMF staff calculations

Figure 7. Other Financial Sector Developments

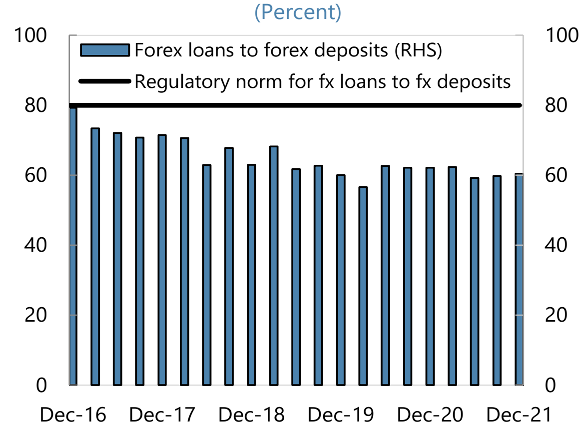
Banks' earnings have started showing some recovery.

Earnings and Profitability
(Percent)



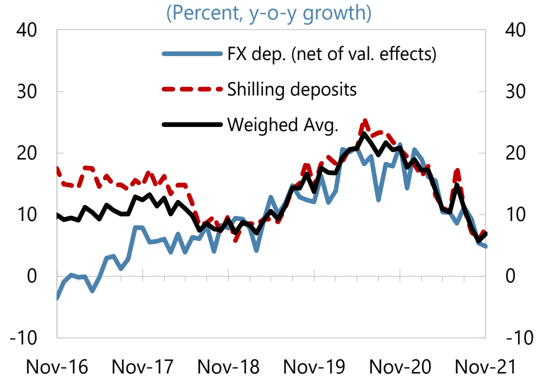
Foreign exchange loans remain below regulatory limits.

Market Sensitivity
(Percent)



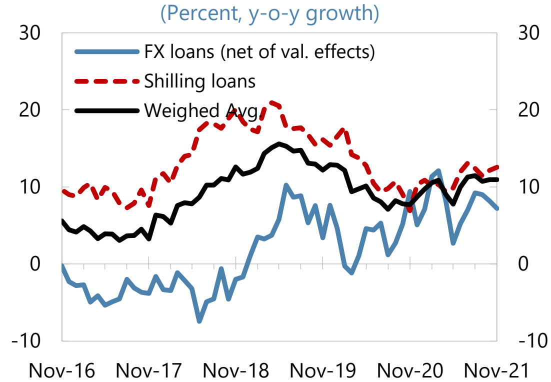
Forex deposit growth has marginally surpassed that of shilling deposits, though overall growth is coming down.

Evolution of Private Sector Deposits
(Percent, y-o-y growth)



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

Evolution of Private Sector Lending
(Percent, y-o-y growth)

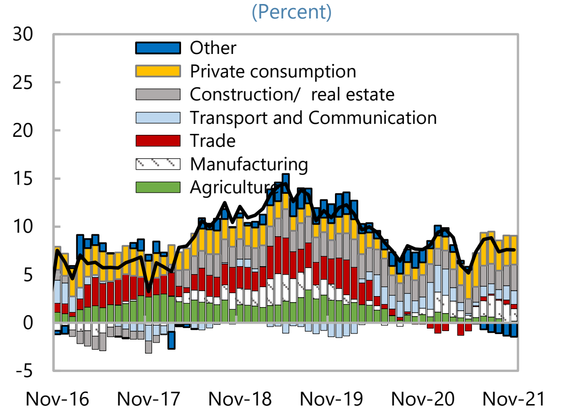


The stock market declined again after showing initial signs of gradual economic recovery.

Stock Market Index
(Index)

Private sector credit growth is driven by consumption loans, manufacturing and construction, while trade remains weak.

Contribution to Private Credit Growth
(Percent)



Source: BoU and IMF staff calculations

Table 1. Uganda: Selected Economic and Financial Indicators, FY2019/2026/27[1,2]

	2019/20	2020/21		2021/22		2022/23		2023/24		2024/25	2025/26	2026/27
	Act.	ECF request	Act.	ECF request	Rev. Prog.	ECF request	Rev. Prog.	ECF request	Rev. Prog.	Proj.		
	(Annual percentage change, unless otherwise indicated)											
Output, prices, and exchange rate												
Real GDP	2.9	3.3	3.4	4.3	3.8	6.4	6.0	7.0	6.5	6.7	7.1	7.0
Non-Oil real GDP	2.9	3.3	3.4	4.3	3.8	6.4	6.0	7.0	6.5	6.2	6.1	6.0
GDP deflator	3.1	2.8	2.5	4.8	2.8	4.6	4.0	4.6	5.3	5.2	5.1	5.0
Headline inflation (period average)	2.3	4.7	2.5	5.0	3.5	5.0	4.6	5.0	5.0	5.0	5.0	5.0
Core inflation (period average)	2.2	5.7	3.5	5.0	3.0	5.0	4.4	5.0	5.0	5.0	5.0	5.0
Terms of trade ("–" = deterioration)	0.3	3.1	-7.0	1.9	8.1	0.1	1.1	-0.6	1.1	0.7	0.6	0.3
Exchange Rate (Ugandan Shilling/US$)	-0.3	…	-2.0	…	…	…	…	…	…	…	…	…
Real effective exchange rate ("–" = depreciation)	2.3	…	1.3	…	…	…	…	…	…	…	…	…
Money and credit												
Broad money (M3)	23.2	14.7	8.5	9.3	9.1	11.5	11.5	12.2	14.8	12.5	12.8	12.4
Credit to non-government sector	8.8	10.6	8.3	15.2	12.0	14.8	13.5	13.6	14.0	14.1	15.0	15.4
Bank of Uganda policy rate (percent)[3]	7.0	7.0	6.5	…	6.5	…	…	…	…	…	…	…
M3/GDP (percent)	21.5	23.3	22.0	23.3	22.5	23.3	22.8	23.4	23.3	23.4	23.4	23.4
NPLs (percent of total loans)[3]	6.0	5.3	4.8	…	5.4	…	…	…	…	…	…	…
	(Percent of GDP, unless otherwise indicated)											
Central government budget												
Revenue and grants	13.2	14.6	14.4	14.7	14.8	14.9	14.6	15.3	15.1	15.7	17.5	19.1
Of which: grants	0.8	1.5	0.9	0.9	1.1	0.5	0.5	0.4	0.4	0.3	0.2	0.2
Of which: oil revenue	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1	1.4	2.6
Expenditure	20.3	24.5	23.7	21.2	22.2	18.6	19.3	18.8	18.7	19.3	20.4	20.5
Of which: Current	10.8	12.5	12.3	12.2	12.7	11.3	11.0	11.1	11.0	11.1	11.6	11.9
Of which: Capital[4]	8.6	10.4	10.2	8.7	9.0	7.1	8.1	7.6	7.6	8.2	8.8	8.3
Primary balance	-5.0	-7.1	-6.7	-3.4	-4.4	-0.9	-1.8	-0.9	-0.7	-0.8	-0.3	-1.7
Overall balance	-7.1	-9.9	-9.4	-6.4	-7.5	-3.7	-4.7	-3.5	-3.5	-3.5	-3.0	-2.3
Excluding budget support grants	-7.5	-10.3	-9.4	-6.5	-7.5	-3.8	-4.7	-3.5	-3.5	-3.5	-3.0	-2.0
Of which: Net domestic borrowing	3.0	4.1	4.6	1.7	3.0	0.6	2.1	0.0	1.2	1.2	0.5	1.6
Public debt												
Public gross debt[5]	41.9	50.2	49.1	53.5	52.9	53.0	53.1	52.0	52.1	50.8	48.8	45.6
External[6]	28.6	33.7	31.7	36.9	34.1	37.5	34.1	38.2	34.0	33.5	33.2	31.6
Domestic	13.3	16.5	17.4	16.6	18.8	15.5	19.0	13.8	18.1	17.3	15.6	13.9
Investment and savings												
Investment	27.0	31.4	28.6	29.4	27.4	33.1	27.3	38.6	26.8	27.3	28.0	27.8
Public	8.6	10.4	10.2	8.7	9.0	7.1	8.1	7.6	7.6	8.2	8.8	8.3
Private	17.9	20.7	18.3	20.7	18.3	26.0	19.2	31.0	19.2	19.2	19.2	19.2
Savings	20.3	22.3	18.4	21.3	19.4	24.5	18.6	27.2	16.8	15.3	16.0	17.2
Public	1.6	0.1	0.5	1.8	1.1	3.0	3.1	3.9	3.8	4.4	5.6	7.1
Private	18.7	22.1	18.0	19.4	18.3	21.5	15.5	23.4	13.0	10.9	10.4	10.1
External sector												
Current account balance	-6.7	-9.2	-10.2	-8.2	-8.0	-8.6	-8.8	-11.3	-9.9	-12.0	-11.9	-10.6
Current account balance (excluding grants)	-6.8	-9.6	-10.3	-8.3	-8.1	-8.8	-8.8	-11.4	-10.0	-12.0	-12.1	-10.8
Exports (goods and services)	12.0	15.4	16.3	17.2	16.4	17.2	16.6	17.3	16.6	16.4	17.1	18.1
Imports (goods and services)	20.2	27.2	28.9	27.6	26.7	28.6	25.2	31.9	23.8	23.4	22.8	21.3
Gross international reserves												
In billions of US$	3.9	3.8	4.2	3.8	4.2	4.2	4.1	4.7	4.5	5.1	5.5	5.5
In months of next year's imports of goods and services	3.9	4.0	4.2	3.6	3.8	3.3	3.3	3.2	3.2	3.4	3.6	3.8
Memorandum items:												
GDP at current market prices												
Ush. billion	139,697	148,278	147,963	162,068	157,884	180,359	174,042	201,802	195,179	219,085	246,499	277,048
US$ billion	37.6	39.1	40.6	41.2	44.0	44.3	47.9	47.9	52.2	56.7	62.0	67.5
GDP per capita (Nominal US$)	926	934	971	956	1,022	997	1,078	1,048	1,142	1,204	1,278	1,338
Population (million)[7]	…	…	…	…	…	…	…	…	…	…	…	…
Interest payments (in percent of revenue)	17.0	21.2	20.1	22.1	23.0	19.5	20.7	17.5	19.2	17.9	15.3	12.6
Gross international reserves excluding oil project financing and investment related imports (in mths of imports)		4.0	4.2	4.0	4.2	4.0	4.0	4.1	4.1	4.4	4.6	5.2

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: Sep-2021; BoU policy rate: Dec-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, FY2019/2026/27[1]

(Billions of Ugandan Shillings)

	2019/20	2020/21		2021/22		2022/23		2023/24		2024/25	2025/26	2026/27
	Act.	ECF request	Act.	ECF request	Rev. Prog.	ECF request	Rev. Prog.	ECF request	Rev. Prog.	Proj.		
Total revenue and grants	**18,442**	**21,659**	**21,239**	**23,882**	**23,295**	**26,836**	**25,418**	**30,880**	**29,551**	**34,448**	**43,024**	**53,016**
Revenue	17,286	19,432	19,839	22,425	21,501	25,913	24,585	30,101	28,854	33,762	42,422	52,506
Tax	15,912	17,873	18,337	20,837	20,305	24,097	23,265	27,992	27,087	31,462	36,631	42,556
Import duty	1,209	1,514	1,403	2,071	1,873	2,507	2,355	2,779	2,778	3,285	3,950	4,686
Income taxes	6,045	6,573	6,805	7,398	7,298	8,480	8,075	9,735	9,179	10,647	12,287	14,246
Excises	3,462	3,691	4,119	4,288	4,476	4,903	4,839	5,811	5,869	6,761	7,784	9,066
Value-added tax	4,732	5,576	5,439	6,253	5,579	7,266	6,516	8,549	7,488	8,716	10,142	11,711
Infrastructure levy	82	103	95	120	97	139	111	168	133	160	188	222
Other taxes	382	415	476	706	980	802	1,369	952	1,639	1,892	2,279	2,625
Nontax	1,374	1,560	1,502	1,588	1,196	1,816	1,320	2,108	1,767	2,300	5,791	9,950
o/w: Oil revenue	0	130	141	0	0	0	0	0	0	284	3,461	7,320
Grants	1,156	2,226	1,400	1,457	1,794	923	833	779	698	686	602	511
Budget support	455	627	75	77	91	67	59	23	20	21	20	0
Project grants	701	1,599	1,325	1,380	1,703	857	774	756	678	666	582	511
Expenditures and net lending	**28,403**	**36,304**	**35,140**	**34,281**	**35,114**	**33,549**	**33,568**	**37,895**	**36,418**	**42,201**	**50,318**	**56,884**
Current expenditures	15,103	18,582	18,165	19,693	20,088	20,357	19,119	22,351	21,433	24,313	28,663	32,885
Wages and salaries	4,861	5,203	5,180	5,526	5,625	5,803	5,533	6,393	6,234	6,891	8,120	9,363
Interest payments	2,932	4,114	3,990	4,946	4,947	5,052	5,095	5,254	5,538	6,029	6,493	6,623
Other current	7,310	9,265	8,995	9,221	9,516	9,502	8,490	10,705	9,661	11,392	14,050	16,900
Development expenditures	12,064	15,421	15,085	14,074	14,276	12,792	14,054	15,344	14,785	17,888	21,655	23,112
Externally-financed projects	3,967	5,489	5,479	6,419	5,712	6,351	6,381	8,302	5,858	8,317	10,239	7,805
Of which: Non-concessional borrowing	359	1,399	908	1,807	1,416	2,459	1,742	4,671	2,388	4,730	7,260	4,828
Government of Uganda investment	8,097	9,932	9,606	7,655	8,564	6,441	7,674	7,042	8,927	9,571	11,416	15,307
Of which: Oil-related investment	0	0	0	0	761	0	1,249	0	893	486	82	0
Net lending and investment	831	1,497	1,096	113	147	0	0	0	0	0	0	886
Hydro-power projects	631	560	159	113	147	0	0	0	0	0	0	886
Recapitalization	200	482	482	0	0	0	0	0	0	0	0	0
Of which: Bank of Uganda	200	482	482	0	0	0	0	0	0	0	0	0
Other net lending	0	455	455	0	0	0	0	0	0	0	0	0
Other spending (incl. arrears clearance)	405	805	794	400	603	400	396	200	200	0	0	0
Overall balance	**-9,960**	**-14,646**	**-13,902**	**-10,399**	**-11,819**	**-6,713**	**-8,150**	**-7,016**	**-6,867**	**-7,752**	**-7,293**	**-3,867**
Primary balance	**-7,028**	**-10,532**	**-9,912**	**-5,453**	**-6,872**	**-1,661**	**-3,056**	**-1,762**	**-1,329**	**-1,723**	**-801**	**2,755**
Financing	**9,713**	**14,646**	**13,286**	**9,387**	**10,015**	**5,665**	**7,230**	**5,932**	**5,921**	**7,752**	**7,293**	**3,867**
External financing (net)	5,563	8,503	6,488	6,590	6,139	4,513	3,541	5,971	3,500	5,215	6,028	3,410
Disbursement	6,379	9,738	7,442	8,040	7,565	6,717	5,834	8,401	5,984	7,871	9,903	7,571
Budget support[2]	2,415	5,288	3,322	2,888	3,453	1,222	227	855	804	219	246	277
Concessional project loans	3,037	2,491	3,101	3,232	2,593	3,035	3,865	2,874	2,792	2,921	2,396	2,467
Non-concessional project loans	928	1,959	1,019	1,920	1,519	2,459	1,742	4,671	2,388	4,730	7,260	4,828
Amortization (–)[3,4]	-816	-1,235	-954	-1,450	-1,426	-2,204	-2,294	-2,430	-2,484	-2,655	-3,875	-4,162
Exceptional financing	0	0	0	0	0	0	0	0	0	0	0	0
Domestic financing (net)	4,150	6,143	6,798	2,797	3,875	1,152	3,689	-39	2,421	2,537	1,266	458
Bank financing	2,291	3,364	2,425	1,499	2,228	576	1,220	-20	586	1,269	889	451
Bank of Uganda[4]	939	-1,063	198	200	580	0	-1,250	0	-1,250	0	512	444
Commercial banks	1,352	4,427	2,227	1,299	1,648	576	2,470	-20	1,836	1,269	377	7
Nonbank financing	1,859	2,778	4,373	1,299	1,648	576	2,470	-20	1,836	1,269	377	7
Errors and omissions / Financing gap[5]	**247**	**0**	**615**	**1,012**	**1,804**	**1,048**	**920**	**1,084**	**946**	**0**	**0**	**0**
Use of SDR Allocation				0	896							
ECF				1,012	908	1,048	920	1,084	946			
Memorandum Items:												
Social spending (excluding external financing)	4,785	5,216	5,210	5,895	6,303	6,061	6,165	7,035	7,002	8,268	9,525	11,260
Security spending (excluding external financing)	4,150	5,215	5,213	3,596	4,222	2,708	2,443	3,402	2,642	2,934	3,338	3,945

Sources: Ugandan authorities and IMF staff estimates and projections.

1 Fiscal year runs from July 1 to June 30.

2 Budget support loans include disbursements under the ECF-supported program for historical periods.

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.

5 Errors and omissions for historical periods and financing gap for the projection period.

Table 2b. Uganda: Fiscal Operations of the Central Government, FY2019/2026/27[1]

(Percent of GDP)

	2019/20	2020/21		2021/22		2022/23		2023/24		2024/25	2025/26	2026/27
	Act.	ECF request	Act.	ECF request	Rev. Prog.	ECF request	Rev. Prog.	ECF request	Rev. Prog.	Proj.		
Total revenue and grants	**13.2**	**14.6**	**14.4**	**14.7**	**14.8**	**14.9**	**14.6**	**15.3**	**15.1**	**15.7**	**17.5**	**19.1**
Revenue	12.4	13.1	13.4	13.8	13.6	14.4	14.1	14.9	14.8	15.4	17.2	19.0
Tax	11.4	12.1	12.4	12.9	12.9	13.4	13.4	13.9	13.9	14.4	14.9	15.4
Import duty	0.9	1.0	0.9	1.3	1.2	1.4	1.4	1.4	1.4	1.5	1.6	1.7
Income taxes	4.3	4.4	4.6	4.6	4.6	4.7	4.6	4.8	4.7	4.9	5.0	5.1
Excises	2.5	2.5	2.8	2.6	2.8	2.7	2.8	2.9	3.0	3.1	3.2	3.3
Value-added tax	3.4	3.8	3.7	3.9	3.5	4.0	3.7	4.2	3.8	4.0	4.1	4.2
Infrastructure levy	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other taxes	0.3	0.3	0.3	0.4	0.6	0.4	0.8	0.5	0.8	0.9	0.9	0.9
Nontax	1.0	1.1	1.0	1.0	0.8	1.0	0.8	1.0	0.9	1.1	2.3	3.6
o/w: Oil revenue	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1	1.4	2.6
Grants	0.8	1.5	0.9	0.9	1.1	0.5	0.5	0.4	0.4	0.3	0.2	0.2
Budget support	0.3	0.4	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project grants	0.5	1.1	0.9	0.9	1.1	0.5	0.4	0.4	0.3	0.3	0.2	0.2
Expenditures and net lending	**20.3**	**24.5**	**23.7**	**21.2**	**22.2**	**18.6**	**19.3**	**18.8**	**18.7**	**19.3**	**20.4**	**20.5**
Current expenditures	10.8	12.5	12.3	12.2	12.7	11.3	11.0	11.1	11.0	11.1	11.6	11.9
Wages and salaries	3.5	3.5	3.5	3.4	3.6	3.2	3.2	3.2	3.2	3.1	3.3	3.4
Interest payments	2.1	2.8	2.7	3.1	3.1	2.8	2.9	2.6	2.8	2.8	2.6	2.4
Other current	5.2	6.2	6.1	5.7	6.0	5.3	4.9	5.3	5.0	5.2	5.7	6.1
Development expenditures	8.6	10.4	10.2	8.7	9.0	7.1	8.1	7.6	7.6	8.2	8.8	8.3
Externally-financed projects	2.8	3.7	3.7	4.0	3.6	3.5	3.7	4.1	3.0	3.8	4.2	2.8
Of which: Non-concessional borrowing	0.3	0.9	0.6	1.1	0.9	1.4	1.0	2.3	1.2	2.2	2.9	1.7
Government of Uganda investment	5.8	6.7	6.5	4.7	5.4	3.6	4.4	3.5	4.6	4.4	4.6	5.5
Of which: Oil-related investment	0.0	0.0	0.0	0.0	0.5	0.0	0.7	0.0	0.5	0.2	0.0	0.0
Net lending and investment	0.6	1.0	0.7	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.3
Hydro-power projects	0.5	0.4	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.3
Recapitalization	0.1	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: Bank of Uganda	0.1	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other net lending	0.0	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other spending (incl. arrears clearance)	0.3	0.5	0.5	0.2	0.4	0.2	0.2	0.1	0.1	0.0	0.0	0.0
Overall balance	**-7.1**	**-9.9**	**-9.4**	**-6.4**	**-7.5**	**-3.7**	**-4.7**	**-3.5**	**-3.5**	**-3.5**	**-3.0**	**-1.4**
Primary balance	**-5.0**	**-7.1**	**-6.7**	**-3.4**	**-4.4**	**-0.9**	**-1.8**	**-0.9**	**-0.7**	**-0.8**	**-0.3**	**1.0**
Financing	**7.0**	**9.9**	**9.0**	**5.8**	**6.3**	**3.1**	**4.2**	**2.9**	**3.0**	**3.5**	**3.0**	**1.4**
External financing (net)	4.0	5.7	4.4	4.1	3.9	2.5	2.0	3.0	1.8	2.4	2.4	1.2
Disbursement	4.6	6.6	5.0	5.0	4.8	3.7	3.4	4.2	3.1	3.6	4.0	2.7
Budget support[2]	1.7	3.6	2.2	1.8	2.2	0.7	0.1	0.4	0.4	0.1	0.1	0.1
Concessional project loans	2.2	1.7	2.1	2.0	1.6	1.7	2.2	1.4	1.4	1.3	1.0	0.9
Non-concessional project loans	0.7	1.3	0.7	1.2	1.0	1.4	1.0	2.3	1.2	2.2	2.9	1.7
Amortization (–)[3,4]	-0.6	-0.8	-0.6	-0.9	-0.9	-1.2	-1.3	-1.2	-1.3	-1.2	-1.6	-1.5
Exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing (net)	3.0	4.1	4.6	1.7	2.5	0.6	2.1	0.0	1.2	1.2	0.5	0.2
Bank financing	1.6	2.3	1.6	0.9	1.4	0.3	0.7	0.0	0.3	0.6	0.4	0.2
Bank of Uganda[4]	0.7	-0.7	0.1	0.1	0.4	0.0	-0.7	0.0	-0.6	0.0	0.2	0.2
Commercial banks	1.0	3.0	1.5	0.8	1.0	0.3	1.4	0.0	0.9	0.6	0.2	0.0
Nonbank financing	1.3	1.9	3.0	0.8	1.0	0.3	1.4	0.0	0.9	0.6	0.2	0.0
Errors and omissions / Financing gap[5]	**0.2**	**0.0**	**0.4**	**0.7**	**1.1**	**0.6**	**0.5**	**0.5**	**0.5**	**0.0**	**0.0**	**0.0**
Use of SDR Allocation					0.6							
ECF				0.7	0.6	0.6	0.5	0.5	0.5	0.0	0.0	0.0
Memorandum Items:												
Social spending (excluding external financing)	3.4	3.5	3.5	3.6	4.0	3.4	3.5	3.5	3.6	3.8	3.9	4.1
Security spending (excluding external financing)	3.0	3.5	3.5	2.2	2.7	1.5	1.4	1.5	1.4	1.3	1.4	1.4

Sources: Ugandan authorities and IMF staff estimates and projections.

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

[2] Budget support loans include disbursements under the ECF-supported program for historical periods.

[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.

[5] Errors and omissions for historical periods and financing gap for the projection period.

Table 3. Uganda: Monetary Accounts, FY2019/2026/27[1]
(Billions of Ugandan Shillings, unless otherwise indicated)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Act.			Rev. Prog.			Proj.	
Depository Corporations Survey[2]								
Net foreign assets	16,224	16,462	17,313	20,172	23,407	24,609	24,807	27,152
Bank of Uganda	14,718	15,574	15,892	18,468	21,650	22,857	22,835	23,852
Commercial banks	1,506	888	1,421	1,704	1,757	1,753	1,972	3,300
Net domestic assets	13,906	16,230	18,278	19,509	22,133	26,628	32,976	37,792
Claims on public sector (net)[3]	6,944	9,389	10,984	13,761	15,950	17,201	17,578	17,584
Claims on central government (net)	6,895	9,318	10,870	13,647	15,836	17,087	17,464	17,471
Claims on the private sector	17,423	18,861	21,131	23,984	27,341	31,195	35,863	41,387
Other items (net) [4, 5]	-10,473	-12,030	-13,836	-18,235	-21,158	-21,768	-20,465	-21,179
Money and quasi-money (M3)	30,067	32,620	35,591	39,681	45,539	51,236	57,782	64,943
Foreign exchange deposits	8,494	8,941	10,296	11,479	13,173	14,821	16,715	18,786
Bank of Uganda								
Net foreign assets	14,718	15,574	15,892	18,468	21,650	22,857	22,835	23,852
Net domestic assets	-5,910	-6,123	-5,596	-7,215	-9,125	-9,003	-7,222	-6,244
Claims on public sector (net)[3]	-1,138	-940	199	-1,051	-2,301	-2,301	-2,301	-1,277
Claims on non-financial private sector (net)	-418	593	-612	-1,103	-574	-591	1,074	418
Claims on commercial banks	-1,839	-2,285	-2,205	-2,037	-1,698	-1,822	-1,911	-1,956
Other items (net) [4, 5]	-2,514	-3,491	-2,978	-3,024	-4,552	-4,289	-4,083	-3,428
Base money	8,808	9,451	10,296	11,254	12,526	13,854	15,613	17,609
Currency in circulation	5,697	6,017	6,441	7,181	8,241	9,272	10,457	11,753
Commercial bank deposits[6]	3,110	3,434	3,855	4,073	4,285	4,581	5,156	5,856
Other Depository Corporations								
Net foreign assets	1,506	888	1,421	1,704	1,757	1,753	1,972	3,300
Net domestic assets	23,684	26,495	28,705	31,883	36,789	41,615	46,936	51,670
Of which Claims on central government (net)	8,033	10,258	11,891	14,360	16,196	17,465	17,841	17,848
Of which Claims on private sector	17,357	18,785	21,131	23,984	27,341	31,195	35,863	41,387
Deposit liabilities to the non-bank public	25,190	27,382	30,126	33,587	38,545	43,368	48,908	54,970
Shilling deposits	16,696	18,441	19,830	22,109	25,372	28,546	32,194	36,183
Memorandum items:								
(Annual percentage change)								
Base money	30.1	7.3	8.9	9.3	11.3	10.6	12.7	12.8
M3	23.2	8.5	9.1	11.5	14.8	12.5	12.8	12.4
Credit to the private sector	8.8	8.3	12.0	13.5	14.0	14.1	15.0	15.4
Memorandum items:								
Base money-to-GDP ratio (percent)	6.3	6.4	6.5	6.5	6.4	6.3	6.3	6.4
M3-to-GDP ratio (percent)	21.5	22.0	22.5	22.8	23.3	23.4	23.4	23.4
Base money multiplier (M2/base money)	2.4	2.5	2.5	2.5	2.6	2.6	2.6	2.6
Credit to the private sector (percent of GDP)	12.5	12.7	13.4	13.8	14.0	14.2	14.5	14.9
Velocity (M3)	4.6	4.5	4.4	4.4	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, FY2019/2026/27[1]
(Millions of U.S. Dollars, unless otherwise indicated)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Act.		Rev. Prog.			Proj.		
Current account	-2,504	-4,132	-3,536	-4,194	-5,196	-6,796	-7,391	-7,147
Trade balance	-2,417	-3,065	-2,966	-3,831	-4,728	-5,992	-5,373	-4,066
Exports, f.o.b.	3,800	5,276	5,554	6,091	6,514	6,957	8,171	9,729
Of which: oil	0	0	0	0	0	64	1,387	2,687
Imports, f.o.b.	6,217	8,341	8,520	9,922	11,242	12,949	13,545	13,795
Of which: oil	851	830	1,191	1,207	1,206	1,230	1,233	635
Services (net)	-1,260	-2,052	-1,594	-1,313	-1,511	-1,898	-2,056	-2,137
Credit	1,676	1,356	1,671	1,861	2,154	2,349	2,469	2,588
Debit	-2,936	-3,408	-3,265	-3,174	-3,665	-4,247	-4,525	-4,725
Primary income (net)	-624	-706	-879	-931	-996	-1,103	-2,277	-3,363
Of which: interest on public debt (debit)	-116	-171	-364	-367	-412	-455	-497	-501
Secondary income (net)	1,797	1,691	1,903	1,881	2,040	2,197	2,316	2,419
Private transfers	1,657	1,495	1,671	1,741	1,918	2,074	2,201	2,318
Of which: workers' remittances (credit)	1,292	1,102	1,244	1,395	1,562	1,705	1,795	1,873
Official transfers	140	196	232	140	122	123	114	102
Of which: budget support (including HIPC)	64	71	43	42	31	31	30	25
Capital account	69	171	292	136	117	112	95	81
Financial account	-1,623	-2,656	-3,017	-3,714	-5,283	-7,202	-7,737	-7,083
Direct investment (net)	-967	-847	-1,119	-2,384	-3,945	-5,386	-5,776	-5,411
Of which: oil-linked investment (- = inflows)	…	-1	-29	-941	-2,365	-3,646	-3,838	-3,559
Portfolio investment (net)	321	-43	-141	-94	-53	-41	-15	27
Other investment (net)	-974	-1,751	-1,751	-1,228	-1,276	-1,767	-1,937	-1,690
Loans (net)	-1,440	-1,467	-1,708	-1,180	-1,216	-1,735	-1,910	-1,671
Government (net)	-1,303	-1,174	-1,539	-920	-853	-1,288	-1,462	-1,381
Disbursements	-1,493	-1,461	-2,136	-1,615	-1,615	-2,054	-2,504	-2,503
Budget support	-612	-280	-965	-63	-215	-57	-62	-62
Project support	-882	-1,180	-1,171	-1,553	-1,400	-1,998	-2,442	-2,441
Of Which: non concessional	-249	-286	-420	-476	-626	-1,209	-1,796	-1,159
Amortization	190	286	597	695	762	767	1,042	1,121
Deposits taking corporations	11	-9	-26	-16	-1	-1	0	0
Other sectors	-148	-284	-143	-244	-362	-447	-448	-290
Other	-3	-15	-6	-9	-9	-9	-9	-9
Net errors and omissions	957	1,234	-239	0	0	0	0	0
Overall balance	146	-71	-467	-343	205	517	441	16
Financing	-146	-182	214	90	-458	-517	-441	-16
Central bank net reserves (increase = –)	-143	-180	214	90	-458	-517	-441	-16
Use of Fund credit	499	258	0	0	0	0	0	0
Exceptional Financing	-3	-3	0	0	0	0	0	0
Financing gap	0	253	253	253	253	0	0	0
Prospective ECF		253	253	253	253	0	0	0
Memorandum items:								
Gross international reserves								
In US$ billions	3.9	4.2	4.2	4.1	4.5	5.1	5.5	5.5
In months of next year's imports of goods and services	3.9	4.2	3.8	3.3	3.2	3.4	3.6	3.8
Gross international reserves excluding oil project financing and investment related imports								
In US$ billions		4.2	4.2	4.1	4.6	5.1	5.5	6.4
In months of next year's imports of goods and services		4.2	4.2	4.0	4.1	4.4	4.6	5.2
Donor support								
Of which: budget support (loans and grants)	675	352	982	104	246	87	92	87
Of which: project support (loans and grants)	951	1,351	1,463	1,689	1,517	2,110	2,537	2,522
Current account balance (excl. oil project financing and investment related imports)	-	-4,132	-3,512	-3,143	-2,659	-2,773	-3,253	-2,686

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.

Table 4b. Uganda: Balance of Payments, FY2019/2026/27[1]

(Percent of GDP, unless otherwise indicated)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Act.		Rev. Prog.			Proj.		
Current account	-6.7	-10.2	-8.0	-8.8	-9.9	-12.0	-13.0	-11.5
Trade balance	-6.4	-7.5	-6.7	-8.0	-9.1	-10.6	-9.5	-6.6
Exports, f.o.b.	10.1	13.0	12.6	12.7	12.5	12.3	14.4	15.7
Of which: oil	...	0.0	0.0	0.0	0.0	0.1	2.4	4.3
Imports, f.o.b.	16.5	20.5	19.4	20.7	21.5	22.8	23.9	22.3
Of which: oil	2.3	2.0	2.7	2.5	2.3	2.2	2.2	1.0
Services (net)	-3.4	-5.1	-3.6	-2.7	-2.9	-3.3	-3.6	-3.4
Credit	4.5	3.3	3.8	3.9	4.1	4.1	4.4	4.2
Debit	-7.8	-8.4	-7.4	-6.6	-7.0	-7.5	-8.0	-7.6
Primary income (net)	-1.7	-1.7	-2.0	-1.9	-1.9	-1.9	-4.0	-5.4
Of which: interest on public debt (debit)	-0.3	-0.4	-0.8	-0.8	-0.8	-0.8	-0.9	-0.8
Secondary income (net)	4.8	4.2	4.3	3.9	3.9	3.9	4.1	3.9
Private transfers	4.4	3.7	3.8	3.6	3.7	3.7	3.9	3.7
Of which: workers' remittances (credit)	3.4	2.7	2.8	2.9	3.0	3.0	3.2	3.0
Official transfers	0.4	0.5	0.5	0.3	0.2	0.2	0.2	0.2
Of which: budget support (including HIPC)	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.0
Capital account	0.2	0.4	0.7	0.3	0.2	0.2	0.2	0.1
Of which: project grants	0.2	0.4	0.7	0.3	0.2	0.2	0.2	0.2
Financial account	-4.3	-6.5	-6.9	-7.8	-10.1	-12.7	-13.6	-11.4
Direct investment (net)	-2.6	-2.1	-2.5	-5.0	-7.6	-9.5	-10.2	-8.7
Of which: oil-linked investment flows	...	0.0	-0.1	-2.0	-4.5	-6.4	-6.8	-5.7
Portfolio investment (net)	0.9	-0.1	-0.3	-0.2	-0.1	-0.1	0.0	0.0
Other investment (net)	-2.6	-4.3	-4.0	-2.6	-2.4	-3.1	-3.4	-2.7
Loans (net)	-3.8	-3.6	-3.9	-2.5	-2.3	-3.1	-3.4	-2.7
Government (net)	-3.5	-2.9	-3.5	-1.9	-1.6	-2.3	-2.6	-2.2
Disbursements	-4.0	-3.6	-4.9	-3.4	-3.1	-3.6	-4.4	-4.0
Budget support	-1.6	-0.7	-2.2	-0.1	-0.4	-0.1	-0.1	-0.1
Project support	-2.3	-2.9	-2.7	-3.2	-2.7	-3.5	-4.3	-3.9
Of Which: non concessional	-0.7	-0.7	-1.0	-1.0	-1.2	-2.1	-3.2	-1.9
Amortization	0.5	0.7	1.4	1.5	1.5	1.4	1.8	1.8
Deposits taking corporations	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net errors and omissions	2.5	3.0	-0.5	0.0	0.0	0.0	0.0	0.0
Overall balance	0.4	-0.2	-1.1	-0.7	0.4	0.9	0.8	0.0
Financing	-0.4	-0.4	0.5	0.2	-0.9	-0.9	-0.8	0.0
Central bank net reserves (increase = –)	-0.4	-0.4	0.5	0.2	-0.9	-0.9	-0.8	0.0
Use of Fund credit	1.3	0.6	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
Financing gap	0.0	0.6	0.6	0.5	0.5	0.0	0.0	0.0
Prospective ECF		0.6	0.6	0.5	0.5	0.0	0.0	0.0
Memorandum items:								
Gross international reserves								
In US$ billions	3.9	4.2	4.2	4.1	4.5	5.1	5.1	5.1
In months of next year's imports of goods and services	3.9	4.2	3.8	3.3	3.2	3.4	3.4	3.4
Gross international reserves excluding oil project financing and investment related imports								
In US$ billions		4.2	4.2	4.1	4.6	5.1	5.1	5.1
In months of next year's imports of goods and services		4.2	4.2	4.0	4.1	4.4	4.6	5.2
Donor support								
Of which: budget support (loans and grants)	675	604	1,261	357	498	87	92	87
Of which: project support (loans and grants)	951	1,351	1,463	1,689	1,517	2,110	2,537	2,522
Current account balance (excl. oil project financing and investment related imports)	-	-10.2	-8.0	-6.6	-5.1	-4.9	-5.2	-4.0

Sources: Ugandan authorities and IMF staff estimates and projections.

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

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

(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	Jun-21	Sep-21	Dec-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	23.5	24.1	23.7
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	22.1	22.6	22.3
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	4.8	5.4	5.2
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	2.9	3.3	3.2
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	47.3	47.3	46.5	45.1
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	69.7	71.5	68.8
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	40.4	40.1	37.6
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	105.2	97.0	93.5	87.9
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	2.5	2.7	2.6	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	14.7	15.5	14.9	15.4
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	10.2	10.1	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	2.4	2.4	2.3
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	71.7	72.6	72.2
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	49.1	48.7	47.5
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	51.5	49.2	48.2
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	-6.6	-7.6	5.9
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	59.2	59.8	60.5
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	93.5	86.4	98.9

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: 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 and observance of continuous and end-September 2021 performance criteria
June 28, 2022	90.25	25.0	Completion of the second review and observance of continuous and end-March 2022 performance criteria
December 28, 2022	90.25	25.0	Completion of the third review and observance of continuous and end-September 2022 performance criteria
June 28, 2023	90.25	25.0	Completion of the fourth review and observance of continuous and end-March 2023 performance criteria
December 28, 2023	90.25	25.0	Completion of the fifth review and observance of continuous and end-September 2023 performance criteria
June 14, 2024	90.25	25.0	Completion of the sixth (final) review and observance of continuous and end-March 2024 performance criteria
Total	722.00	200.0	

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

Table 7. Uganda: External Financing Requirements, FY2019/20-2026/27
(Millions of U.S. Dollars)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Financing needs	**2,646**	**4,312**	**3,322**	**4,104**	**5,654**	**7,314**	**7,831**	**7,163**
Current account deficit	2,504	4,132	3,536	4,194	5,196	6,796	7,391	7,147
Net payment to the IMF	0	0	0	0	0	0	0	0
Reserve accumulation (+=increase)	143	180	-214	-90	458	517	441	16
Financing sources	**-1,689**	**-2,824**	**-3,308**	**-3,850**	**-5,400**	**-7,314**	**-7,831**	**-7,163**
Capital account	69	171	292	136	117	112	95	81
Financial account	-1,623	-2,656	-3,017	-3,714	-5,283	-7,202	-7,737	-7,083
FDI (net)	-967	-847	-1,119	-2,384	-3,945	-5,386	-5,776	-5,411
Public sector (net)	1,388	1,088	1,015	1,445	1,471	1,654	1,888	1,790
Exceptional financing	-3	-3	0	0	0	0	0	0
Errors and omissions	**957**	**1,234**	**-239**	**0**	**0**	**0**	**0**	**0**
Financing gap	**0**	**253**	**253**	**253**	**253**	**0**	**0**	**0**
Prospective financing		**253**	**253**	**253**	**253**	**0**	**0**	**0**
ECF		253	253	253	253	0	0	0
Residual financing gap		**0**	**0**	**0**	**0**	**0**	**0**	**0**

Sources: Authorities and IMF staff estimates and projections.

Table 8a. 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	**2477.4**	**100**	**1818.4**	**100**
Concessional debt, of which	**1247.4**	**50**	**683.0**	**38**
Multilateral debt	1099.7	44	599.9	33
Bilateral debt	147.6	6	83.1	5
Other	0.0	0	0.0	0
Non-concessional debt, of which	**1230.0**	**50**	**1135.4**	**62**
Semi-concessional	383.1	15	288.5	16
Commercial terms	846.9	34	846.9	47
By Creditor Type	**2477.4**	**100**	**1818.4**	**100**
Multilateral	1178.1	48	652.0	36
Bilateral - Paris Club	284.9	11	178.8	10
Bilateral - Non-Paris Club	543.5	22	525.0	29
Other	470.8	19	462.5	25
Uses of debt financing	**2477.4**	**100**	**1818.4**	**100**
Infrastructure	1338.1	54	823.1	45
Social Spending	292.4	12	148.4	8
Budget Financing	826.9	33	826.9	45
Other	20.0	0.8	20.0	1.1

Table 8b. Uganda: Projected External Borrowing Program
July 1, 2022 to June 30, 2023

PPG external debt	Volume of new debt in 2022		PV of new debt in 2022 (program purposes)	
	USD million	Percent	USD million	Percent
By sources of debt financing	**3665.3**	**100**	**2748.3**	**100**
Concessional debt, of which	**340.0**	**9**	**158.5**	**6**
Multilateral debt	340.0	9	158.5	6
Bilateral debt	0.0	0	0.0	0
Other	0.0	0	0.0	0
Non-concessional debt, of which	**3325.3**	**91**	**2589.8**	**94**
Semi-concessional	3285.3	90	2549.8	93
Commercial terms	40.0	1	40.0	1
By Creditor Type	**3665.3**	**100**	**2748.3**	**100**
Multilateral	380.0	10	198.5	7
Bilateral - Paris Club	104.0	3	75.4	3
Bilateral - Non-Paris Club	2826.2	77	2185.3	80
Other	355.1	10	289.1	11
Uses of debt financing	**3665.3**	**100**	**2748.3**	**100**
Infrastructure	3595.3	98	2681.5	98
Social Spending	0.0	0	0.0	0
Budget Financing	0.0	0	0.0	0
Other	70.0	1.9	66.9	2.4

Table 9. Uganda: Decomposition of Public Debt and Debt Service by Creditor FY2020/21-FY2022/23 1/

	Debt Stock (end of period)			Debt Service					
	FY2020/21			FY20/21	FY21/22	FY22/23	FY20/21	FY21/22	FY22/23
	(In millions of US$)	*(Percent total debt)*	*(Percent GDP)*	*(In millions of US$)*			*(Percent GDP)*		
Total	20,425.6	100.0	49.1	3214.0	4,053.0	2,532.9	7.7	9.3	5.3
External	13,178.4	64.5	31.7	667.3	1,049.4	980.1	1.6	2.4	2.1
Multilateral creditors[2,3]	7,745.4	37.9	18.6	160.1	246.9	224.8	0.4	0.6	0.5
IMF	772.6	3.8	1.9						
World Bank	4,381.6	21.5	10.5						
ADB/AfDB/IADB	573.7	2.8	1.4						
Other Multilaterals	2,017.5	9.9	4.8						
Bilateral Creditors[2]	3,539.9	17.3	8.5	309.5	346.6	371.1	0.7	0.8	0.8
Paris Club	851.2	4.2	2.0	45.3	65.7	65.3	0.1	0.2	0.1
Non-Paris Club	2,688.8	13.2	6.5	264.2	280.8	305.8	0.6	0.6	0.6
o/w: Eximbank of China	2,589.6	12.7	6.2						
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial creditors	1,102.9	5.4	2.7	47.2	123.4	241.8	0.1	0.3	0.5
Other international creditors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public guarantees	28.9	0.1	0.1						
Local currency debt held by non-residents, total	761.3	3.7	1.8	150.4	332.5	142.3	0.4	0.8	0.3
Domestic	7,247.2	35.5	17.4	2,546.7	3,003.7	1,552.9	6.1	6.9	3.3
T-Bills	1,514.4	7.4	3.6	n/a	n/a	n/a	n/a	n/a	n/a
Bonds	4,880.1	23.9	11.7	n/a	n/a	n/a	n/a	n/a	n/a
BoU advances	852.7	4.2	2.0	n/a	n/a	n/a	n/a	n/a	n/a
Memo items:									
Collateralized debt[4]	n/a		n/a						
o/w: Related	n/a		n/a						
o/w: Unrelated	n/a		n/a						
Contingent liabilities	n/a		n/a						
o/w: Public guarantees	n/a		n/a						
o/w: Other explicit contingent liabilities[5]	n/a		n/a						
Nominal GDP							40,636	44,030	47,858

1/As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA.

2/Some public debt is not shown in the table due to data limitations.

3/Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears)

4/Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

5/Includes other-one off guarantees not included in publicly guaranteed debt (e.g. credit lines) and other explicit contingent liabilities not elsewhere classified (e.g. potential legal claims, payments resulting from PPP arrangements).

Table 10. 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	25.0	30.0	30.0	30.0	20.0
Charges and interest	0.0	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
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	126.4	171.5	207.6	180.5
Charges and interest	0.0	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Total IMF obligations based on existing and prospective credit										
In millions of SDRs	0.0	0.2	0.2	0.2	36.3	90.5	126.6	171.7	207.8	180.7
In millions of U.S. dollars	0.0	0.2	0.3	0.3	51.0	127.1	177.8	241.2	292.0	253.9
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	0.5	1.2	1.4	1.8	2.1	1.8
In percent of government revenue	0.0	0.0	0.0	0.0	0.6	1.2	1.4	1.7	2.0	1.6
In percent of gross international reserves	0.0	0.0	0.0	0.0	1.1	2.6	3.7	3.7	3.6	2.8
In percent of IMF quota	0.0	0.0	0.1	0.1	10.1	25.1	35.1	47.6	57.6	50.1
IMF credit outstanding (end-of-period)										
In millions of SDRs	631.8	812.3	992.8	1083.0	1046.9	956.7	830.3	658.8	451.3	270.8
In millions of U.S. dollars	877.9	1132.4	1387.4	1518.6	1473.2	1346.2	1168.4	927.1	635.0	381.0
In percent of GDP	2.2	2.6	2.9	2.9	2.6	2.2	1.7	1.3	0.8	0.5
In percent of exports of goods and services	13.2	15.7	17.4	17.5	15.8	12.6	9.4	7.1	4.7	2.7
In percent of government revenue	16.1	18.9	20.5	19.7	16.9	12.6	9.1	6.7	4.3	2.4
In percent of gross international reserves	24.7	31.7	39.9	38.6	33.1	27.9	24.3	14.3	7.9	4.1
In percent of IMF quota	175.0	225.0	275.0	300.0	290.0	265.0	230.0	182.5	125.0	75.0
Memorandum items										
Nominal GDP (in millions of U.S. dollars)	40,636	44,030	47,858	52,220	56,681	61,972	67,500	73,197	78,763	84,535
Exports of goods and services (in millions of U.S. dollars)	6,632	7,225	7,952	8,668	9,342	10,714	12,475	13,062	13,635	14,158
Government revenue (in millions of U.S. dollars)	5,448	5,996	6,760	7,720	8,735	10,665	12,793	13,932	14,887	15,768
Gross international reserves (in millions of U.S. dollars)	3,551	3,567	3,477	3,935	4,449	4,823	4,813	6,497	8,059	9,197
IMF quota (in millions of SDRs)	361.0	361.0	361.0	361.0	361.0	361.0	361.0	361.0	361.0	361.0
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.

Annex I. Status of Key Recommendations for the 2019 Article IV Consultation

Recommendation	Status
Fiscal	
• Adoption of an interim debt ceiling of 50 percent of GDP in nominal terms	• The Charter of Fiscal Responsibility defines the debt ceiling in PV terms, but the government's publicly stated debt ceiling is 50 percent of GDP in nominal terms.
• Additional measures to keep public debt below the ceiling of 50 percent of GDP	• Given the impact of the COVID-19 shock, debt is projected to exceed 50 percent of GDP in FY21/22. The DRMS and the unwinding of crisis measures, however, will lead to a gradual decline in the debt-to-GDP ratio over the medium term.
• Adoption of the 5-year DRMS	• The DRMS was adopted (prior action under the ECF) stating a 0.5 percent of GDP minimum revenue requirement. However, an update may be needed given the economic impact of the COVID-19 second wave.
• Reversal of the decline in spending on education and health, and increased effectiveness of such spending	• While that has deteriorated in FY 20/21, the authorities are targeting over the medium term a shift in the composition of spending towards social expenditures.
Monetary and Exchange Rate	
• Policy rate on hold in the near future	• The policy rate was reduced in October 2019, given subdued inflation. This was followed by further rate cuts in 2020 and 2021 in response to COVID-19. The policy stance has been broadly appropriate. The BoU also provided liquidity support in response to the pandemic.
• Prompt recapitalization of BoU in the FY19/20 budget	• The government recapitalized the BoU (USh482 billion) in FY20/21
Financial	
• Strengthening of supervision and bank resolution	• The authorities reiterated their commitment to move towards Basel II by January 2022, and there has also been progress in addressing weaknesses identified following the failure of Crane bank in 2016
• Less reliance on regulatory forbearance	• The COVID-19 shock triggered extensive financial sector policy response, including loan restructurings, and deferred dividend and bonus payments.
Governance and Corruption	
• Improvement in the effectiveness of anti-corruption institutions, and strengthening of public finance and AML/CFT regime	• There has been some progress with the adoption of the National AML/CFT strategy, operationalization of the AML/CFT dedicated unit and procedure manual. Anti-corruption efforts were strengthened by the nomination of the new Inspector General of Government and adoption of amendments to the Leadership Code. More needs to be done on improving the accountability of high-level official by strengthening the asset declaration regime and strengthening the anti-corruption legal framework.

Annex II. Recent Changes in the Oil Sector Regulatory Framework

1. The following three laws have been recently adopted by the Ugandan Parliament, modifying the regulatory framework for the oil sector.

- **Income Tax Amendment Law**. The law amends Uganda's income tax law. Specific provisions are: (i) a windfall tax, to be paid on an annual basis, if the international oil price equals US$75 per barrel or more on any day of the year; and (ii) a limitation of deductions on petroleum operations by capping the allowable deduction per year to the cost recovery limit stipulated in the Production Sharing Agreements (PSAs)**.**

- **Public Finance Management Amendment Law**. The changes include amending the 2015 PFM Act to allow the Uganda National Oil Company (UNOC) to retain part of the proceeds from the sale of oil, for UNOC's own cost recovery. The amendment changes significantly how the Petroleum Fund will operate: the PFM Act 2015 envisaged that all oil revenue accruing to government will be deposited in the Petroleum Fund on a gross basis and appropriated as such. The amendment sees oil revenue accruing to government being deposited in the Petroleum Fund on a net basis after UNOC has retained its portion. The gross revenue retained by UNOC is meant to cover the proportional share of project cash calls arising from the state participation in the project. Although not best practice, it is not rare to see such arrangements. The weaknesses with the proposed amendments are that: (i) accountability mechanisms on the portion retained by UNOC are not spelled out; (ii) part of the oil proceeds will be retained without being appropriated in the budget; (iii) failure to scrutinize UNOC's cost recovery arrangements might lead to the budget receiving a smaller part of oil revenue; and (iv) there might be pressures, including political, to undertake quasi-fiscal activities through UNOC.

- **East African Crude Oil Pipeline (EACOP) Law**. The law aims to enable certain provisions of the Intergovernmental Agreement, signed by Uganda and Tanzania, and of the Host Government Agreement, signed between the Government of Uganda and the East African Crude Oil Pipeline Company Ltd. The law seeks to complement the already existing laws by enabling aspects of the project that are inconsistent with, or not provided for, under those laws. Some of the measures proposed by the law are to: (i) provide for the tariff regime applicable to the project during the different phases of operation; (ii) enable the government and UNOC to pay the transportation tariff in kind; (iii) ensure that the EACOP project obtains the required authorizations in a timely manner; (iv) grant and protect the land rights of the project including with the acquisition of land; (v) ensure access to electricity by the project; (vi) enable the fiscal regime for the project based on the incentives granted by the governments of Uganda and Tanzania; (vii) define the force majeure events applicable to the project in cases of failure or delay in performance of obligations; and (viii) provide for decommissioning of the project after cessation of activities.

Annex III. Risk Assessment Matrix (RAM)[1]

Source of Risks	Likelihood/ Time Horizon	Expected Impact on Economy	Policy Response
Outbreaks of lethal and highly contagious Covid-19 variants lead to subpar/volatile growth.	**High** **Short term** Rapidly increasing hospitalization and deaths force lockdowns and increased uncertainty about the course of the pandemic.	**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.	- Prioritize vaccine roll out and scale up other public health measures, such as testing. -Strengthen social safety net. -Use all available policy space by extending fiscal and monetary support. -Formulate credible medium-term fiscal path to support investor confidence.
Intensification of security risks	**High** **Short to Medium Term**	**High.** Deterioration of security situation in Uganda and its key trading partners would have widespread adverse effects on the economy.	-Reprioritize fiscal spending within the security envelope to protect livelihoods. - Other macro policies should gear towards maintaining stability and investor confidence - Strengthen and robustly implement AML/CFT framework to help prevent, detect, and disrupt the financing of terrorism. - Enhance cooperation with international community on intelligence.
Potential Domestic Risks			
Widespread social discontent and political instability. Social tension erupts as a withdrawal of pandemic-related policy support results in higher unemployment and heavier household debt burdens.	**Medium** **Short term**	**High.** Economic activity would be disrupted. Growing political instability would weaken institutional framework. Deepened political uncertainty would weaken 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
Natural disasters related to climate change. Higher frequency of natural disasters 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			
De-anchoring of inflation expectations in the U.S. and/or advanced European economies. The resulting sharp tightening of global financial conditions and spiking risk premia lead to currency depreciations, and asset market selloffs, bankruptcies.	**Medium** **Short Term**	**Low.** Would reduce capital inflows with negative impact on the banking and public sector as well as credit growth. Higher domestic borrowing costs.	-Ease monetary policy -Maintain strong FX reserves and capital buffer in the financial sector -Formulate credible medium-term fiscal path to support investor confidence.
Global information infrastructure failure. A disruption in global information system and on critical infrastructure.	**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 and address vulnerabilities.

Annex IV. Fiscal Anchor

The regional and national fiscal rules set an appropriate ceiling for debt to minimize the risk of debt distress. In turn, an operational debt anchor would reduce the likelihood of breaches of the EAC and national debt ceilings. Finally, the rules on the fiscal balance ensure not only a declining debt path but also a gradual convergence towards the debt anchor.

A. Introduction

1. Uganda's fiscal framework encompasses both supranational and national rules. Regional fiscal rules in the form of convergence criteria by the East African Community (EAC) set a (i) ceiling of 3 percent of GDP for the overall deficit; and (ii) debt ceiling of 50 percent of GDP on a net present value basis. National fiscal rules are defined in Uganda's Charter for Fiscal Responsibility (CFR) [1], which provides for the following by FY 2025/26: (i) to reduce total public debt in nominal terms to below 50 percent of GDP; (ii) to gradually adjust the overall fiscal balance including grants to a deficit not exceeding 3 percent of non-oil GDP; and (iii) to transfer a maximum of oil revenue worth 0.8 percent of the preceding year's estimated non-oil GDP outturn to the Consolidated Fund for budget operations, and the balance to the Petroleum Revenue Investment Reserve.

2. The rules aim to ensure fiscal sustainability while allowing for sufficient flexibility in the presence of shocks. These rules aim to maintain fiscal sustainability through a gradual reduction of debt and deficit, insulate budget from oil revenue volatility, and ensure intergenerational equity. At the same time, the CFR defines escape clauses in the case of deviations from the national rule, including in the presence of natural disasters, and severe economic shocks. When an escape clause is activated, the CFR requires the publication of a report showing the adjustments need to bring back the path back to the fiscal rule over the remaining period in the CFR.

Fiscal Anchor

3. The regional and national debt ceilings seem appropriate to ensure debt sustainability given the country's economic development and other characteristics. Although the calibration of the appropriate level of debt ceiling is not straightforward, the 2017 Debt Sustainability Framework (DSF) used a noise-to-signal modeling approach to determine benchmarks for the present value (PV) of total public debt, resulting in a benchmark of 35, 55, and 70 percent for countries with weak, medium, and strong debt-carrying capacity, respectively.[2] As Uganda's debt-carrying capacity is currently assessed to be medium, the applicable benchmark of 55 percent is broadly in line with the EAC ceiling of 50 percent of GDP in PV terms. At the same time, given the current level of concessionality in Uganda's public debt, the national ceiling of 50 percent of GDP in

[1] The draft CFR is under consideration by Parliament.

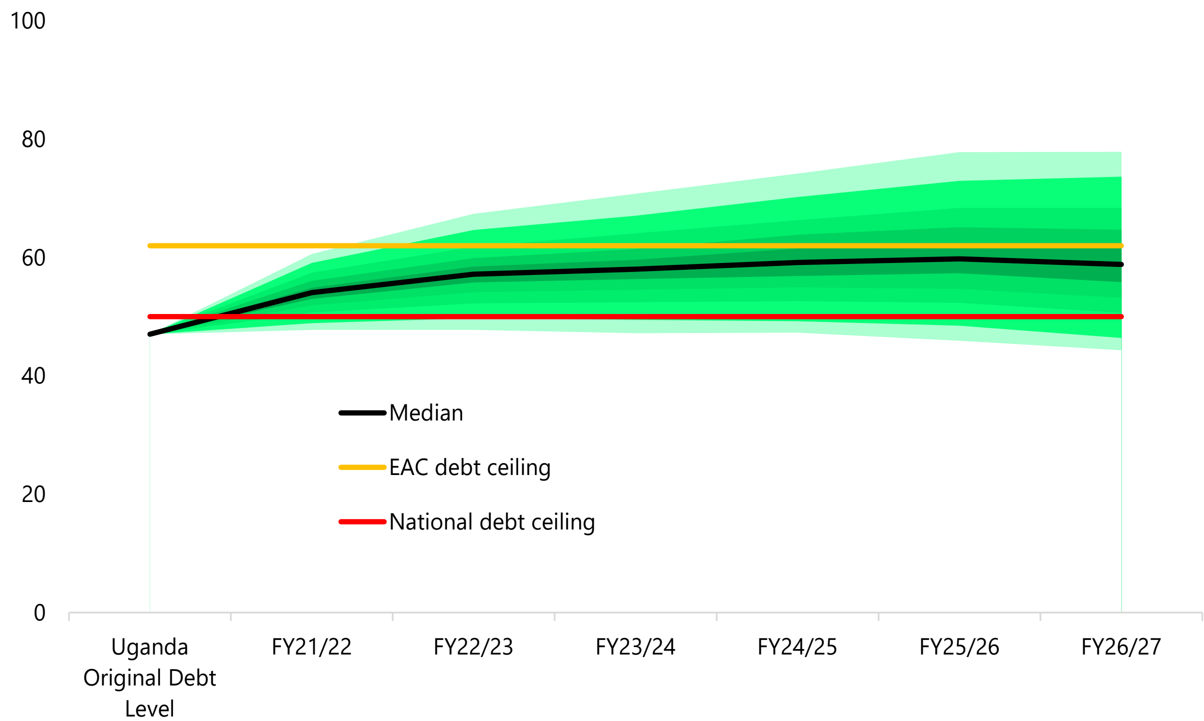
[2] IMF, 2017, Review of the Debt Sustainability Framework in Low-Income Countries: Proposed Reforms, IMF Policy Paper, September 2017

nominal terms is broadly equivalent to a ceiling of 40 percent of GDP in PV terms. As such, the national ceiling provides sufficient buffers against risks jeopardizing compliance with the EAC debt ceiling.

4. **Public debt is expected to exceed the national ceiling in the short term.** Given the fiscal response to the COVID-19 shock and the economic slowdown, the national debt ceiling is expected to be breached in the short term. Moreover, given the uncertainty around the outlook, there is a non-negligible likelihood that the EAC debt ceiling would also be breached (Figure 1).

Figure 1. Public Debt

(Percent of GDP)



Note: The EAC debt ceiling of 62 percent of GDP in nominal terms is an estimation given the official ceiling of 50 percent of GDP in PV terms and the average concessionality of public debt.
Source: Staff calculations based on IMF (2018)

5. **The use of a debt anchor to guide fiscal policy could serve as a buffer to minimize the probability of breaching the national and EAC debt ceiling over the medium term.**[3] Specifically, a debt anchor below the debt ceiling defined in the fiscal rule framework could minimize the likelihood of future breaches of the ceiling. For example, a debt anchor of 37 percent of GDP is estimated to be consistent with a probability of 10 percent of breaching the EAC debt ceiling.

[3] For a comprehensive overview of the concept of debt ceiling and anchor, see Eyraud, L., X. Debrun, A. Hodge, V. Lledó, and C. Pattillo, 2018, Second-Generation Fiscal Rules: Balancing Simplicity, Flexibility, and Enforceability, IMF Staff Discussion Note 18/04, April 2018

Similarly, a debt anchor of 27 percent would keep the probability of breaching the national debt ceiling at 10 percent.

Table 1. Uganda: Public Debt Anchor
(Percent of GDP)

	Probability of breaching the limit		
	10%	25%	50%
EAC debt limit of ~62 percent of GDP	37.1	43.1	48.8
National debt limit of 50 percent of GDP	27.2	31.7	37.4

Source: Staff calculations based on IMF (2018., IMF, 2018, How to Calibrate Fiscal Rules: A Primer, How To Notes, Fiscal Affairs Departments, March 2018

6. The operational target on the overall balance in the EAC and national fiscal rule framework increases the likelihood of compliance with the debt ceiling over the medium term. The debt-stabilizing overall balance is estimated at around 4.5 percent of GDP over the medium term, therefore the threshold of 3 percent of GDP will help ensure a declining debt path. This would contribute to reversing the increase in the debt-to-GDP ratio due to the pandemic in the short term, with debt declining below the national ceiling of 50 percent of GDP. Moreover, the medium-term convergence of the fiscal balance towards the national threshold on the back of the fiscal consolidation under the ECF and the start of oil production is expected to lead to a gradual convergence of the nominal debt-to-GDP ratio to below 40 percent of GDP in the long run. This would be consistent with keeping the probability of breaching the EAC and the national debt limits below 10 and 50 percent, respectively.

7. The start of oil production, however, will require an increasing focus on the non-oil balance as an operational target. The non-oil primary balance (NOPB) is an appropriate fiscal aggregate for oil-producing countries. As oil production starts, setting fiscal policy based on a NOPB would help delink expenditures from the volatile natural resource revenues and limit procyclicality. For example, oil revenues are expected to peak at 2.7 percent of GDP in the medium term before declining gradually over the medium term. Targeting the NOPB is indicative of the structural fiscal stance and allows policy to focus on non-oil revenue and primary expenditure, which are under the government's direct control. For example, although the overall fiscal deficit would converge towards the ceiling of 3 percent of GDP over the medium- to long run, the non-oil fiscal deficit is expected to be around 3.5 percent of GDP (non-oil primary deficit of around 2 percent of GDP), therefore delays in the start of oil production would lead to lower revenues and thus risks around compliance with the national ceiling of 3 percent of GDP for the overall deficit. A well-calibrated NOPB path, consistent with the medium-term debt anchor, should provide sufficient guidance on the desired primary spending (i.e., excluding interest on debt). International evidence shows that more than 80 percent of the 70 countries with an explicit rule on public debt also impose constraints on the overall fiscal balance, or the NOPB in the case of oil-rich countries.

Annex V. External Sector Assessment

Overall Assessment: *The external position of Uganda in 2021 was weaker than the level implied by fundamentals and desirable policies. This preliminary assessment, however, is subject to a greater margin of uncertainty than usual given the severity of the COVID-19 pandemic. The current level of gross international reserves, aided by the SDR allocation, is assessed to be adequate.*

Potential Policy Responses: *Allowing exchange rate flexibility is critical to cushion the economy from external shocks and to reduce external imbalances. The Bank of Uganda should pursue greater exchange rate flexibility and only intervene in case of extreme market distress. Maintaining an adequate level of reserves is essential in view of the riskier composition of external financing. 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 medium term.*

Foreign Assets and Liabilities: Position and Trajectory

Background. The NIIP is expected to improve to -58.8 percent of GDP in 2021 from -59.1 percent in 2020. This modest improvement mainly reflects the government's foreign investment in the oil pipeline project. About half of the external assets were held by the Bank of Uganda as reserve assets, and the remaining share consist of deposits and debt securities. As in many developing economies, the majority of the external liabilities were foreign direct investment (at around 50 percent) and concessional loans from multilateral and bilateral sources. Between 2015 and 2021, the NIIP has declined by 11.2 percentage points, reflecting a negative CA contribution of 43 percentage points partly offset by valuation effect. The BoU has also taken steps to further enhance its reserves management practices, including the recently approved Strategic Asset Allocation (MEFP¶34)

Assessment. The sustainability of the NIIP is not an immediate concern. Since 2008, valuation gains have offset about 40 percent of the effect of CA flows on the NIIP, partly reflecting CA measurement issues. Furthermore, the accompanying debt sustainability analysis suggests that Uganda faces a moderate risk of debt distress partly driven by lower debt carrying capacity.

2021 (% GDP)	NIIP: -58.8	Gross Assets: 21.0	Debt Assets: 3.0	Gross Liab.: 79.9	Debt Liab.: 9.5

Current Account

Background. The CA deficit is expected to narrow to 8.2 percent of GDP in CY2021 from a record low of 9.3 percent in CY2020. The improvement reflects mostly an improvement in coffee and tourism exports. However, the CA is well below its historical average as government imports remain elevated and external demand improves only gradually. From a saving-investment perspective, the current account deficit is mainly driven by the public sector. Looking ahead, the CA 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 providing further support to narrow the current account.

Assessment. The EBA-lite CA model estimates a CA gap of -3.5 percent in 2021 with a cyclically adjusted CA balance of -8.5 percent compared with a CA norm of -5.0 percent of GDP. Staff assesses the CA in 2021 to be weaker than the level consistent with fundamentals.

Table 1. Uganda: Model Estimates for 2021
(In Percent of GDP)

	CA model	REER	ES model
CA	**-8.2**		
Cyclical contributions (from model) (-)	0.3		
COVID-19 adjustor (+) 1/	0.7		
Additional temporary/statistical factors (+)	0.0		
Natural disasters and conflicts (-)	0.7		
Adjusted CA	**-8.5**		
CA Norm (from model) 2/	**-5.0**		
Adjustments to the norm (+)	0.0		
Adjusted CA Norm	**-5.0**		
CA Gap	**-3.5**	**1.1**	**-7.1**
o/w Relative policy gap	2.9		
Elasticity	-0.2		
REER Gap (in percent) 3/	**23.1**	**-7.5**	**47.9**

1/ Additional cyclical adjustment to account for the tourism (0.7 percent of GDP), and on remittance (0.1 percent GPD).
2/ Cyclically adjusted, including multilateral consistency adjustments.
3/ Fixed effect was re-computed from 2011 through 2017 to reflect the inflation-targeting regime introduced in 2011.

Real Exchange Rate

Background. Despite the large current account deficit, the shilling has appreciated by 0.1 percent in real terms and by 4.9 percent in nominal effective terms in November 2021 relative to its average level in 2020. This is in part driven by large foreign investors' inflows into the government bond market and the BoU's effort to stabilize the exchange rate through FX interventions.

Assessment. The EBA-lite CA model and external sustainability (ES) approach imply a REER overvaluation gap of 23.1 and 47.9 percent in 2021, respectively. However, the EBA-lite REER model suggests an undervaluation of 7.5 percent. Staff is of the view that more weight should be assigned to the assessment from the CA model as the REER model assigns too much weight to demographic factors, which leads to poor goodness-of-fit for Uganda. In view of the results from the two more relevant models, the record high CA deficit, and the trend appreciation over the past three years, on balance, staff assesses the REER to be overvalued.

Capital and Financial Accounts: Flows and Policy Measures

Background. In net terms, the CA was mainly financed in 2021 by net FDI inflows of 2.4 percent of GDP and robust project and budget loan disbursements of 4.1 percent of GDP as multilateral and bilateral sources stepped up their support for Uganda in the aftermath of the Covid-19 pandemic. In the first three quarters of 2021, portfolio inflows remained very strong driven by relatively attractive yields on government securities. While some outflows were registered in October, foreign investors' holdings of Ugandan government bonds remain large at $843 million at end-December.

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. Indeed, the interest differential between Uganda and US government bond has declined in the recent months. 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. in September, the shilling appreciated by 4.5 percent y.o.y. against the US dollar reflecting in part the robust foreign investor appetite for Uganda's government securities. Over the same period, the BoU accumulated $450 million in reserves. However, since early October, there has been renewed depreciation pressure on the shilling amid tightening monetary conditions in several advanced and emerging economies. The Bank of Uganda intervened in the currency market by selling $305.5 million of foreign reserves in October ($106.6 million more than the intervention in the midst of COVID in March 2020). As a result, the shilling restored to the past appreciation trend. In December, the BoU sold another $75 million of reserves.

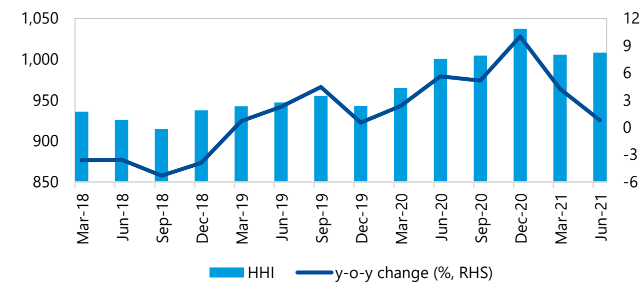
Assessment. The Bank of Uganda should pursue greater exchange rate flexibility, limiting its foreign exchange sales to cases of extreme market distress. The IMF's reserve adequacy metric for credit-constrained economies indicates that the adequate level of reserves should account for the cost of carrying reserves, probability of a large shock event, and the cost of a sudden stop. Guided by this framework, staff views a reserve coverage ratio of 4 months of imports as currently appropriate in view of a higher cost of holding reserves due to partial sterilization and a riskier and larger external financing profile. While the level of reserves in September is slightly above the 4-month threshold, large current account deficits are expected to put pressure on reserves going forward. Thus, the BoU should continue its efforts to build reserves to ensure the reserve cover does not fall below this threshold.

Annex VI. Financial Sector Structure and Developments

The financial sector is profitable, well capitalized, and highly liquid. Despite lower policy rate cuts and abundant liquidity, private sector credit remained subdued, driven by banks' risk aversion and low demand. Latest stress tests indicate that banks remain resilient to large credit shock.

1. **The financial system of Uganda is dominated by the banking sector, which accounts for around 83 percent of total assets.** Uganda's banking sector consists of 35 corporates and is tiered into commercial banks, credit institutions, and microfinance deposit-taking institutions (MDIs). As of end-June 2021, 25 commercial banks accounted for 95.5 percent of the banking sector's assets amounting to USh41.7 trillion.

Herfindahl-Hirschman Index of Commercial Banks' Assets



Source: BoU

2. **The banking system is oligopolistic.** Following the 2016 Crane Bank failure (Annex VI. Box 1), Bank of Uganda raised the minimum statutory capital adequacy ratio from 8 percent to 10 percent, spurring mergers and acquisitions, further increasing asset concentration in the industry. As of June 2021, the five Domestic Systemically Important Banks (DSIBs) jointly account for 70 percent of industry profits and 61 percent of total assets. The Herfindahl-Hirschman index (HHI) of commercial banks' assets also exhibits high concentration in the sub-sector, continuing an upward trend that began in December 2018. Stanbic Bank, the largest bank in the country, registered a 29 percent increase in its assets, which pushed up its market share to 22.5 percent, making it almost twice as large as the country's second-largest lender – the Centenary Bank.

Box 1. Failure of Crane Bank

Crane Bank was a registered commercial bank in Uganda. Prior to its financial demise in 2016, the bank had over 750,000 customers with several branches nationwide and in Rwanda, a member state of the East African Community (EAC). As the third largest domestic bank, Crane bank accounted for less than 10 percent of total credit to the private sector, and 7.5 percent of total banking system assets.

The bank's financial difficulties and liquidity problem were unveiled by the media towards the end of 2015. After its capitalization fell well below prudential limits, Crane Bank was officially placed under receivership by BoU via a corrective action, courtesy of the Financial Institutions Act 2004 (FIA 2004) on 20 October 2016. In January 2017, the Development Finance Corporation of Uganda—a domestic bank with foreign ownership—was chosen to acquire most of Crane Bank's balance sheet at a cost of Ush200 billion ($52.8 million) on grounds that Crane Bank was undercapitalized while BoU took over some of the nonperforming assets.

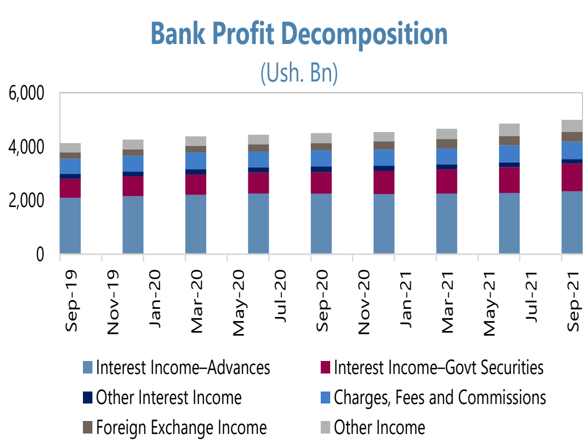
The forensic review by Price Waterhouse Coopers indicated a number of reasons for the failure of Crane Bank. Main ones included shareholding irregularities; the transfer of branch ownership; accounting misstatements and overstatement of fixed assets; cash extraction through fraudulent IT payments; weak

Box 1. Failure of Crane Bank (concluded)

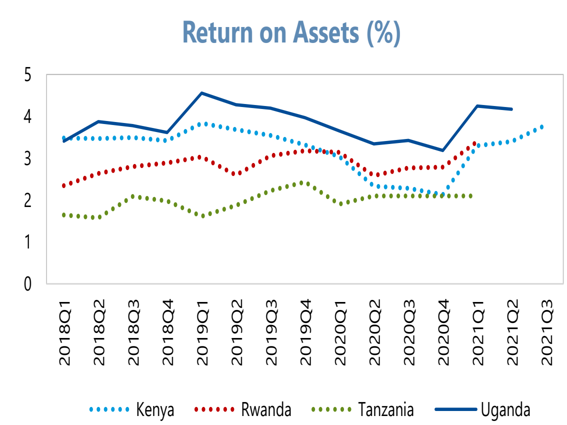
corporate governance: and irregular and unprocedural lending arrangements that exposed the bank to a high level of non-performing loans.

Since the failure of Crane Bank, BoU has taken a more proactive approach to banking sector reform. These reforms followed recommendations derived from the Parliamentary Committee on Commissions, Statutory Authorities and State Enterprises (COSASE) probe into closed banks and the IMF 2018 FSSR. Key measures—of which many are being implemented—include implementing the new corporate governance guidelines (MEFP¶36), consolidating the Policy Framework for Resolving Problem Institutions; strengthening BoU's supervisory powers; conducting regular stress testing; increasing minimum core capital requirement from 8 to 10 percent of risk-weighted assets; requiring banks to hold a capital conservation buffer of 2.5 percent of risk-weighted assets; revising the framework for emergency liquidity assistance to make it more effective.

3. **Ugandan Banks' capital buffers remain strong, boosted by increased profits.** Largely driven by a consistent revenue stream from fees and an increase in interest income from government securities, the commercial banks' aggregate after-tax net profits increased by 27.4 percent for the year ended December 2021, which was higher than most EAC countries. Deferred bonuses and dividends—which came about from a BoU directive trying to safeguard financial stability during the COVID-19 crisis—helped boost the regulatory capital to risk-weighted assets to 23.7 percent as of end Dec-2021, the highest among EAC countries. Although most banks have strong capital and liquidity buffers that can absorb the pandemic shock, the authorities plan to move towards Basel III by introducing new buffers and increasing capital requirements for all financial institutions (Box 2). It is estimated that 10 out of the 25 banks in Uganda would require a capital injection to meet the new capital requirements.



Source: BoU



Source: IMF FSI Database

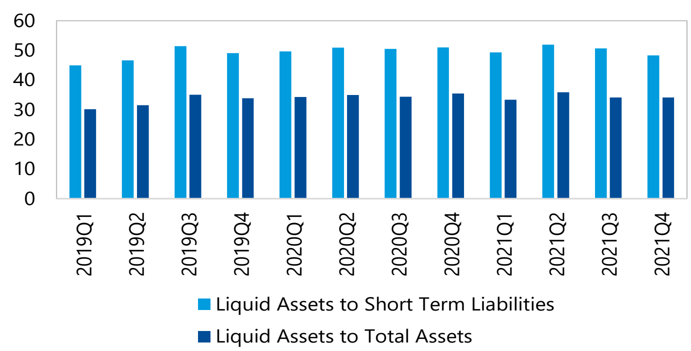
Box 2. Regulatory Reforms affecting Capital Requirements

Drawing from lessons from the Global Financial Crisis, which led to the closure of two financial institutions in 2011, BoU has strengthened the capital buffers of Supervised Financial Institutions (SFIs). It introduced the Basel III capital buffers requirements following the gazetting of the Financial Institutions (capital Buffers and Leverage Ratio) Regulations in December 2020. Under Basel III, banks are required to hold buffers on top of the regulatory minimum requirements, notably (i) the Capital Conservation Buffer (CCB), to avoid facing restrictions on capital distributions; (ii) the Counter-cyclical Capital Buffer (CCyB); and (iii) the systemic buffer (DSIBs buffer) for DSIBs.

Pursuant to these Regulations, all DSIBs in Uganda are currently required to comply with their respective systemic risk buffer. These buffers are in the 0–3.5 percent range, with DSIBs subject to enhanced supervision, which aims to mitigate the potential risk they might pose to the financial system. Although, the Ugandan banking sector has the highest capital adequacy ratio (CAR) in the region, the CCB of 2.5 percent has taken effect from January 1, 2022. Under this proposal, the minimum capital requirements for commercial banks, credit institutions and MDIs is set at USh.150 billion, USh.25 billion and USh.10 billion respectively. By December 2021, it is expected that only 10 out of 25 commercial banks including all the DSIBs; 2 out of 5 credit institutions; and 3 out of 4 MDIs would be able to meet the respective proposed minimum capital requirements from their current paid-up ordinary share capital, share premium, and allowable conversion of prior years' retained earnings. SFIs that do not currently meet the proposed capital requirements will be given a phase-in period of 2 to 3 years during which they would be able to inject additional capital. In line with existing legislation, such SFIs are allowed to merge, downgrade to a lower license tier, or prepare for orderly exit.

4. Liquidity in the system is abundant, supported by continued growth in customer deposits, higher investment in government securities, and growth of banks' deposits with non-resident banks. By end-December 2021, the industry aggregate liquidity coverage ratio and liquid assets-to-deposit ratio stood at 252.6 percent and 48.0 percent, respectively, well above the respective minimum requirements of 100 percent and 20 percent. The ratio of liquid asset to short term liabilities and total assets increased respectively from 44.9 percent and 30.1 percent in March 2019 to 48.8 percent and 33.0 percent in December 2021. Customer deposits, which are the main source of funding for banks, increased by 9 percent y-o-y in June 2021, reflecting increased deposit mobilization through agent banking and digital platforms as well as the preservation of liquidity during the pandemic. More than 50 percent of these deposits were demand deposits remunerated at around 1.5 percent, which helped contain costs, and contribute to low funding costs in the banking system. However, lending rates have remained high and responded slowly to the monetary easing (Box 3).

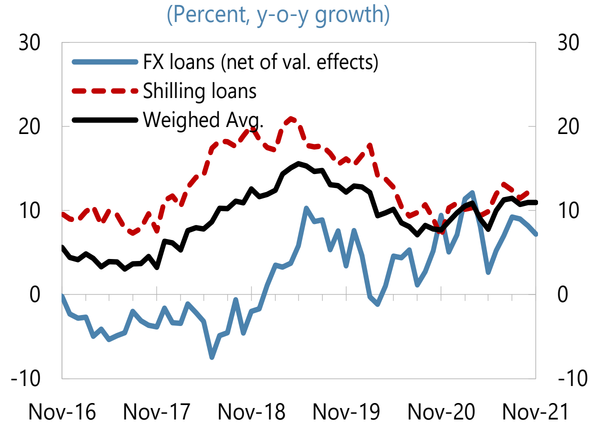
Financial Sector Liquidity (%)



Source: BoU

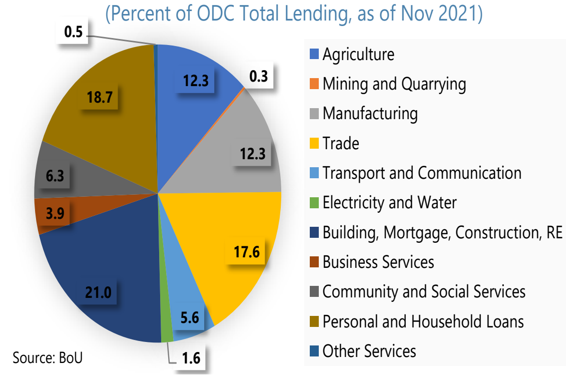
5. **Assets have increased, mostly because of banks' preference toward risk-free investment in government debt**. Over the 5-years to September 2021, the ratio of commercial banks' exposure to government debt and loans increased from 21.9 percent to 28.3 percent while the share of private sector credit to commercial banks' total assets dropped from 47.8 percent to 40.9 percent. Despite ample liquidity in the banking sector, the private sector credit remained subdued at 5.9 percent year-on-year in December 2021—mostly reflecting a rise in personal loans. Although credit demand (proxied by value of loan applications) and credit supply (proxied by loan approvals) has been increasing since last June until the end of last year, both have been declining in 2021, reflecting the crowding out effect of government debt, as well as weak demand and commercial banks' risk aversion on account of the slow and uneven economic recovery.

Evolution of Private Sector Lending
(Percent, y-o-y growth)



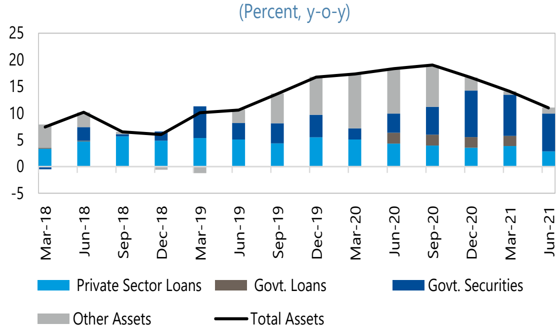
Source: BoU and IMF staff calculations

Share of Commercial Loans by Sector
(Percent of ODC Total Lending, as of Nov 2021)



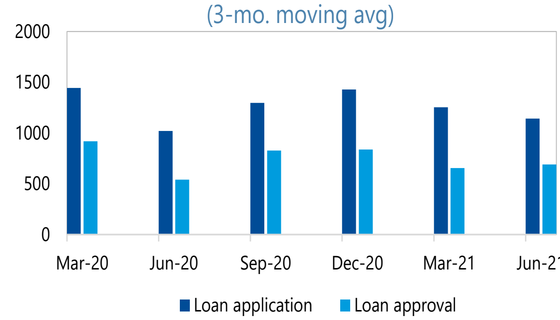
Source: BoU

Contribution to the Growth of Commercial Banks' Assets
(Percent, y-o-y)



Source: BoU and IMF staff calculations

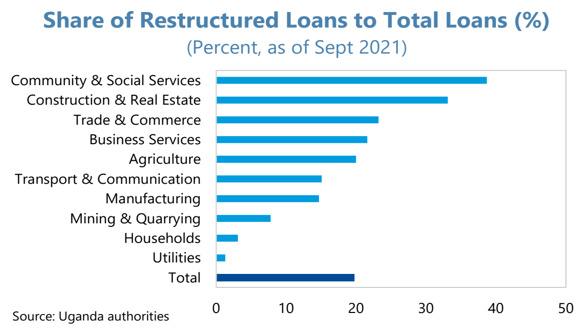
Demand and Supply of Bank Credit
(3-mo. moving avg)

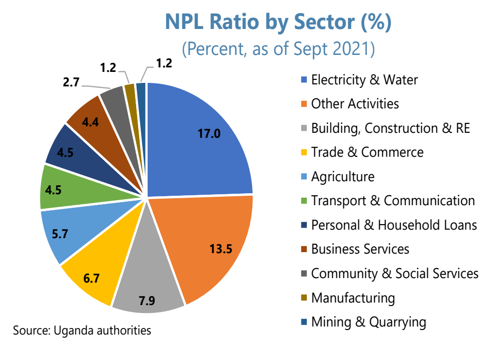


Source: BoU

6. **Asset quality risk is on the rise in view of the large share of restructured loans.** NPLs rose to 6 percent of total loans in 2020, before declining to 5.3 percent in December 2021, lower than in other EAC countries. Slower economic activity, particularly in the services, construction and trade sectors, explained the deterioration in asset quality, despite the credit relief measures that restructured loans in those industries. After peaking at 31.7 percent of total loans in June 2020, the

stock of restructured loans amounted to Ush 3.6 trillion (or 20 percent of total loans) as of end September 2021. During the same period, provisioning increased so that they represent 46.5 percent of commercial banks' NPLs by September 2021.

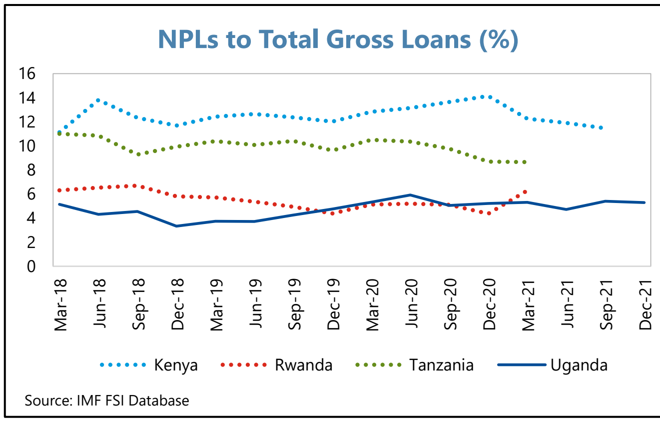




7. The near-term aggregate risks to financial stability are elevated but manageable. Credit risks arising from non-performing loans remain the key risk to financial sector stability. In September 2021, BoU implemented a stress test based on two scenarios: 1) all restructured loans that are 1 – 89 days past due (Ush.1.1 trillion) become NPLs by December 2021 and the existing NPLs are downgraded to lower categories; 2) Scenario 1 combined with 25% of the performing restructured loans (Ush. 619.3 billion) deteriorates to NPLs between December 2021 and March 2022. The test results indicate that:

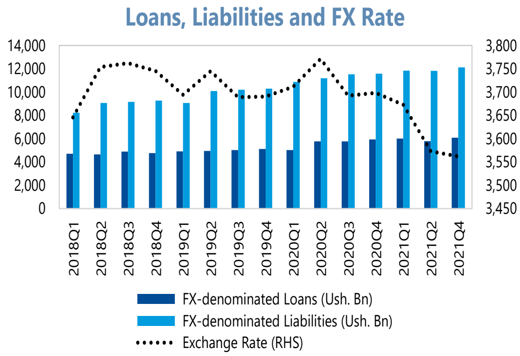
- **Most SFIs are resilient to the credit risk shock**. While the aggregate core capital adequacy ratio (CAR) would decline to 19.5 percent and the aggregate NPL ratio would rise to 12.7 percent as of March 2022, nine of 25 SFIs, which account for 7.4 percent of the industry's asset base, would be in breach of the minimum CAR requirement.

- **SFIs are little impacted by a foreign exchange shock**. Given that the foreign currency denominated liabilities account for 36.2 percent of total liabilities by December 2021, Uganda's banking sector has a relatively high exposure to currency risks.[1] Although the system's net open position as a whole is short in foreign exchange, BoU's stress test indicates all banks are

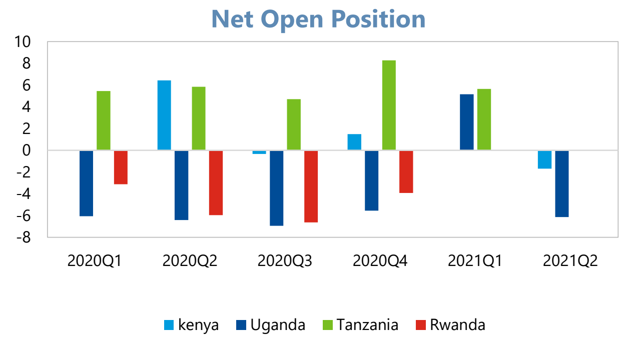


[1] The banking sector could expose to two types of currency risk. On one hand, the currency mismatch could directly affect the banks' balance sheets. Ugandan banking system as a whole is short in foreign exchange, and would therefore suffer from a depreciation. On the other hand, FX loans to unhedged borrowers may become NPLs if currency depreciates and therefore pose credit risk to the banks because of the currency mismatch in borrowers' balance sheets and rising payment burden in local currency.

resilient to a 100 percent depreciation of the local currency, possibly thanks to BoU's limit on banks net open position in foreign exchange to core capital.[2]



Source: IMF FSI Database



Source: IMF FSI Data

[2] According to BoU's regulation implemented since Dec 2010, the daily foreign exchange open position of authorized financial institutions shall lie within (+/-) 25 % of a financial institution's core capital as at the preceding quarter.

Annex VII. Anti-Money Laundering and Anti-Corruption

Governance, corruption, and money laundering issues are fundamental challenges to Uganda's development, potentially impacting a wide range of macro-critical outcomes. While legal and institutional frameworks are broadly in place, AML/CFT and anti-corruption enforcement need to be strengthened. The strength of the AML/CFT regime is insufficient to address the ML and TF risks.

A. Anti-Corruption

1. Uganda's anti-corruption legal and institutional frameworks generally provide sufficient basis for anti-corruption enforcement, but their implementation is weak. The main corruption offences are criminalized[1], with important legislative gaps remaining in the tracing and identification of proceeds and instrumentalities of crime. Uganda has established various specialized anti-corruption institutions,[2] but authorities have noted that their effectiveness is indeed low, due to insufficient capacity, low level of independence and corruption vulnerabilities. Uganda's National Development Plan[3] identifies weak adherence to the rule of law and corruption in the judicial system as major governance challenges, which contribute to the perceptions of impunity, particularly for high-level officials. Lack of a commitment to sanction corrupt officials and inadequate capacity of anti-corruption institutions have hampered the investigation and prosecution of high-level cases.[4]

2. The number of reported corruption investigations has increased in recent years. The total number of high-profile corruption cases investigated increased from 4 in 2016 to 53 in 2020 and from 600 to 3 477 for other corruption cases, including because of staff capacity building and technical assistance from development partners.[5] However, the number of corruption cases closed due to insufficient evidence has similarly risen, potentially pointing to the weak investigative capacity of anti-corruption agencies.[6] The Office of the Director of Public Prosecutions prosecuted 45 corruption cases in 2019/2020 (obtaining 31 convictions, 10 acquittals and 4 dismissals). A review of implementation of the previous Inspectorate of Government (anti-corruption prevention and enforcement agency) Strategic Plan equally showed low degree of implementation with only 46 percent of all 2019/2020 indicators achieved, including 40 percent of recommendations on investigation and prosecution of corruption cases implemented.[7]

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[1] Review of implementation of the United Nations Convention against Corruption for Uganda (https://www.unodc.org/documents/treaties/UNCAC/WorkingGroups/ImplementationReviewGroup/ExecutiveSummaries/V1184854e.pdf)

[2] For further information please see Annex IV "Governance and Corruption in Uganda"; IMF 2019 Article IV Consultation

[3] Third National Development Plan (NDPIII) 2020/21-2024/25, July 2020

[4] National Anti-corruption Strategy 2019/20-2023/24; p.5

[5] National Anti-corruption Strategy 2019/20-2023/24; p.9

[6] Third National Development Plan (NDPIII) 2020/21-2024/25, July 2020

[7] Inspectorate of Government Strategic Plan 2020/21-2024/25; p.9

3. Anti-corruption agencies need to be further safeguarded from undue influence and external interference by:

- **Formalizing the appointment of anti-corruption agencies' top management** through a more balanced and transparent selection process with procedures to assess the reputation, relevant specific skills, and professional qualities of candidates. The authorities should also reconsider duplication of law enforcement agencies' mandates, particularly between the Inspectorate of Government and the Department of Public Prosecution, which may result in the duplication of work and conflicts of prosecutorial jurisdiction.

- **Strengthening the operational independence of the Financial Intelligence Authority** (FIA). In relation to AML/CFT, the extent of powers of the FIA Board to direct the Executive Director on operational policies of the FIA, including powers to appoint, remove and suspend members of staff and recommend the Executive Director's dismissal to the Minister, pose risk of interfering with FIA operational independence.

- **Creating a direct interface between law enforcement agencies** with national databases of agencies such as the Uganda Registration Services Bureau, the Uganda Revenue Authority, or the Immigration and Police to strengthen the effectiveness of crime detection and investigation and reduce delays in anti-corruption investigations.

- **Developing guidelines to outline the types of cases that cannot be settled voluntarily** at the stage of investigation and should be passed to the judiciary. This would help address anti-corruption agencies' wide discretion in voluntary settlement of anti-corruption investigations, which poses corruption risks.

4. Addressing deficiencies in the asset declaration regime can be an effective way to enhance anti-corruption enforcement by strengthening accountability of high-level officials. The Leadership Code Act establishes that asset declarations (ADs) are public information, but there are multiple barriers to access.[8] Allowing online public access to the existing electronic AD system would also support implementation of preventive measures for politically-exposed persons (PEPs) (including by financial institutions located abroad), to observe discrepancies between the assets declared and economic activity, and to report suspicious transactions as well as to leverage the possibility of foreign law enforcement action regarding the PEPs activity abroad. Allowing to disclose, use and publish information from the ADs in the public interest would also facilitate transparency and civil society scrutiny. The IG should leverage the AD regime to scrutinize unexplained wealth of public officials and investigate illicit enrichment, something which accounts for few successful prosecutions to date, and has potential for recovery of corruption proceeds.

5. The value of illicit assets confiscated and recovered has increased in recent years but remains low in view of the identified risk level in Uganda. The confiscation framework is being

[8] Further information in the Annex VII. Strengthening the Asset Declaration Regime in Uganda; Request for a Three-year Arrangement under the Extended Credit Facility; June 2021

used more consistently than in the past, with the main focus on corruption and ML cases. The value of assets recovered by the Inspectorate of Government in 2019/2020 was 2.8 billion shillings (approximately 800 000 U.S. dollars),[9] which is still comparatively low, and no financial profiling and asset tracing was conducted in high-profile cases. Financial investigators and prosecutors have not sufficiently pursued parallel financial investigations for proceeds-generating crimes, including due to limited capacity.[10] The judiciary lacks technical skills to adjudicate cases that include financial investigations into the proceeds of crime.[11] The Inspectorate of Government's asset recovery unit has, however, issued operating procedures for asset recovery promoting financial profiling and parallel financial investigations, which is a good step.

6. **Considering expected oil revenue flows in the near future, a focus on transparency in the extractive sector is warranted.** The National Development Plan indicates that oil extraction poses tax evasion and corruption risks and can exacerbate the challenges that the development agenda seeks to address.[12] Uganda has recently joined the Extractive Industries Transparency Initiative (EITI) and intends to issue the first EITI report in 2022. Disclosure of the contracts and licenses for the exploration or production of oil, gas, and minerals (e.g. gold) and of the beneficial owners of corporate entities awarded these contracts and licenses are needed to ensure corruption risks are mitigated and the oil revenues lead to inclusive growth. Such steps can be further complemented by the collection and publication of beneficial ownership information of companies awarded procurement contracts, reducing red tape and bureaucratic discretion and digitalization of some public services.

B. Anti-Money Laundering / Combating the Financing of Terrorism

7. **The AML/CFT regime is inadequate to mitigate the substantial risks of laundering proceeds of crime, including of corruption offences, which is one of the main money laundering (ML) threats in Uganda.[13]** The national ML/TF risk assessment identified that the crimes that generate the most proceeds are corruption, fraud, tax crimes, and counterfeiting of goods. Uganda is also exposed to foreign TF risks and ML risks from smuggling, wildlife crimes and illegal mining, drug, and human trafficking. Uganda has made progress in bringing its AML/CFT legal and regulatory framework in line with the (Financial Action Task Force) FATF standards in the last several years, but its effectiveness remains low. Consequently, Uganda was "grey listed" by the FATF in February 2020 and is also on the European Union list of high-risk third countries. Widespread corruption hinders the integrity and independence of AML/CFT stakeholders[14] and weaknesses in combating ML and TF result in a small number of ML cases being investigated and

[9] Inspectorate of Government Strategic Plan 2020/21-2024/25

[10] Ibid.

[11] Money Laundering and Terrorist Financing National Risk Assessment Report; March 2017; p. xxv

[12] Third National Development Plan (NDPIII) 2020/21-2024/25, July 2020; p.88

[13] AML/CFT measures in Uganda; Mutual Evaluation Report; April 2016

[14] Money Laundering and Terrorist Financing National Risk Assessment Report; March 2017; p. xxiv

prosecuted, compared to the identified risks. Overall, weak ML/TF controls are unable to meaningfully reduce the ML/TF risks in Uganda.

8. **Uganda took important steps in recent years to strengthen its AML/CFT regime, which remains in the early stages of development.** The Uganda AML/CFT Taskforce adopted a National AML/CFT Strategy in September 2020, which comprised six objectives encompassing detailed actions to: i) address deficiencies included in FATFs "grey listing" action plan; ii) enhancing compliance with the FATF Recommendations; and iii) strengthening AML/CFT legal and regulatory frameworks. Various supervisory authorities have taken steps to develop AML/CFT regulatory and supervisory capacity. The Bank of Uganda conducted an AML/CFT risk assessment of the banking sector and provided guidance to its supervised entities on conducting entity risk assessment. The authorities have conducted and published a risk assessment of legal persons and arrangements and have taken some steps to increase the diversity of suspicious transactions reports filed with the Financial Intelligence Authority. Generally, the progress so far in implementing the "grey listing" action plan agreed with the FATF is weak. The authorities need to accelerate the AML/CFT reform efforts to address the inherent risks of money laundering and terrorist financing, including from abroad, and to limit the potential negative impact of "grey listing" on investments, remittance costs, correspondent banking relationship and foreign borrowing costs including because of increasingly negative public statements by FATF.

9. **Uganda's financial sector is vulnerable to ML and TF threats.** All the ongoing ML investigations involve the use of banks products or services and the National Risk Assessment for AML/CFT concluded that banks face medium-high and money transfer and foreign exchange services high ML/TF risk. The widespread use of cash and a large informal economy pose a significant AML/CFT challenge. The authorities recently introduced enhanced due diligence measures for all domestic PEPs to address the ML risks from corruption, which is a positive step. With help from forthcoming Fund TA, the authorities plan to develop and implement risk-based supervision tools for the financial sector, including a sectoral risk assessment, adopting tools for offsite monitoring, updating the inspection manual, and introducing a dedicated AML/CFT supervisory process. BoU plans to establish an AML/CFT unit, which will centralize the AML/CFT supervisory functions, will help promote a consistent treatment of ML/TF risks and more effective and efficient risk-based approach to supervision. ML/TF risks from the rapidly growing mobile money sector (which could potentially have a mitigating impact on ML/TF risk compared to the cash transactions that it replaces) should be assessed and incorporated into the BoU risk-based AML/CFT supervision. Other efforts to increase financial inclusion can also provide opportunities to reduce reliance on cash, mitigate ML/TF risks, and lower transaction costs.

10. **Access to accurate beneficial ownership is fundamental for a range of measures aimed at strengthening governance.** In particular, it is critical for the detection and investigation of various crimes, including corruption, tracing, and confiscation of crime proceeds, accurate reporting of assets under the asset declaration regime, transparency of extractive industries, reduction of corruption vulnerabilities in public procurement, due diligence measures for politically exposed persons. The Uganda Registration Services Bureau is developing the amendments to the Companies

Act to establish a centralized registry of beneficial ownership for all companies registered in Uganda to complement the existing registry of legal or basic ownership information. The amendments should also include dissuasive sanctions for submission of inaccurate beneficial ownership information. The authorities are considering whether the beneficial ownership registry should be open to the public, a strong transparency measure that can assist the low-capacity public sector agencies in verification of submitted beneficial ownership information and in the detection and investigation of potential fraud, embezzlement, corruption, and other crimes.

Annex VIII. Capacity Development

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 in recent years through 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 were adjusted aptly to respond to challenges emerging from the COVID-19 pandemic, including by helping upgrade business continuity plans in Uganda's Revenue Administration and design a framework to track COVID-19 expenditures. In line with the NDPIII, future priorities will center on the implementation of the domestic revenue mobilization strategy, natural resource management, public financial management, 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.

Table 1. Uganda: Medium-Term Capacity Development Priorities

Priorities	Objectives
Tax policy and revenue administration	Assist with the implementation of the 5-year Domestic Revenue Mobilization Strategy to raise revenues by ½ percent of GDP per year. Focus would be on enhancing VAT efficiency, improving tax core functions and compliance, support management and protection of natural resource revenue; and improve customs trade facilitation including valuation and risk management. Provide continued support on taxation of petroleum sector.
Public financial management	Improve efficiency and traceability of public spending, in particular capital and COVID-19 expenditures. Strengthen the budget process and institutions, improve cash and debt management, and management of fiscal risks. Complete arrangements to prepare for oil production, including by designing and implementing a fiscal rule.
Financial integrity	Strengthen oversight of AML/CFT to ensure FATF implementation and remove Uganda from the "grey list". Provide support on legal anti-corruption framework.
Financial supervision and regulation	Continue supporting implementation of the 2018 FSSR recommendations to reduce regulatory forbearance; close gaps in bank supervision (including by developing risk-based supervision and strengthening stress testing); strengthen corporate governance and internal controls. Enhance supervision/regulation of mobile money and supervision of non-banks is also important.
Government finance statistics	Continue strengthening accuracy of national accounts and GFS; improve data collection for extra budgetary units and local governments. Disseminate GFS for nonfinancial and financial public corporations and compile quarterly GFS for central government.

Appendix I. Letter of Intent

Kampala, February 23, 2022

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

Dear Madam Managing Director:

Uganda's efforts to reduce poverty and build pre-conditions for stronger growth over the last decade are being undercut by the prolonged COVID-19 pandemic and its effect on livelihoods and economic activity. A new lockdown was needed unexpectedly in June 2021 to counteract the effects of the deadly second wave of infections amid low availability of vaccines and inadequate hospital capacity. We have successfully managed to minimize the disease spread, including by accelerating our vaccinating drive. However, prolonged hardship stemming from suppressed demand, delayed external recovery, the threat of new variants and increased security tensions continue to weigh heavily on Uganda's prospects.

Putting our economy on the recovery path would require boosting social spending and continue supporting households and businesses. Immediate pressures on public health, education (for the reopening of schools) and on security as shown by the recent terror attacks on Kampala have required passing a supplementary budget. This included many priorities that we could not avoid and, in line with our commitments under the program, we took every care to limit a large deterioration in our fiscal deficit by identifying non-priority spending cuts. Revenue losses from subdued economic activity was also a challenge but we expect that trend to reverse following the lifting of the curfew and the full reopening of the economy (including of our schools) in January 2022.

The bedrock of our economic reform program remains Uganda's Third National Development Plan. The near-term response continues to rely on fiscal and monetary policy to protect livelihoods and support economic activity, subject to the government's financing constraints. To address medium-term challenges that include jobs and wealth creation by fostering private sector development, our program focuses on: (i) safeguarding macroeconomic stability by maintaining public debt on a sustainable path; (ii) mobilizing domestic revenues; prioritizing spending; (iii) strengthening reserve buffers; improving the Bank of Uganda (BOU)'s inflation targeting framework; and (iv) supporting financial sector stability. Generating more inclusive growth crucially depends also on strengthening governance, expanding the existing social safety net, implementing structural reforms to boost human capital and private sector development, and enhancing resilience to internal and external shocks including climate change.

We remain firmly committed to the implementation of our IMF-supported program. All end-September quantitative targets were met, including our primary balance that was met by a large margin, even as revenues fell short of targets reflecting the economic slowdown from the second COVID-19 wave. Cash releases made available for social spending exceeded by a large margin the indicative target, but the target on tax revenues was missed. Our structural reform agenda has experienced some delays, due in part to legal complications, but seven out of ten structural benchmarks that were not met by end-December have now been completed, while three were reset to reflect our legislative timetable and additional time needed to address technical issues. To reflect recent pressures on spending and the cyclical shortfall in revenue despite our strong implementation of our domestic revenue mobilization strategy, we request modification of the end-March 2022 quantitative performance criterion (QPC) for the primary fiscal deficit and net claims to government. We also propose a modification of the QPC for net international reserves for March 2022 to reflect recent market developments while remaining in line with our program objective of 4-month import coverage.

Looking ahead, the government believes that the measures and policies set forth in the attached Memorandum of Economic and Financial Policies (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. Timely information needed to monitor the economic situation and implementation of policies relevant to the program will be provided, as agreed under the attached TMU, or at the IMF's request.

We request the completion of the first review under the ECF and disbursement of SDR 90.25 million, and agree to the publication of this Letter of Intent and its attachments, as well as the related Staff Report, on the IMF's website.

Sincerely yours,

/s/	/s/
Hon. Matia Kasaija	Michael Atingi-Ego
Minister of Finance, Planning and Economic Development	Deputy Governor of the Bank of Uganda

Attachments:

- Memorandum of Economic and Financial Policies
- Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

A. Introduction

1. The Ugandan government continues to react swiftly and decisively to protect the health of its population. Just as the economy started recovering from the first COVID-19 wave that peaked in December 2020, a 42-day partial lockdown—a bit less stringent than the four months lockdown introduced to curb the first wave—was introduced in June-July 2021 to mitigate the impact of the second COVID-19 wave. This measure—along with our vaccination program (13 million persons vaccinated with at least one dose by end-January 2022), curfew restrictions, and school closures—helped us keep the number of COVID-19 cases and fatalities contained. Our aim is to continue accelerating our vaccination program to ensure we fully vaccinate 22 million adults in 2022, to avoid future lockdowns following the full reopening of our economy in January 2022.

2. In response to the economic hardship induced by the pandemic, we have continued supporting the vulnerable population despite tight financing constraints. The economic fallout of the pandemic has been steep— partly reversing some of the poverty gains from the past ten years, despite the government's proactive monetary, financial and fiscal policy responses, taken early in the pandemic to cushion the impact of the shutdowns on households and businesses. To further mitigate the impact of the latest lockdown, we mobilized in August 2021 funding for emergency COVID-19 cash transfers to support 497,000 people (Ush 100,000 – about $28 for each vulnerable household) who were left out of jobs, 48 percent of whom are women. Effective October 1, 2021, Bank of Uganda (BOU) extended the credit relief measures for the education and hospitality sectors by one year to September 30, 2022, because they were significantly affected by the outbreak of the Covid-19 pandemic.

3. The economic program presented in this Memorandum of Economic and Financial Policies (MEFP) supports our National Development Plan (NDPIII), which is being updated to ensure priorities remain aligned with protecting livelihoods and supporting the recovery. NDPIII implementation will be critical in a post-COVID-19 environment to foster private sector-led growth. This MEFP describes specific policies and measures the government will implement during the period 2021-24 under a three-year ECF arrangement. Support from our international partners remains key to the success of our policies. We are grateful for their generous help during the pandemic, demonstrated by their readiness to supply much-needed vaccines and facilitate their deployment. We will continue to rely on development partners' support—financial and technical—in implementing the policy framework outlined in this MEFP.

B. Economic and Social Developments

4. Economic activity is gradually recovering. Growth in FY20/21 remained at about half its pre-COVID-19 pace as the rapid resumption of activity registered in Q3/Q4 of FY20/21—when the first four-month lockdown was lifted, and external demand improved—was not enough to offset the severe contraction registered earlier in the year. More recently, leading indicators, such as the

Purchasing Manager's Index and the Composite Index of Economic Activity, are pointing to employment rising for the first time in six months as companies responded to sustained increases in output and new orders.

5. **Core inflation remains well below the BOU's 5 percent mid-point inflation target.** The rebased Consumer Price Index (CPI) published by the Ugandan Bureau of Statistics (UBOS) in April 2021 is now used to monitor inflation. The new figures show core inflation significantly below target since May 2017, while picking from 2.1 percent y-o-y in October 2021 to 2.3 percent y-o-y in Jan 2022. During the same period, headline inflation remained below 3 percent, despite increases in food, energy and transportation prices.

6. **Higher external portfolio inflows have helped finance a deteriorating current account deficit.** Driven by increasing private sector imports, low remittances, high public sector imports and weak tourism receipts, the current account deficit reached 10.2 percent of GDP in FY20/21. It was mainly financed by budget and project support loans as well as a significant pickup in non-resident portfolio inflows, which reached $364.3 million in FY20/21 and pushed the stock of non-resident holdings of government bonds to about $806.2 million by November 2021. The shilling appreciated by 4.4 percent year-on-year at end-January 2022. Due to relative stability in the foreign exchange market, the BOU was able to make a net purchase of reserves of $141.4 million in January 2022. Helped by the recent SDR allocation, gross international reserves increased to $4.2 billion (4.4 months of imports) in January 2022 from $3.9 billion at end-June 2020.

7. **The BOU pursued an accommodative monetary policy stance.** From March 2020 to June 2021, the policy rate was lowered three times by a cumulative 250 bps to 6.5 percent. The Monetary Policy Committee kept the policy rate unchanged in August, October, and December 2021 with concerns about monetary policy normalization in advanced economies, capital outflows, disruptions to global supply chains, and pressures from global commodity prices offsetting worries about domestic excess capacity and sluggish private sector credit growth. The latter did, however, pick up slightly to 9.3 percent in October (y-o-y) partly because of the partial resumption of economic activity following the lockdown.

8. **The deterioration of the fiscal deficit (on a cash basis, as measured under the program) in FY20/21 to accommodate the impact of the COVID-19 pandemic was less than initially programmed.** The better-than-expected performance of about 0.5 percent of GDP reflected three main factors: (i) stepped up tax administration efforts that yielded tax arrears collection (about 0.3 percent of GDP); (ii) lower execution of public investment projects, which reflected low absorption capacity and financing shortfalls that delayed implementation of certain projects (0.2 percent of GDP); and (iii) the inability by some ministries to spend the cash releases provided later in the year, which postponed payments to the next fiscal year (0.4 percent of GDP).

9. **Continued reliance on BOU advances—and increased participation of non-resident investors—helped finance our deficit and offset external financing shortfalls.** External financing fell short of the target as administrative obstacles delayed loan disbursements from the African Export-Import Bank (1 percent of GDP) and the African Development Bank (0.1 percent of GDP). This

financing shortfall contributed to the delay in repaying BOU advances provided for the redemption of Treasury securities (around 2 percent of GDP) by June 2021. With government bond yields remaining attractive, offshore investors more than doubled their holdings of Treasury securities, which helped shift the composition of our financing, which was tilted towards banks.

10. The lower fiscal deficit, and exchange rate appreciation kept the debt-to-GDP ratio at 49.1 percent (including outstanding advances to the BOU), below the projected 50.2 percent. The large interest in the government bond market from both foreign and domestic investors, combined with lower government financing needs, have helped contain the rise in government bond yields. The risk of debt distress is moderate based on the latest Debt Sustainability Analysis.

11. The banking sector is profitable and well-capitalized, but some vulnerabilities remain a concern. In addition to the exceptional liquidity made available through the Lombard Window and Exceptional Liquidity Assistance Facility, the BOU introduced credit relief measures in April 2020, which helped mitigate the impact of the pandemic on the financial sector. Such measures helped contain NPL ratio for commercial banks in particular, which declined to 5.3 percent in December 2021 (from a peak of 6.0 percent in June 2020), with the total capital ratio and the liquidity coverage ratio averaging 22.3 percent and 244.7 percent over the year to December 2021—well above the minimum prudential requirements of 10 and 100 percent, respectively. After peaking at 31.2 percent of total loans in June 2020, the stock of restructured loans amounted to Ush 3.1 trillion (or 16.7 percent of total loans) as of end December 2021. The supervised financial institutions (SFIs) continue to proactively provision for NPLs, with SFIs' provisions rising by 17.7 percent compared with a year ago.

C. Program Performance

12. All end-September quantitative performance criteria were met while one indicative target was missed (Table 1). The primary deficit ceiling and the non-concessional borrowing limit were met in June and September despite the challenging economic environment and reflect our commitment to fiscal responsibility. Facing revenue shortfalls in the first quarter, we cut discretionary expenditure to stay within the limits. The net international reserves floor was also met on both test dates while repayment of past arrears was overshot in September. The targets on tax revenue, net claims on government, the floor on social spending and the floor on the repayment of arrears was missed either in June or September but the deviations were corrected.

- **Net claims on government:** The indicative target was missed in June, as only direct BOU advances to the Treasury were repaid (in line with the PFM Act) while advances provided to redeem the large stock of government securities remained on the BOU's balance sheet. We met the QPC in September.

- **Tax revenues.** We met the indicative target (IT) in June but missed the IT in September by Ush 359 billion (0.2 percent of GDP), despite having implemented all the programmed DRMS measures, due to the fallout from the second wave of COVID-19 infections, including the partial lockdown, and lower economic activity. With the recovery of activity in the second quarter, the full reopening in January 2022, and planned additional tax policy and administration measures, we expect to recover some of the shortfall in the second half of the fiscal year.

- **Priority social spending.** Cash releases made available for priority social spending exceeded the indicative target by a large margin, but low absorption capacity at the end of FY20/21 meant that the funds released were not spent entirely by end-June 2021, but rather postponed until the next quarter. Hence, the IT (floor) for end-June 2021 was missed. At the same time, as a result of the payment of these releases in the first quarter of FY21/22, the floor on social spending was met in September. The floor on support to vulnerable households was met by a large margin in September.

- **Repayment of domestic arrears:** The floor on the repayment of arrears was not met in June 2021 because low absorption capacity led to the delayed disbursement of a part of the amount released for this purpose.

13. We have encountered difficulties in implementing our structural reform agenda which has delayed the implementation of our structural benchmarks (SB) (Table 2a-c). The framework for tracking COVID-19 spending was adopted by end-August in line with the program. The amendments to the BOU Act were submitted to the Cabinet in January 2022 (SB, end-December 2021, prior action). They are expected to be adopted by parliament by September 2022. While none of the remaining benchmarks were met in 2021, we have implemented all of them with delay by February 18, 2022, and request resetting the timeline for three to accommodate legislative, technical and legal requirements that are beyond our control.

- The **Service Level Agreement (SLA)** between the Ministry of Finance, Planning and Economic Development (MoFPED) and the BOU to govern central bank financing of the government was signed with delay following institutions-wide consultations on the determination of the interest rate applicable to advances by the BOU and the definition of advances that now incorporates debt redemptions done by the BOU on behalf of the government. The SLA now governs the repayment of advances for past debt redemptions for the next two years and an addendum introduces a broader definition of advances from FY 23/24 (SB end-July, prior action).

- We have adopted a **public investment prioritization framework** on time. However, publication of the pipeline of projects that could be included in the budget using the adopted project selection criteria was met with delay on January 17, 2022 (SB, end-September).

- We are facing delays in the upgrade of the **unified registry of social assistance programs** to include beneficiaries of the National Social Security Fund and the public pension scheme due to IT challenges related to the migration of data from the Integrated Personnel and Payroll System to Human Capital Management Information System (SB end-September). Moreover, we necessitate further legal consultation to clarify data protection needs and address privacy concerns. We therefore request resetting of the deadline to end-June 2022.

- We have adopted a regulation requiring financial institutions to exercise enhanced **due diligence for domestic politically exposed persons** with delay, on January 14, 2022. This measure required internal consultations, including an opinion of the Attorney General and banks to ensure there is sufficient understanding and guidance on the implementation of this regulation. (SB end-September).

- We have finalized and adopted a **tax expenditure framework** with delay after validation with stakeholders. We have also published with delay our second annual tax expenditure statement on January 11, 2022 (SB end-October).

- Following extensive consultations with the Attorney General, we plan to elevate the current treasury instruction containing provisions on **sanctions for officers responsible for unauthorized spending commitments** with clear personal penalties into a regulation, but that would require more time for the legislative process and thus we request resetting the SB to June 2022.

- We published with delay the **quarterly report on unpaid invoices** which can now be extracted automatically from FMIS. Further configuration will capture the payments due date. (SB, end-November, prior action).

- Amendments to the Company Act necessary to establish a beneficial ownership registry would require adoption by Parliament. This is a priority for us in view of the FATF listing requiring timely **access to accurate beneficial ownership information of legal entities.** We request resetting this November 2021 SB to end-June 2022 to allow for the domestic coordination and appropriate legislative process, which took longer than initially expected.

14. The government's governance commitments, which were made at the time of the RCF, have now all been met:

- We have extended **the special independent audit for COVID-19 spending,** which was completed for the first three quarters of FY20/21, to the full FY20/21 on time. It was published on February 15, 2022 after our presentation in Parliament in early January (prior action). This report is the second one after our published COVID-19 FY 19/20 audit.

- We have **prepared a comprehensive report of COVID-19** spending for FY20/21 and cash releases for the first two quarters of FY21/22 (link).

- After adoption of the new procurement template, we issued on December 15th a new circular instructing all accounting officers to collect beneficial ownership information for all contracts—hence going even beyond the requirement of collecting it only for the COVID-19-related large procurement contracts as we thought it an important reform. With the template for new bids requirement now already in use for ongoing procurement contracts, we have published a **list of COVID-19 procurement contracts**, including the names of winning bidders as well as their beneficial owners (prior action).

D. Macroeconomic Outlook and Risks

15. Our baseline assumes a strong rebound in economic activity after the full reopening in January 2022. While the impact of the second COVID-19 wave and the latest lockdown on economic activity led to a downward revision in FY21/22 growth from 4.3 to 3.8 percent, our expectation is that the recent lifting of the curfew and reopening of schools will generate a strong rebound in the second half of the fiscal year, which will be accompanied by a pickup in manufacturing, services, and construction. Over the medium term, government investment in oil-related infrastructure, the energy sector and transport, coupled with a recovery in manufacturing, construction, external demand, and reform implementation—including better fiscal spending composition and efficiency and strengthened governance framework—will bring annual growth above 6 percent. The recent agreement on the oil pipeline between the French oil company Total, the Chinese oil company CNOOC and the governments of Uganda and Tanzania, and the parliamentary approval of three bills regulating the oil sector were decisive steps towards the conclusion of the final investment decision in February 2022. Inflation is projected to remain within the IT band in the near term, with core inflation reaching the mid-point inflation target of 5 percent by FY23/24, driven by higher aggregate demand, accommodative monetary policy and greater exchange rate flexibility.

16. We are committed to maintaining our reserve cover at an adequate level and strengthening it over time. The current account deficit is expected to narrow gradually to about 5 percent of GDP (excluding imports related to oil project financing and investment related imports)—a level consistent with the historical average—in FY24/25, reflecting our fiscal consolidation strategy, further recovery in global demand, and oil coming on stream. Private sector flows, donor financing, greater foreign exchange rate flexibility, and the recent SDR allocation will help keep reserves at 4 months of import cover (defined as months of next year's imports of goods and services excluding oil project financing and investment related imports) during the program, before increasing to the East Africa Community target of 4.5 months once oil production starts in 2024/25.

17. Risks to the outlook are mostly to the downside. A less benign external environment—including a slowdown in the global recovery and tighter global financial conditions—could weigh on the outlook. A slower pace of reform implementation, a resurgence of lockdown measures linked to new variants and higher COVID-19 positivity rates, higher credit risk, and more intense social and security risks would also weigh on the outlook. Moreover, slow execution of public investment projects and further delays in oil investments could dampen the growth outlook further, while an increased frequency and intensity of climate shocks, including droughts and floods, could undermine agricultural activity and further increase poverty and food insecurity in rural areas. On the upside, a faster implementation of the vaccine rollout and higher donor financing would help boost economic activity.

E. Economic Policies

18. Facing persistent COVID-19 challenges, we had to re-prioritize the implementation of the Third National Development Plan (NDPIII), centering it more narrowly on the near-term support to economic activity and health. We remain focused on macroeconomic stability and structural reforms that ease bottlenecks, including governance and fostering public sector efficiency. Areas of refocus reflect the government's current priorities and strategies: (i) business activity and financial inclusion, through interventions including a business recovery fund for SMEs and better use of developmental finance through UDB; (ii) restoring the well-being of the population through vaccination and sustainable re-opening of education; (iii) maintenance and availability of productive infrastructure including e-government, e-procurement, e-learning and roads; (iv) fast tracking industrialization and manufacturing focusing on value addition and operationalization of industrial parks; (v) improving public sector efficiency through rationalization and implementation of the Parish Development Model, which is the government' new strategy for accelerating wealth and job creation, and improving service delivery at parish level.

19. We plan to vaccinate 22 million Ugandans by end-2022 despite deployment obstacles. Successful and durable re-opening of the economy hinges on reaching herd immunity of the population. We have prioritized vaccination of 4.5 million essential workers (health staff, police, military, and education staff) and elderly based on their vulnerability, which were all vaccinated by January 2022. Inoculations are progressing at higher speed as more vaccines have become available recently. We have managed to deploy more than 13 million vaccines to date using both government funds and donations from our development partners.

Fiscal Policy

20. The FY21/22 fiscal policy stance was revised to accommodate the effects of the second pandemic-related lockdown while accounting for unexpected events. Specifically, the lockdown led to significant revenue shortfalls, while the spending envelope increased on the back of delayed execution of some spending commitments from FY20/21, as well as additional spending to mitigate the impact of COVID-19 and address security challenges revealed by the recent terror attacks in Kampala. The fiscal deficit (cash basis) is thus expected to reach 7.5 percent of GDP in June 2022, about 1.1 percent of GDP higher than programmed reflecting:

- **Revenue shortfalls (0.6 percent of GDP).** As planned, we implemented the domestic revenue mobilization (DRM) measures announced last June, including the increase in fuel excises and introduction of new excise duties, and strengthened our audit and arrears management practices. However, a revenue shortfall of almost Ush700 billion was nevertheless recorded in the first four months of FY21/22, on account of lower contributions from large taxpayers (real estate, construction, and transport). Moreover, sales of fuel products and consumption goods were more limited than anticipated. Against the backdrop of the full reopening of the economy, we expect revenue collection to rebound in the second half of the year and yields from DRM measures to increase, thus keeping the annual shortfall contained at USh 924 billion.

- **Unpaid invoices from FY20/21 (0.4 percent of GDP)**, including for social and security spending (0.05 and 0.02 percent of GDP respectively).

- **A supplementary budget**, allocating an additional spending of Ush 3.8 trillion (2.4 percent of GDP), was approved by Parliament in November 2021.

- **Spending cuts (2.3 percent of GDP)** partially offset the increase in spending. Cuts include the elimination of workshops and travel, an across-the-board reduction by 40 percent in the non-priority spending of unprotected budgetary votes, the non-implementation of some items in the supplementary budget, and the lower-than-expected execution of externally financed projects.

21. Social spending increased relative to the original target. As a result of new expenditures and cuts, social spending increased by 0.3 percent of GDP relative to the ECF target for FY21/22. At the same time, security spending is 0.4 percent of GDP higher to address heightened enforcement linked to COVID-19 (including the lockdown and the curfew), operational shortfalls in the military during a period where the country needs to respond to terror attacks, and possible troop deployment at the border.

22. The higher financing need will require delaying the repayment of BOU advances further. The financing need will be covered through (i) additional domestic borrowing from both banks and nonbanks—including non-resident portfolio investors; (ii) the disbursement of the loans by AfDB and Afriexim Bank originally planned for FY20/21; and (iii) the use of deposits. At the same time, there will be no room to fully repay BOU advances this year. Accordingly, we will repay Ush 533 billion this year, while the remaining outstanding amount of Ush 2.5 trillion will be repaid over a two-year period starting in FY22/23 at market rates to provide additional room for accommodating a higher deficit. New BOU advances will be capped at 10 percent of current year's revenue going forward, in line with the new proposed Banking Act, and the outstanding stock will be repaid.

23. To ease financing constraints and replace more expensive borrowing, we have decided to use half the SDR allocation (about $250 million) to finance priority social spending. We are committed to using this financing for education, health and water and sanitation projects, including to help facilitate school reopening. A detailed spending plan for SDR use has been finalized (MEFP Table 3)—and a special monitoring report will be produced on a quarterly basis to track budget execution.

24. We have made efforts to procure sufficient vaccines thanks to World Bank financing and donations from developing partners. The World Bank grant for US$ 117 million is expected to procure about 17.7 million doses of vaccines. These doses would cover about 26.4 percent of the overall population, slightly over half of the national target of vaccinating 49.6 percent of the population (22 million people). Another US$ 20.2 million is dedicated to deployment interventions, thereby bringing the total World Bank financing for vaccine acquisition and deployment to US$ 137 million. We are hoping to fill the remaining funding gap of $27.6 million for the acquisition of vaccines through additional donations. There is a need, however, to ramp up deployment efforts in the short-term so that the vaccines can be used up quickly.

Medium-Term Fiscal Policy and Debt Sustainability

25. We remain committed to fiscal consolidation, which is necessary to keep debt sustainable and avoid a deterioration in the risk of debt distress. The pace of adjustment will remain the same as envisaged at the onset of the program. However, the deficit level in FY 22/23 will be higher on account lower revenues and some unexpected spending to contribute to oil infrastructure projects and ensure that oil production starts in FY 24/25 (we previously expected the upfront burden to be fully paid by our partners). While this would imply a large fiscal adjustment in FY22/23, the path remains feasible in view of the one-off nature of some of the pandemic-related social spending and security spending, which will be phased out over the next two years. Although the fiscal deficit is projected to halve over two years to FY23/24, to 3.5 percent of GDP, the debt-to GDP ratio will temporarily increase above 50 percent of GDP before converging below 50 percent of GDP by FY25/26 as the fiscal deficit declines to the 3 percent of GDP medium-term target set in the Charter of Fiscal Responsibility (CFR) Law adopted by Parliament in January 2022.

26. Our fiscal consolidation strategy will rely on revenue mobilization and spending prioritization that preserves resources for human capital development. The main elements of our strategy include:

- **Implementation of the DRM Strategy**. Implementation of our tax administration and tax policy agenda is expected to yield 0.7 percent of GDP in FY21/22 and 0.5 percent of GDP on average per year over the medium term. Our medium-term revenue strategy, which is being updated continuously and costed to reflect changes in the policy environment, will enhance the income tax system, improve the excise duty regime, and strengthen VAT productivity, including by reducing exemptions and reviewing the VAT registration threshold. Increasing taxpayer registration, enhancing voluntary compliance and improving arrears management remain our main areas of focus on tax administration. Streamlining tax expenditures remains a key priority. Building on last year's practice, we increased transparency in this area by publishing on January 11, 2022 the FY20/21 tax expenditure statement on the MoFPED website (link). In line with our reform plan, a tax expenditure prioritization framework has just been validated by a stakeholder workshop and adopted by the MoFPED in January 2022 (SB). We plan to use the new framework and methodology developed to design a tax exemption rationalization plan that identifies at least 0.1 percent of GDP in tax exemptions that can be rationalized in FY 2022/23 and at least 0.2 percent of GDP in subsequent years to contribute to our revenue collection objective (end-June SB).

- **Reduction of non-priority spending.** We will continue to identify cost-saving measures by asking Ministries to ensure that the spending priorities are aligned with NDPIII priorities at the planning stage. Priority spending—including investments chosen according to our newly published project selection criteria— will be saved. Projects that have not been appraised or selected using the new criteria or do not have identified funding will be cut. We have sought IMF technical assistance to conduct a public investment management assessment, expected in the first half of 2022. It will help assess and address the remaining gaps, including on establishing medium-term fiscal envelope forecasts to better prioritize capital spending, publishing multi-year public investment plans in line with the medium-term budget framework, and exercising rigorous public investment portfolio oversight.

27. In case downside risks materialize or financing assurances do not materialize, we will cut non-priority spending, to safeguard the fiscal goals of the program. To help us in this regard, we will also consider implementing a temporary freeze on new project commitments, delay projects that have not started or have yet to receive financing. Contingency revenue measures identified as part of our DRMS will also be considered.

28. The program will also target higher priority social spending of about 0.7 percent of GDP. 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, the targeted increase in social spending will reverse the decline in public education and health spending. We will also boost social assistance programs. To support targeting of beneficiaries, we will expand our national identification database and the unified national registry of all social assistance programs.

- **Northern Uganda Social Action Fund (NUSAF).** With NUSAF 3 ended in June 2021 (and had targeted 2,983,000 beneficiaries), a successor NUSAF 4 is currently being considered by the Cabinet and will expand the geographical scope to the eastern region which has high levels of poverty and vulnerability and increase the number of beneficiaries. We have concluded negotiations for a successor NUSAF in January 2022 and expect the first disbursement to arrive in the second quarter of FY22/23.

- **Urban Labor-Intensive Public Works program**, which will target 637,000 beneficiaries and will help address the impact of COVID-19 pandemic amongst poor and vulnerable households in urban and flood-affected areas in 16 flood-prone districts and 13 urban centers. We plan to launch the pilot in 2022] using a $300,000 funding from ILO.

- **Senior Citizens Grant (SAGE),** which has now been rolled out to all the districts to support beneficiaries aged 80 and above. We have scaled up the total number of beneficiaries from 150,000 in FY19/20 to 350,000 in FY20/21. We also plan to expand coverage of SAGE over the next few years and will soon finalize a cabinet paper to lower age eligibility to age 70 and above. Due to funding shortfalls during FY20/21, the program accumulated arrears worth Ush 36.07 billion, which we plan to make up in next year's budget.

- **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 administered by the Ministry of Finance and implemented through the Microfinance Support Center Ltd. Ush 390 billion has been disbursed by the Ministry of Finance to the Microfinance Support Center since the program's inception in FY 2019/20. We have supported 205,710 out of the 250,000 targeted beneficiaries in creating savings and credit cooperatives (SACCOs). We have extended credit to 5,903 of the 6,275 registered Emyooga SACCOs. The latter have spent Ush 176.52 billion in credit to 42,820 of their member associations. The seed capital by the Ministry of Finance has been supplemented by Ush 55.5 billion own savings from Emyooga associations, which has helped increase their capacity to extend credit to their members.

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

- **Improving the budget preparation process**. We will ensure that ministries submit for the budget all foreseeable expenditures, which should be costed. We will do our utmost to avoid supplementary budgets, including by ensuring these are limited to unforeseeable unexpected shocks. In the exceptional case where a new one was to become necessary again, we will, in consultation with IMF staff, ensure that any supplementary budget requests are costed, financing sources identified, and debt impact assessed.

- **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, 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 FY21/22 and will continue to prioritize and repay them in subsequent years. Between 2016 and 2021, we converted 87 percent of electricity accounts into pre-payment accounts. The remaining ones belong to the Ministry of Defense, which we are adding gradually. For FY21/22, we have obtained approval to add 25 percent of the Ministry of Defense accounts while the remaining require regulatory approval, which we have sought from the regulatory authority. Our program will also put in place measures to prevent further arrears accumulation by:

    - **Implementing our recently adopted domestic arrears strategy** which was published in June 2021 on our website (link). The strategy identifies new priorities that 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. Elevating sanctions for unauthorized spending from the current Treasury instructions to PFM regulations to facilitate enforcement is now planned for June 2022 (reset SB from November 2021). In the meantime, we plan to rigorously implement existing sanctions, which will be published by June 2022 to help provide more dissuasion. Commitment controls are also being strengthened through automatic confirmation of fund availability before incurring expenditure commitments, which is being complemented by automatic registration of invoices in the expenditure commitment module of our financial management information system.

        - **Monitoring through quarterly reporting of** unpaid government financial obligations showing due date and recorded in the authorities' Financial

Management Information System (FMIS). The aim is to ensure that these quarterly reports—the first of which was produced in January 2022— converge towards no unpaid bills in FMIS after 90 days.

- **Ring-fencing** the budget provisions allocated to clearing domestic arrears to prevent them from being redirected to other budgetary spending. Implementation is reported through individual entities' budget execution quarterly report.

- **Strengthening cash management reforms.** We have sought IMF technical assistance to support cash management reforms and help us operationalize monthly and quarterly cash flow forecasts by end-FY2021/22. Reforms undertaken so far include:

  - **Extending the Treasury Single Account (TSA) to extra-budgetary units and other agencies**. To that end, we have converted 10 extra-budgetary entities into votes and included them in the TSA at the beginning of FY21/22. A list of the 73 remaining extra-budgetary units and agencies has been prepared and will be analyzed for inclusion in the TSA progressively. We are also engaging donors on disbursing externally funded projects through the TSA.

  - **Improving gradually the accuracy of monthly cashflow forecasting** to help improve quarterly and cash flow balances. Starting with FY2021/22, we have issued a circular for rolling out an online module to all ministries, departments and agencies to report their spending projections in order to inform cashflow forecasting. This has enabled us to identify monthly cash requirements for major spending entities, and we plan to capture the remaining ones starting in March 2022 after the online module is fully tested.

  - **Preparing an aggregate borrowing plan that takes into account the government's consolidated cash position in and outside the TSA**. Currently, we only receive the annual position of balances on government accounts in commercial banks in the Annual Board of Survey. To improve our cash planning, 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.

- **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 FY 19/20 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 end-June 2022 the steps taken to strengthen the process (new SB). 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 Government Finance Statistics Manual of 2014 (GFSM2014) (SB, May 2022).

30. In preparation for oil revenue management, our medium-term fiscal plan includes the adoption of a fiscal rule for managing oil revenues:

- We **prepared a CFR**, which has been discussed in Parliament and expected to be adopted soon (July 2022 SB). It provides for a fiscal rule, which will aim at establishing the non-oil primary balance as the operational fiscal 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 contains key provisions to account for: (i) corrective actions in case numerical 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.

- Parliament amended the PFM Act to allow Uganda National Oil Company to retain a portion of the proceeds from the sale of petroleum accruing from the Government's State participating interest in production-sharing agreements to meet Government's and UNOC's financial obligations in the Tariff and Transportation Agreement, the Production Sharing Agreements, and the Joint Operating Agreements. For purposes of meeting the cited obligations, the NOC shall present the budget estimates to Parliament and upon approval by Parliament, shall use the proceeds retained.

Debt Management Policy

31. 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. Our recent reform of primary dealership has led to higher investor participation in the domestic Treasury security market. Nevertheless, we will aim to further enhance transparency, including by publishing data on state-owned enterprise debt and contingent liabilities by June 2022, as well as to improve communication. We will also aim to broaden the scope of potential creditors and financing sources, including by introducing a public investment financing strategy, creating expression of interest guidelines, and setting up a mobile money platform for retail investors to purchase Treasury securities. This will support our commitment to seek additional donor financing during the remainder of the program under the ECF. 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 increasing the maturity of domestic debt. We will also 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 and is currently at a moderate risk of debt distress.

Monetary and Exchange Rate Policies

32. The BOU remains committed to achieving the inflation target over the medium term, with the reduced fiscal dominance helping improve the effectiveness of our policy rate instrument. Elevated domestic public borrowing has contributed to keeping lending rates high as banks increased their holding of government securities. Moreover, direct advances to central government have contributed to excess liquidity in the banking system, resulting in costly actions to keep the interbank market rates aligned with the policy rate. Our program's proposed fiscal adjustment will enhance monetary policy transmission and effectiveness. To further support the functioning of the monetary policy framework, the BOU will:

- **Continue monitoring inflation developments closely** and stand ready to adjust the policy rate in both directions as needed: a further reduction in the policy rate may be needed if the expected acceleration in inflation fails to materialize and, on the other hand, a hike may be necessary if core inflation is 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 building its Forecasting and Policy Analysis System (FPAS)** capacity to support monetary policy formulation under our price-based framework. In particular, we are developing nowcasting tools to help provide us leading indicators that can help better inform the MPC. We are also strengthening our external communication, including through IMF TA.

- **Continue fine tuning liquidity forecasting.** We will continue strengthening market intelligence around the prevailing market liquidity conditions to guide the choice of the appropriate open market operations tools. The repurchase agreements (repos), BOU Act, recapitalization securities, are the main instruments for managing liquidity at different maturities.

- **Limit direct BOU financing of fiscal operations.** In view of the government's financing constraints, we have agreed that advances provided for treasury redemption will be repaid by the end of the ECF-supported program in June 2024. From January 2022 onwards, all advances provided by the BOU will be governed by the within-year limits of 10 percent of current year domestic revenue**.** We have also clarified existing rules on advances to the government[1] (including for debt redemption), as noted above, by adopting a SLA and an addendum between the BOU and MoFPED (prior action) to: (i) ensure that the government account at BOU has sufficient funds for servicing government debt through the BOU; (ii) include appropriate safeguards—including market interest rates (as prescribed in the BOU Act)—for within-year credit provision; and (iii) clarify modalities for the repayment of outstanding advances.

33. An independent central bank remains essential to maintaining Uganda's hard-earned macroeconomic stability and monetary policy credibility. 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 were forwarded to the Minister of Finance for submission to Cabinet in November 2021 and have been submitted to Cabinet in January 2022

[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.

(end-December 2021 SB). Amendments proposed include dynamic recapitalization, strengthen safeguards for institutional autonomy, clarify limits for advances to the government, and strengthen the BOU's governance and transparency framework. Adoption by Parliament is planned by September 2022 (new SB).

34. While the shilling has remained broadly stable, it is expected to depreciate gradually to the equilibrium level. Despite the observed trend appreciation of the shilling, our foreign exchange interventions are intended to smoothen out excess volatility. We will also continue to allow exchange rate flexibility to contribute to the correction of external imbalances and facilitate adjustment to shocks. This will help preserve adequate foreign exchange buffers, particularly as non-resident holdings of government bonds constitute a quarter of our international reserves and a sudden reversal in these portfolio flows could lead to a drawdown in reserves. A review of the bank's Foreign Exchange Reserves Management Policy will commence in Q1 2022 with a view to ensuring that best international practices are observed. The BOU's Foreign Exchange Reserves Management Policy Committee recently approved a revised Strategic Asset Allocation to provide an optimal asset allocation mix across different foreign reserve asset classes.

Financial Sector Policies

35. Strengthening capital buffers remains a key priority. The implementation of a systemic risk buffer for Domestic Systemically Important Banks (DSIBs), capital conservation buffer (which has just been calibrated) and leverage ratio, will take effect on January 1, 2022, while the counter-cyclical buffer framework was approved by the Financial Stability Committee of the Board on November 30, 2021, and ratified by the Board on December 22, 2021. Plans are underway to increase the minimum paid up capital for SFIs and a Statutory Instrument to this effect is expected to be gazetted by June 2022, including a provision that will give SFIs up to June 2024 to meet the new minimum capital requirements. The increase of capital requirements is needed in part because IFRS9 implementation also requires banks to hold higher loan loss provisions right from the time of loan origination given the outlook of an uncertain economic recovery that is expected to lead to increased credit losses. We are currently reviewing banks' internal capital adequacy assessment process (ICAAP), which were prepared by October 2021 in line with Basel II guidelines, with a view to verify the capital adequacy of Supervised Financial Institutions with respect to existing and emerging risks for the next 12 months ahead. In these exceptional times, we also continue our policy of strengthening capital buffers by restricting dividend distribution.

36. We continue to advance on supervisory and governance reforms that address weaknesses that manifested themselves when Crane Bank failed. Priorities include:

- **Adopting new governance guidelines**. With the help from IMF's long-term expert on supervision, BOU has reviewed the existing governance regulation and guidelines issued in 2005 and related directives since then. A new and updated guidance on governance is expected to come into force in March 2022. In line with international best practices, this new guidance outlines the corporate governance principles and compliance steps that all SFIs must comply with, emphasizes transparency and integrity to ensure good corporate governance, and issues guidelines to the industry including those related to holding company and subsidiary corporate structures. We expect to issue implementing regulations by September 2022 that will, inter alia, define fit and proper test criteria for owners, directors and senior management (new SB) from a risk-based perspective.

- **Moving towards continuous risk-based supervision,** with a specific risk-based matrix that is systematically updated. Offsite analytics have been improved by the adoption of an enhanced analytical framework that was developed with IMF technical assistance. The risk-based matrix and risk-based manual are undergoing internal approvals and trial run, with implementation scheduled for June 2022. To further improve soundness of the financial sector, we plan on integrating Uganda Development Bank under BOU's supervision.

- **Operationalizing the new Resolution Policy Framework** approved in June 2021 by the Board. BOU Management has finalized the Resolution Manual detailing processes for pre- and post-intervention and is in the process of operationalizing the Resolution Unit, in line with the proposed bank-wide restructuring that is expected to be completed by June 2022.

- **Amending the Financial Institutions Act.** All proposed amendments—including expanding the role and mandate of the deposit protection scheme—will be sent for legal drafting in January 2022 and are expected to be adopted in June 2022.

37. Bank oversight will continue to be strengthened. With credit relief measures expiring in September 2021 (except for the education and hospitality sectors, which were extended by one more year), risks to the banking sector are likely to rise, especially those arising from NPLs. In order to manage potential liquidity risks during the pandemic, the BOU continues to maintain the COVID-19 Liquidity Assistance Program (CLAP) and has finalized the design of the Emergency Liquidity Assistance (ELA). The latter will become effective by March 2022 and is aimed at addressing potential systemic/idiosyncratic liquidity stress. We are further strengthening banking system resilience against these risks by:

- **Encouraging banks to proactively increase provisioning,** with SFIs' provisions rising by 17.7 percent over the past year. We remain committed to ensuring that loan classification rules are not relaxed except for those measures already in place, and that we continue to ensure and maintain strict adherence to our prudential standards.

- **Continuing to strengthen our stress testing capabilities**, with bottom-up stress testing—whose framework and roadmap were approved by the Financial Stability Committee in August 2021 —progressing well with stress test scenarios being shared with banks in December 2021, and stress tests involving DSIBs expected to be completed by April 2022. We will augment the stress testing framework by adding a fully-fledged macro financial scenario—which will include multiple shocks to the economy and IFRS9 implementation. Such scenarios will be applied to all banks through regulatory stress tests by BOU by September 2022.

- **Closely scrutinizing corporate and households' balance sheets** to gauge the extent of credit and concentration risks faced by the financial system and evaluate foreign exchange risks. Going forward, BOU will seek to review and strengthen the systemic risk surveillance framework by utilizing dashboard indicators that cover financial markets, financial institutions, payment systems and real economy, and building various indices including resilience index, banking pressure index, stress index, and vulnerability index.

F. Structural Reforms

38. 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. We will continue to pursue governance reforms, strive to reduce the cost of doing business, and foster financial inclusion to unlock private sector activity.

Governance

39. The government remains steadfast in its commitment to strengthen governance, which is a critical element to foster inclusive economic growth. We have fully operationalized the mechanism for collection and publication of beneficial ownership information of companies awarded COVID-19 procurement contracts (prior action and IMF's RCF program commitment). Building on this reform, we are expanding the collection of beneficial ownership information to all public procurement contracts, a significant reform to ensure effective transparency, anti-fraud and anti-corruption safeguards in procurement. 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 to track and report COVID-19-related expenditures irrespective of the source of financing (end-August SB).

40. Full audit of COVID-19 spending will ensure that funds were spent for intended purposes. After having completed the audit for FY 19/20 and the first three quarters of FY 20/21 last June, we have now completed the full year audit of FY 20/21, which was submitted to Parliament in early January and published on February 15, 2022 (Prior action). The audit has identified some shortcomings regarding the use of emergency procedures and on intended purpose. We plan to further study the findings of this recent audit and implement the recommendations noted by the Auditor General, which include reinforcing expenditure controls, including emergency procurement procedures and clearly communicating destination of funds to votes ahead of the cash releases to allow better tracking of outputs against intended objectives. We plan to issue a Treasury Memorandum that explains how weaknesses raised by the FY 20/21 audit of COVID-19 spending will be addressed (SB June 2022).

41. Strengthening accountability and transparency of high-level officials—a key commitment under the NDPIII—will require improving the asset declaration (AD) regime. We recently filled the vacancies of the office of the Inspector General of Government (IGG) and deputies and operationalized the Leadership Code Tribunal, which paved the way for sanctioning leaders that breach the Leadership Code. We will monitor implementation of the newly amended Leadership Code Act, including by publishing statistics on the requests for AD granted/rejected and on enforcement and adjudication of breaches. The IGG will amend the AD regulations and forms to lower the barriers to public access to ADs, clarify the requirement to declare the assets of spouses, children and assets owned beneficially, and strengthen the liability for the AD requirement breaches (SB, March 2022). We will also continue to work during the IMF-supported program on addressing remaining weaknesses in the asset declaration regime to bring it more in line with international best practices. 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.

42. We are working to enhance the effectiveness of the AML/CFT framework and to implement the "grey list" action plan with the FATF fully and promptly. We have adopted a National AML/CFT Strategy to address the AML/CFT deficiencies identified in the action plan with FATF and will accelerate its implementation. We amended the AML/CFT regulations to apply enhanced due diligence measures, including source of wealth and funds checks, to all domestic politically exposed persons, their family members, and close associates (prior action)**.** The BOU will issue guidance on the implementation of these measures. The following priority actions will be taken:

- **Establishing a registry of beneficial ownership.** We are working on the amendments to the Companies Act to prevent abuse of legal entities for money laundering to ensure a high degree of corporate transparency and timely access to accurate beneficial ownership information (June 2022 SB).

- **Strengthening the AML/CFT supervisory capacity at the BOU** to reduce the financial integrity risks facing the financial sector and better align Uganda's practices with international standards. While waiting for the creation of a separate AML/CFT unit, the BOU has started thematic inspections with dedicated staff on AML issues. With IMF technical assistance, the BOU will develop and implement a risk-based approach to financial sector AML/CFT supervision, including conducting a sectoral risk assessment, adopting tools for offsite monitoring, updating the inspection manual, and introducing a dedicated AML/CFT supervisory process (October 2022, SB).

43. We are committed to tackling corruption, prioritizing implementation and enforcement of an 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 will also develop by December 2022 guidelines on the voluntary settlement of anti-corruption investigations for all relevant law enforcement agencies, outlining the cases that cannot be settled voluntarily at the stage of investigation and should be passed to the judiciary. We will promote integrity and transparency in the judiciary and will introduce comprehensive electronic case management tools in all courts.

44. 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 and 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

45. The government will accelerate its efforts to reduce legal and administrative impediments to doing business once the impact of the pandemic eases. 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, reducing duplications and speeding up clearances for business operations.

46. 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. The implementation of Uganda's commitments to the African Continental Free Trade Area (AfCFTA) will be important and will require finding solutions to deal with the challenge of non-tariff barriers in all member countries 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, 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

47. Implementation of the National Financial Inclusion Strategy is ongoing and further progress is envisaged under the program. Mobile money users and 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 registered users has risen to 31 million in December 2021, up from 27 million in 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. The current national financial inclusion strategy will expire in September 2022, and we are in the initial stages of developing a new one that will take effect from October 2022. In addition to promoting digital financial literacy and improving internet connectivity in the countryside, key priorities under our strategy include:

- **Strengthening regulations.** After the passing of the National Payment System (NPS) Act in August 2020, three regulations were gazetted on March 5, 2021, namely, the NPS Regulations, NPS Sandbox Regulations and NPS Agent Regulations. Thirteen (13) institutions had received Payment Service Provider (PSP) / Payment System Operator (PSO) Licences by December 31, 2021. One entity successfully tested Quick Response Technology under the Regulatory Sandbox and was licensed as a PSP/PSO. Twenty other applications for licenses are under evaluation.

- **Enhancing SME financing,** by establishing the Small Businesses Recovery Fund to follow the model of the Agriculture Credit Facility-with seed capital of Ush 100 billion from Government-to encourage SFIs (commercial banks, credit institutions& Micro Deposit Taking institutions) to extend credit to the small and medium enterprises whose businesses were affected by COVID-19.

- **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 has put in place the requisite regulations; and (ii) submitting the draft amendments to the Credit Reference Bureau to the MoFPED for no objection, with regulations expected to be gazetted by March 2022, 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 (new SB).

- **Promoting microfinance.** BOU under the guidance of the Cabinet Secretariat, completed the Regulatory Impact Assessment for the Amendments to the Microfinance Deposit Taking Institutions Act, 2003 in June 2021 and submitted the report to MoFPED. As a result, the Microfinance Deposit Taking Institutions (Amendment) Bill is expected to be tabled before Parliament in 2022.

- **Protecting against cyber risks** remains important now that Uganda is moving ahead with digitalization of its economy and greater use of e-financial services. We 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.

Climate Change and Adaptation Policies

48. **We are committed to enhancing the economy's resilience to climate change.** Uganda is prone to natural disasters that climate change is making more frequent and impactful. Our Ministry of Water and Environment estimates that climate change damage in the agriculture, water, infrastructure, and energy sectors could collectively amount to US$273-437 billion (2.8-4.5 percent of cumulative prospected GDP) between 2010 and 2050. For example, in the Karamoja region intense floods are followed by prolonged periods of drought. Our main priority areas include:

- **Strengthening our water catchment ability**. While climate finance, including donor grants, is available in theory for water catchment ability and wetlands preservation, it is very difficult to obtain in practice due to cumbersome application processes and very high standards for developing bankable projects. We are committed to seeking technical assistance from multilateral organizations to increase our capacity in this area.

- **Increase forest coverage from 14 percent to 21 percent by 2030**. The COVID-19 pandemic diverted resources to tackle the health emergency and our Ministry of Water and Environment suffered a budget cut of 40 percent, not only jeopardizing our ability to undertake new projects, but also our ability to enforce regulations and maintain the tree planting projects that had been completed. Going forward, as the economy recovers, we are committed to allocating adequate resources to combat deforestation.

G. Other Program Modalities

49. We are committed to implementing the key policy requirements of the Fund's safeguards assessment. The BOU Act principles that have been submitted to Cabinet addresses many of the concerns raised on autonomy, including by clarifying safeguards for the provision of credit to the government. The risk management framework was revised to ensure that the risk and compliance department carries out an independent review of the BOU's risk assessments and action plans. Reporting and control of currency operations continue to be strengthened with continuous review of periodic currency reports by the Board in effect. Work is also underway to review and approve the currency masterplan and a market study has been initiated to carry out currency costs analysis

50. We are continuing to 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, as part of a broader goal in migrating from the Enhanced General Data Dissemination System to the Special Data Dissemination Standard. Developing institutional sector accounts and higher frequency GDP indicators alongside the rebasing of CPI, PPI and IPI remains a priority. UBOS will also continue implementing its High Frequency Phone Survey to monitor the impact of COVID-19, and the Uganda National Household Survey which are an important source of socioeconomic data to monitor the success of government policies.

51. The program's semi-annual quantitative performance criteria and structural benchmarks are listed in Tables 1, 2a, 2b and 2c. Definitions of key concepts and indicators, as well as reporting requirements, are set out in the accompanying Technical Memorandum of Understanding. The second and third reviews are scheduled to be completed on or after June 28, 2022, and December 28, 2022, respectively based on test dates for periodic performance criteria of end-March 2022, and September 2022, respectively

Table 1. Uganda: Quantitative Performance Criteria

	2021	2021												2022					
	End Mar	End-June IT				End-Sept QPC				End-Dec IT				End-Mar QPC		End-Jun IT		End-Sept QPC	End-Dec IT
		ECF Target	Adj. target	Act.	Status	ECF Target	Adj. target	Act.	Status	ECF Target	Adj. target	Act.	Status	ECF Target	Revised Target	ECF Target	Revised Target		
Quantitative performance criteria																			
Fiscal targets																			
Primary budget balance of the central government (- = deficit; floor, in billions of USh) 1/	-6,490	-10,532	-10,754	-9,296	Met	-2,093	-1,803	-768	Met	-3,327	-2,075	-1,002	Met	-4,247	-5,047	-5,453	-6,872	-910	-1,356
Monetary targets																			
Net claims on the government by the central bank (ceiling) 1/	180	-1,415		-12	Not met	2,200		461	Met	1,000		152	Met	300	300	0	580	2,458	1,639
Target for international reserves																			
Stock of net international reserves (floor, in millions of US$) 2/	3,099	3,028	2,861	3,372	Met	3,060	3,549	3,637	Met	2,885	4,051	3,547	Not met	2,917	3,432	2,797	3,125	3,455	3,308
Continuous PCs																			
Stock of external payment arrears incurred or guaranteed by the public sector (ceiling)	0	0		0	Met	0		0	Met	0		0	Met	0	0	0	0	0	0
PV of newly contracted external public and publicly guaranteed debt (ceiling, millions of US$) 3/		867		643	Met	1,286		530	Met	1,286		539	Met	1,286	1,818	1,286	1,818	2,748	2,748
Monetary policy consultation clause																			
Outer band (upper limit)		8				8				8				8	8	8	8	8	8
Inner band (upper limit)		7				7				7				7	7	7	7	7	7
Core inflation target 4/	5	5		3.5	Met	5		3.1	Met	5		2.8	Met	5	5	5	5	5	5
Inner band (lower limit)		3				3				3				3	3	3	3	3	3
Outer band (lower limit)		2				2				2				2	2	2	2	2	2
Indicative targets																			
Support to vulnerable households (floor, billions of USh) 1/						60		113	Met	117		188	Met	199	220	292	292	26	77
Social spending (floor, billions of USh) 1/ 5/	3,509	5,216		5,210	Not met	1,466		1,496	Met	2,986		3,030	Met	4,391	4,391	5,895	6,303	1,463	2,963
Tax revenues (floor, in billions of USh) 1/	13,305	17,873		18,337	Met	4,615		4,255	Not met	10,364		9,661	Not met	15,452	14,653	20,837	20,305	5,121	11,125
Repayment of outstanding domestic arrears (floor, in billions of USh) 1/	668	805		794	Not met	100		270	Met	200		449	Met	300	300	400	603	100	200

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 (i) from July 1, 2020 to end-June 2021; (ii) from July 1, 2021 to end-September, end-December 2021, end-March 2022 and end-June 2022; and (iii) from July 1, 2022 to end-September 2022, and end-December, 2022.
2/ The NIR excludes central bank short-term liabilities, and is assessed at program exchange rate. The impact of the SDR allocation, assumed to be fully saved, is reflected in the target.
3/ Targets are cumulative flows (i) from program approval to end-June 2021; (ii) from July 1, 2021 to end-September, end-December 2021, end-March 2022 and end-June 2022; and (iii) from July 1, 2022 to end-September 2022, and end-December 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 2a. Uganda: Prior Actions for First Review			
Measures	**Rationale**	**Initial deadline**	**Status**
Finalize the service level agreement (SLA) between MoFPED and BOU regularizing availability of funds for debt servicing and introducing safeguards in credit provision	Enhance BOU governance	July 2021 SB/Prior Action	PA Met. An SLA and addendum were signed clarifying the repayment plan for outstanding advances and to define advances to include debt provision. SLA signed in January 2022 and addendum signed on February 18, 2022.
Specify expenditure and revenue measures put in place to reach the FY 21/22 fiscal target while preserving priority social spending, in consultation with Fund staff.	Fiscal transparency and revenue collection	Prior Action	PA Met.
Publish the quarterly report on unpaid invoices	Strengthen budget processes	November 2021 SB/Prior Action	PA Met. Quarterly reports are prepared. Publication done on February 15, 2022, by MoFPED (link)
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 PEPs.	Strengthening the AML/CFT regime	September 2021 SB/Prior Action	PA Met on February 15, 2022.
Publication of beneficial ownership (BO) of companies awarded COVID-19-related procurement contracts	Strengthen governance and reduce vulnerability to corruption	Prior Action	PA Met. Circular on BO sent to all agencies, form updated to collect BO information, and all existing (unsigned) procurement contracts and new ones (including non-COVID-19) are to use the form. A report listing procurement projects and BO information was published on February 15, 2022 (link).
Publish the special COVID-19 expenditure audit for FY 20/21	Strengthen fiscal transparency	Prior Action	PA Met. Audit prepared in January 2022 and published on February 15, 2022 (link).

Table 2b. Uganda: Original Structural Benchmarks – ECF Approval

Measures	Rationale	Deadline	Status	Comments
Finalize the service level agreement (SLA) between MOFPED and BOU regularizing availability of funds for debt servicing and introducing safeguards in credit provision	Enhance BOU governance	July 2021	Not Met	Completed in February 2022. An SLA and addendum were signed clarifying the repayment plan for outstanding advances and to define advances to include debt provision. SLA signed in January 2022 and addendum signed on February 18, 2022.
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	Met	Framework shared with staff.
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	Not Met	Completed in January 2022. (link).
Prepare a unified registry of all social assistance programs	Targeting of social assistance programs	September 2021	Not Met	Reset to June 2022 to accommodate IT difficulties and give time to resolve data privacy issues.
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 PEPs.	Strengthening the AML/CFT regime	September 2021	Not Met	Completed on February 15, 2022.
Adopt a tax expenditure framework and publish the annual tax expenditure statement.	Fiscal transparency and revenue collection	October 2021	Not Met	Completed in January 2022 (link).
Establishment of legal and regulatory mechanisms for timely access to accurate basic and beneficial ownership information for legal entities.	Strengthen governance and reduce vulnerability to corruption	November 2021	Not Met	Reset to June 2022 to accommodate legislative timetable.
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	Not Met	Reset to June 2022 to allow for the legislative timetable and work on the PFM Act regulations.
Publish the quarterly report on unpaid invoices	Strengthen budget processes	November 2021	Not Met	Quarterly reports are prepared. Converted to prior action for first review. Publication done by February 15, 2022 (link)
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	Not Met	Completed in January 2022. Principles shared with Cabinet. Approval expected in March
Prepare and publish a medium-term fiscal framework, which is aligned with the Government Finance Statistics Manual of 2014 (GFSM 2014) in budget documents	Fiscal Sustainability and enhancing fiscal transparency	May 2022		In Progress

Table 2c. Uganda: New Structural Benchmarks

Measures	Rationale	Deadline	Status	Comments
Adoption of IGG regulations to lower the barriers to AD access and to enforce the requirement to declare the assets of spouses, children and owned beneficially.	Strengthen governance and reduce vulnerability to corruption	March 2022		
Prepare a unified registry of all social assistance programs	Targeting of social assistance programs	June 2022		Reset from September 2021 to accommodate IT difficulties and give time to resolve data privacy issues.
Establishment of legal and regulatory mechanisms for timely access to accurate basic and beneficial ownership information for legal entities.	Strengthen governance and reduce vulnerability to corruption	June 2022		Reset from November 2021 to accommodate legislative timetable.
Publish a Regulation introducing a strict sanction regime for officers responsible for unauthorized spending commitments, with clear personal penalties	Strengthen Expenditure commitment controls	June 2022		Reset from November 2021 to allow for the legislative timetable and work on the PFM Act regulations.
Issue treasury memoranda that explain how weaknesses raised by the FY 20/21 audit will be addressed	Strengthen fiscal transparency	June 2022		
Adopt a tax exemption rationalization plan applying criteria defined in the tax expenditure framework that would identify at least 0.1 percent of GDP in savings in FY 22/23 and 0.2 percent in subsequent years.	Revenue mobilization through a wider base	June 2022		
Adoption by Parliament of the Charter for Fiscal Responsibility, which sets a floor for the overall balance and sets a maximum level of the annual transfer from the Petroleum Fund to the Consolidated Fund.	Strengthen fiscal transparency for oil revenue management	July 2022		
Expand Credit Bureau Coverage by adopting amendments to the credit reference bureau	Strengthen financial inclusion	August 2022		
Parliamentary adoption of the BoU Act amendments 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	September 2022		
Issue implementing Regulations by September 2022 that will, inter alia, define proper fit and test criteria for bank shareholders	Enhance BoU governance	September 2022		
Development and implementation of tools for risk-based AML/CFT supervision of the financial sector	Strengthen governance and financial sector stability	October 2022		

Table 3. Use of SDR

	Millions of US$
Total	**250**
Health	**54**
o/w: Supply of ARVs	13
o/w: Supply of essential medicines, and health supplies	11
o/w: Inpatient services	7
Education and sports	**169**
o/w: Allowances for Government-sponsored students, teaching, training & assessment of students, research and innovation, community outreach services and university operations	44
o/w: Catering for education capitation for UPE, USE, tertiary institutions, inspection and SOPs (including KCCA)	32
o/w: Assessment of examinations for candidates that will sit for UCE and UACE after the reopening of institutions	16
o/w: Operational expenses, including inspection of all education institutions, monitoring, supervision, rent and staff facilitation	14
o/w: Reconstruction of the main building and completion of lecture facilities at law school and the university perimenter wall at Makerere University	9
o/w: Completion of the examination storage facility in Kyambogo, modification of field examination containers, completion of the purchase of the specialized machinery (web-offset), digitization of records and scripts	7
o/w: Development of secondary, including rehabilitation of traditional schools	6
o/w: Students' Loan Scheme	6
Water and sanitation	**27**
o/w: Construction of a mix of 17 medium and large solar powered systems in subcounties with the lowest safe water coverage. Payment of retentions for Nyarwodo GFS, Lirima GFS	6

Attachment II. Technical Memorandum of Understanding

A. 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-December 2021, unless otherwise indicated in the text.

Text Table 1. Uganda: Program Exchange Rate (end-December 2021)[1/]	
US dollar (US$)	1.0000
Australian Dollar/US$	1.3774
Canadian Dollar/US$	1.2777
Euro/US$	0.8835
British pound/US$	0.7407
US$/Japanese yen	0.0087
US$/Rwandan franc	0.0010
SDR/US$	0.7145
1/ For the currencies not listed in this table, the cross-exchange rates to the U.S. dollar at end-December 2021 will be applied.	

B. 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:

a) 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 and non-concessional), international-bonds, and any other forms of liabilities by the central

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

government to nonresidents, excluding nonresidents' holdings of domestically-issued government securities (which are covered under NDF).

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

3. 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.

4. 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.

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

6. 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).

7. 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).

8. 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.

C. Ceiling on Net Claims on the Government by the Central Bank

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

9. 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.

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

11. 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

12. 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.

13. 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).

14. 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 as follows:

a) **Net claims on the government by the BOU** is defined as the difference between gross claims by BOU on central government and gross liabilities by BOU to the central government.

b) **Plus: Deposits in Administered Funds** This includes mainly the Agricultural Credit Facility. Gross deposits in administered funds should be used (i.e. Administered Funds (Total deposits held by BOU)). This component, being a liability on the central bank's balance sheet, should be added back in to the calculation in order to be excluded (hence "plus").

c) **Plus: Deposits in the Petroleum Fund**. The Petroleum Fund has two accounts: one in UGX and one in USD. Both accounts should be included as both constitute liabilities of the BOU to the central government. This component, being a liability on the central bank's balance sheet, should be added back in to the calculation in order to be excluded (hence "plus").

d) **Plus: Government Project Deposits**. These are donor project funds earmarked for specific projects and transferred to the BOU to administer. This component, being a liability on the central bank's balance sheet, should be added back in to the calculation in order to be excluded (hence "plus").

15. **Minus: Recapitalization Securities**. The securities used for monetary purposes (repos) are already netted out above, since they are included in both gross claims by BOU on central government and gross liabilities by BOU to the central government. Hence only recap securities should be subtracted.

D. Floor on Net International Reserves of the Bank of Uganda

16. Net international reserves (NIR) of the BOU 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.

17. 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.

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

18. 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:

19. 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

[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.

(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.

20. 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.

21. 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 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.

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

Definition, Coverage

22. 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.

23. 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

24. 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).

25. 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.

26. 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.

G. Consultation Mechanism on Inflation

27. 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-March 2022 and end-September 2022 will

[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).

be subject to the consultation mechanism, while the CCPI inflation for end-June 2022 and end-December 2022 will be indicative targets.

28. Should the observed average CCPI inflation for the test date linked to a ECF program review (i.e., end-March 2022 for the second review and end-September 2022 for the third 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 March 2022 and September 2022 in QPC table.

H. Direct Support Programs to Vulnerable Households

29. 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 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.

I. Social Spending

30. 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.

J. Tax Revenues

31. 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.

K. Floor on Repayment of Outstanding Domestic Arrears (IT)

32. 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.

33. 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.

L. Adjustors

34. 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

35. 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 revised targeted 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.

Text Table. Uganda. Schedule A: Budget Support 1/
(USh billions)

	2021						2022					
	End-Jun		End-Sept		End-Dec		End-Mar		End-Jun		End-Sep	End-Dec
	Target	Outturn	Target	Outturn	ECF target	Outturn	ECF target	Rev. target	ECF target	Rev. target	Target	
Budget support grants	627	75	0	0	0	91	52	91	77	91	0	30
Budget support loans	5,288	3,322	120	116	992	1,534	3,212	2,410	3,899	4,361	0	80

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

Adjustor Related to Recapitalization of the Bank of Uganda

Text Table. Uganda. Schedule B: Recapitalization of the Bank of Uganda 1/
(USh billions)

	2021						2022					
	End-Jun		End-Sept		End-Dec		End-Mar		End-Jun		End-Sep	End-Dec
	Target	Outturn	Target	Outturn	ECF target	Rev. target	ECF target	Rev. target	ECF target	Rev. target	Target	
Recapitalization of BoU	482	482	0	0	0	0	0	0	0	0	0	0

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

36. 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

Text Table. Uganda. Schedule C: External Financing Tied to Projects 1/
(USh billions)

	2021						2022					
	End-Jun		End-Sept		End-Dec		End-Mar		End-Jun		End-Sep	End-Dec
	Target	Outturn	Target	Outturn	ECF target	Rev. target	ECF target	Rev. target	ECF target	Rev. target	Target	
Project loans	4,450	4,119	1,234	944	2,821	1,659	3,776	3,411	5,152	4,112	1,288	2,263

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

37. 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

38. 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.

Text Table. Uganda. Schedule D: DSSI Relief 1/
(US$ millions)

	2021						2022					
	End-Jun		End-Sept		End-Dec		End-Mar		End-Jun		End-Sep	End-Dec
	Target	Outturn	Target	Outturn	ECF target	Rev. target	ECF target	Rev. target	ECF target	Rev. target	Target	
DSSI relief	0	0	107	0	121	0	121	0	121	0	0	0

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

Adjustor Related to Direct Support Programs to Vulnerable Households

39. 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.

Text Table. Uganda. Schedule E: Direct Support to Vulnerable Households Under NASUF, Urban LIPW and SCG 1/
(USh billions)

	2021						2022					
	End-Jun		End-Sept		End-Dec		End-Mar		End-Jun		End-Sep	End-Dec
	Target	Outturn	Target	Outturn	ECF target	Rev. target	ECF target	Rev. target	ECF target	Rev. target	Target	
Project grants			0		0		29	29	72	72		

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

M. Monitoring and Reporting Requirements

40. 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

February 23, 2022

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION AND FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—INFORMATIONAL ANNEX

Prepared By

The African Department
(in consultation with other departments)

CONTENTS

RELATIONS WITH THE FUND

Uganda and the IMF: https://www.imf.org/en/Countries/UGA

Uganda's Financial Position in the Fund:
https://www.imf.org/external/np/fin/tad/exfin2.aspx?memberKey1=990&date1key=2099-12-31

Exchange Rate Arrangement:
The official exchange rate is determined on the interbank market for foreign exchange. Uganda's de jure exchange rate arrangement is free floating. The authorities intervene in Uganda's foreign exchange market when short-term fluctuations jeopardize its orderly operation. Therefore, the de facto exchange rate arrangement is classified as floating. As of end-December 2021, the official exchange rate was USh. 3544.41 per U.S. dollar. Uganda has accepted the obligations under Article VIII, Sections 2(a), 3, and 4 , and maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions and multiple currency practices.

Safeguards Assessment: Findings:
An updated safeguards assessment of the Bank of Uganda was completed in March 2021 in connection with the financial assistance for Uganda under the RCF approved by the IMF Executive Board on May 6, 2020. The assessment found that the Bank of Uganda maintained transparent financial reporting practices and a sound external audit mechanism, as well as an independent internal audit function conforming to international standards. The report pointed to some risks related to the legal framework, internal controls in areas of credit to the government and currency operations, which the central bank is addressing.

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

Uganda and the World Bank:

http://www.worldbank.org/en/country/uganda

World Bank projects :

http://projects.worldbank.org/search?lang=en&searchTerm=&countrycode_exact=UG

Uganda and the African Development Bank:

https://www.afdb.org/en/countries/east-africa/uganda/

STATISTICAL ISSUES

(As of February 3, 2022)

I. Assessment of Data Adequacy for Surveillance
General: Overall data provision is broadly adequate for surveillance purposes, although some shortcomings remain.
Real Sector Statistics: Since 2004, Uganda has been receiving technical assistance (TA) from the East African Technical Assistance Center (East AFRITAC) on the compilation of annual and quarterly national accounts and price statistics. Following Fund TA on the supply and use tables (SUT) for FY2016/17, the Uganda Bureau of Statistics (UBOS) released the rebased GDP series in 2019. Further TA in this area—including from East AFRITAC—focused on the development of production accounts by institutional sectors and on the Construction Input Price Index (CIPI)—including through a regional workshop on residential property price indices (RPPIs). Current efforts are focusing on developing the compilation of a comprehensive indicator of the evolution of the economy, the Monthly Indicator of Economic Growth (MIEG). The authorities are also working on timely publication of the annual GDP by expenditure and on the publication of quarterly national accounts. ***Labor market indicators***, such as employment and wages/earnings, are infrequently compiled and disseminated. UBOS aims at compiling and disseminating these data categories on an annual basis, but due to resource and data limitations, these data are compiled with a two-year lag. In August 2021 the UBOS published the Uganda National Household Survey 2019/2020. In June 2020, UBOS, with the support from the World Bank, officially launched the High Frequency Phone Survey (HFPS) to track the impacts of the pandemic monthly for a period of 12 months. The survey has gone through five rounds, with the results from the fifth published in February, 2021. The ***consumer price index*** (CPI) series of June 2014 was replaced in August 2021 by an updated CPI series that uses expenditure weights derived from the 2016/2017 National Household Survey, using the Classification of Individual Consumption According to Purpose (COICOP) 2018. UBOS compiles and disseminates a ***producer price index*** (PPI) for manufacturing (separately for exports and domestic output) and for hotels. A January 2016 mission assisted with developing export and import price indexes and improving the producer price index for hotels and restaurants. Uganda participated in an STA workshop on residential property price indexes (RPPI) and it has developed the region's first RPPI.
Government Finance Statistics (GFS): The Ministry of Finance, Planning and Economic Development (MoFPED) compiles monthly and quarterly budgetary central government (BCG) GFS and plans to expand coverage to quarterly general government (GG) GFS. These data are compiled on a modified cash basis following the Government Finance Statistics Manual 2014 (GFSM 2014) and are reported annually to the IMF. East AFRITAC is providing technical assistance to the national authorities. The national GFS Technical Working Group, comprising representatives from MOFPED, UBOS and the Bank of Uganda (BOU) are working on the implementation of GFSM 2014 to meet the fiscal statistics requirements of the East African Monetary Union (EAMU) Protocol. Work of migrating the authorities' macro-fiscal forecasting framework to

GFSM 2014 is largely complete and expected to finish by the structural benchmark deadline of May 2022, which facilitates seamless transmission of high frequency data to the Fund for surveillance. In addition, work is in progress to disseminate estimates of stock of financial assets and liabilities by end of 2022, with recent TA focusing on improving the quality of fiscal and debt data for the general government and strengthen the provision of public corporations' fiscal data.

Monetary and Financial Statistics (MFS):

Uganda has been submitting MFS data to STA in a standardized report forms (SRFs) since 2009. While data for the central bank and other depository corporations are submitted on a monthly basis, the other financial corporations data are on quarterly basis.

The BOU also reports data on some key indicators of the Financial Access Survey (FAS), including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).

Financial sector surveillance:

The BOU reports 12 core and eight additional financial soundness indicators (FSIs) for deposit takers. In addition, BOU reports the core FSI for real estate market i.e., the residential real estate prices. All FSIs are reported on a quarterly basis for posting on the IMF's FSI website.

External Sector Statistics (ESS):

The BOU compiles quarterly balance of payments and international investment position (IIP) statistics based on *BPM6*. The oldest data points of *BPM6*-based quarterly balance of payments and IIP are Q1-2001 and Q1-1999, respectively. Monthly informal cross border trade surveys are conducted to estimate informal trade. The quality of the balance of payments is overall very good. Coverage of transactions is broad, and classifications are in line with BPM6. Notwithstanding, further action should be taken to improve the accuracy of some components such as transport, insurance, and trade credit. The IIP covers the components that are most relevant to Uganda, but the treatment of several components is inconsistent with BPM6, including the accumulation of flows for direct investment (DI) and government portfolio liabilities, and the omission of accrued interest in government loan liabilities. Uganda should continue working to address intra-EAC trade discrepancies. Separating balance of payments transactions from other flows, such as revaluations and other volume changes, may improve measurement of balance of payments flows as well as the IIP financial stocks. Efforts should continue to reduce the size of errors and omissions term of Balance of Payments, align projected financing gap with changes of reserves in the cash flow table, and address inconsistencies between IIP and external sector statistics datasets.

II. Data Standards and Quality

Uganda implemented the e-GDDS recommendations in November 2016. It is already publishing all the fifteen data categories recommended under the e-GDDS - using the Open Data Platform (ODP)- on its National Summary Data Page (http://nso.uganda.opendataforafrica.org/yeaclng/national-summary-data-page-nsdp) and is well on track to becoming an SDDS subscriber.

Table of Common Indicators Required for Surveillance (February 3, 2022)

	Date of Latest Observation	Date Received	Frequency of Data[4/]	Frequency of Reporting[4/]	Frequency of Publication[4/]
Exchange Rates	February 3, 2022	February 3, 2022	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1/]	December 2021	February 2022	M	M	M
Reserve/Base Money	December 2021	February 2022	M	M	M
Broad Money	December 2021	February 2022	M	M	M
Central Bank Balance Sheet	December 2021	February 2022	M	M	M
Consolidated Balance Sheet of the Banking System	December 2021	February 2022	M	M	M
Interest Rates[2/]	January 31 2022	February 3, 2022	D	D	M
Consumer Price Index	January 2022	February 2022	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3/]-Central Government	December 2021	January 2022	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt	FY2020/21	November 2021	A	A	A
External Current Account Balance	Q3 2021	January 2022	Q	Q	Q
Exports and Imports of Goods	December 2021	February 2022	M	M	M
GDP/GNP	Q1 FY2021/22	December 2021	Q	Q	Q
Gross External Debt	FY2020/21	November 2021	A	A	A
International Investment Position[5/]	Q3 2021	January 2022	Q	Q	Q

1/ Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

2/ Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, rates of treasury bills, notes and bonds.

3/ Foreign, domestic bank, and domestic nonbank financing.

4/ Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular and not available (NA).

5/ Includes external gross financial asset and liability positions vis-à-vis nonresidents.

INTERNATIONAL MONETARY FUND

UGANDA

February 23, 2022

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION AND FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—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 implementation of fiscal consolidation, Uganda's public debt continues to be sustainable in the medium term. In line with the previous DSA prepared in June 2021, Uganda has a moderate risk of external and overall public debt distress, with limited space to absorb shocks. All external PPG debt and total public debt burden trajectories remain below 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. Specifically, given that a median shock could lead to a breach for the external debt service indicators, Uganda has limited space to absorb shocks. Key risks include a slower recovery from Covid-19, environmental shocks, tighter global financial conditions,

[1] Uganda's Composite Indicator, which is estimated at 2.99, signals a medium debt-carrying capacity based on the October 2021 WEO and CPIA 2020.

delayed reform implementation, further delays in oil exports, and a shift to non-concessional loans. Going forward, Uganda's fundamental development challenge is to replace a growth model based on debt-financed public spending that has emphasized infrastructure, with one where the private sector leads economic growth, supported by the state through investments in human capital and targeted regulations to promote green and inclusive growth that reduces inequality and ensures sustainability. The prospects for this shift are positive, but will rely on effective implementation of the ECF-supported program to maintain macroeconomic stability, scaled-up investments in human capital, better support to the vulnerable, farmers and MSMEs, and more effective use of public resources to maximize returns on investments.

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). Uganda's Public Debt Management Framework (2018) 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. Finally, the contingent liability stress test includes the disputed arrears to Tanzania (US$58 million or 0.1 percent of GDP),[2] estimates of non-guaranteed 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)		15.9

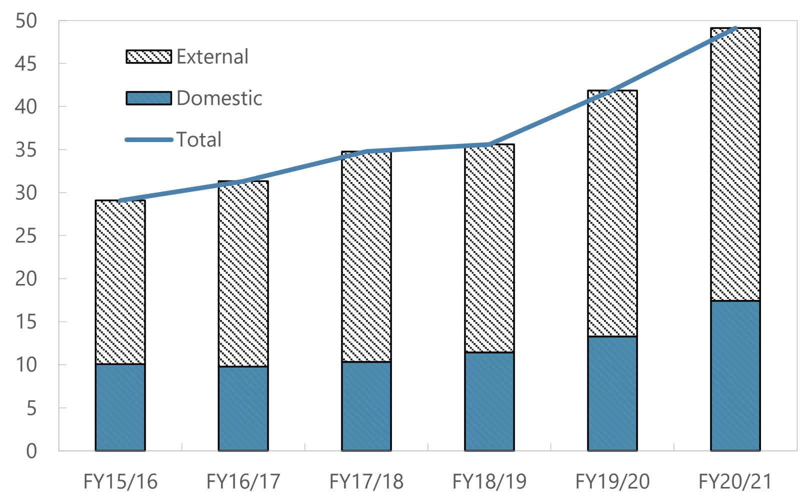
Source: Uganda authorities, IMF staff calculation.

[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 officially reported 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 49.1 percent of GDP in nominal terms at the end of FY2020/21, below the expectation under the previous DSA (Text Figure 1 and Text Table 2). The positive surprise in the lower level of debt was due to the combination of a lower-than-expected fiscal deficit, and the appreciation of the exchange rate. The increase of almost fourteen percentage points in debt over the past two years was primarily driven by external borrowing, with two-thirds of outstanding public debt owed to external creditors (US$13.2 billion or 31.7 percent of GDP) on a residency basis (Text Figure 2). Domestic debt amounts to about US$7.2 billion (17.4 percent of GDP). In present value terms, total public sector debt amounted to 41.1 percent of GDP at the end of FY2020/21.

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 mainly drives the difference between the nominal value of public debt and its present value (Text Table 3). 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 20 percent of external public debt outstanding at the end of FY2020/21. In response to COVID-19, Uganda also resorted to commercial loans that constitute around 8 percent of external public debt, mostly owed to the Trade Development Bank (TDB), Standard Bank of South Africa (SBSA), and Standard Chartered. Finally, the stock of local-currency government securities held by offshore investors increased sharply in FY2020/21, doubling its share in external public debt to 6 percent.

Text Table 2. Uganda: Decomposition of Public Debt and Debt Service by Creditor, FY2020/21-FY2022/23 1/

	Debt Stock (end of period) FY2020/21			Debt Service					
				FY20/21	FY21/22	FY22/23	FY20/21	FY21/22	FY22/23
	(In millions of US$)	*(Percent total debt)*	*(Percent GDP)*	*(In millions of US$)*			*(Percent GDP)*		
Total	20,425.6	100.0	49.1	3214.0	4,053.0	2,532.9	7.7	9.3	5.3
External	13,178.4	64.5	31.7	667.3	1,049.4	980.1	1.6	2.4	2.1
Multilateral creditors[2,3]	7,745.4	37.9	18.6	160.1	246.9	224.8	0.4	0.6	0.5
IMF	772.6	3.8	1.9						
World Bank	4,381.6	21.5	10.5						
ADB/AfDB/IADB	573.7	2.8	1.4						
Other Multilaterals	2,017.5	9.9	4.8						
Bilateral Creditors[2]	3,539.9	17.3	8.5	309.5	346.6	371.1	0.7	0.8	0.8
Paris Club	851.2	4.2	2.0	45.3	65.7	65.3	0.1	0.2	0.1
Non-Paris Club	2,688.8	13.2	6.5	264.2	280.8	305.8	0.6	0.6	0.6
o/w: Eximbank of China	2,589.6	12.7	6.2						
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial creditors	1,102.9	5.4	2.7	47.2	123.4	241.8	0.1	0.3	0.5
Other international creditors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public guarantees	28.9	0.1	0.1						
Local currency debt held by non-residents, total	761.3	3.7	1.8	150.4	332.5	142.3	0.4	0.8	0.3
Domestic	7,247.2	35.5	17.4	2,546.7	3,003.7	1,552.9	6.1	6.9	3.3
T-Bills	1,514.4	7.4	3.6	n/a	n/a	n/a	n/a	n/a	n/a
Bonds	4,880.1	23.9	11.7	n/a	n/a	n/a	n/a	n/a	n/a
BoU advances	852.7	4.2	2.0	n/a	n/a	n/a	n/a	n/a	n/a
Memo items:									
Collateralized debt[4]	n/a		n/a						
o/w: Related	n/a		n/a						
o/w: Unrelated	n/a		n/a						
Contingent liabilities	n/a		n/a						
o/w: Public guarantees	n/a		n/a						
o/w: Other explicit contingent liabilities[5]	n/a		n/a						
Nominal GDP							40,636	44,030	47,858

1/As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA.

2/Some public debt is not shown in the table due to data limitations.

3/Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears)

4/Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

5/Includes other-one off guarantees not included in publicly guaranteed debt (e.g. credit lines) and other explicit contingent liabilities not elsewhere classified (e.g. potential legal claims, payments resulting from PPP arrangements).

Source: Uganda authorities, IMF staff calculation.

Text Table 3. Uganda: Decomposition of External Public and Publicly Guaranteed Debt, FY2020/21

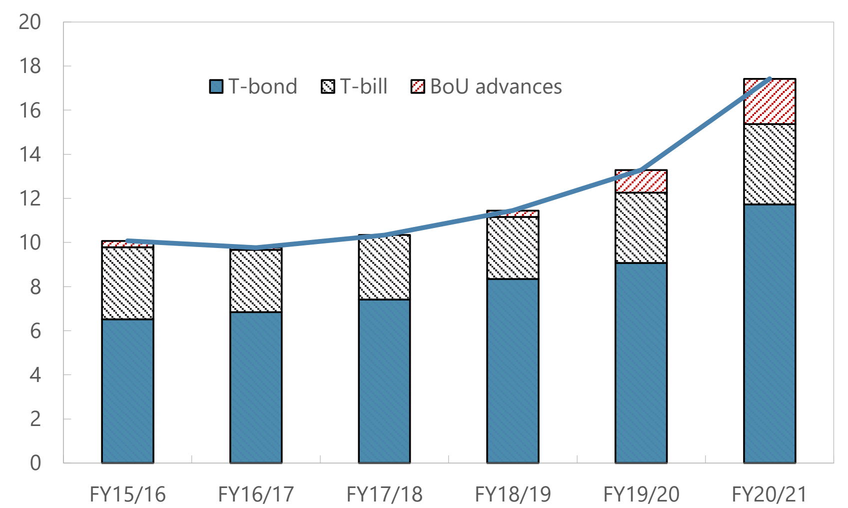
Creditor	Amount	Share
Total	**13,178**	**100.0%**
Bilateral	3,540	26.9%
ABU DHABI FUND	10	0.1%
AFD	223	1.7%
EXIM BANK OF CHINA	2,590	19.7%
EXIM BANK S KOREA	26	0.2%
GOVT OF NIGERIA	12	0.1%
IRAQ FUND	0	0.0%
JBIC	77	0.6%
JICA	214	1.6%
KFW	4	0.0%
KUWAIT FUND	35	0.3%
MIN FOR AFF AUSTRIA	2	0.0%
SAUDI ARABIA FUND	38	0.3%
UKEF	309	2.3%
Commercial banks or other financial institutions	1,103	8.4%
AKA	11	0.1%
Bank Austria	3	0.0%
COMMERZBANK	11	0.1%
SBSA	358	2.7%
STANDARD CHARTERED	137	1.0%
TDB (PTA)	583	4.4%
Multilateral	7,745	58.8%
ADB	183	1.4%
ADF	1,448	11.0%
BADEA	66	0.5%
EIB	136	1.0%
IDA	4,382	33.2%
IDB	391	3.0%
IFAD	258	2.0%
IMF	773	5.9%
NDF	51	0.4%
OPEC FUND	58	0.4%
Publicly guaranteed external debt	29	0.2%
Local currency debt held by offshore investors	761	5.8%

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 Treasury securities at the end of FY2020/21 (Text Figure 2). T-bonds are mostly held by non-banks (close to 70 percent), while T-bills were predominantly held by banks (more than 80 percent). Against the backdrop of strong demand by both domestic and foreign investors,

T-bond yields declined by 100-200 basis points in FY2020/21. Outstanding advances to the Bank of Uganda contributed 2 percent of GDP to domestic debt at the end of FY20/21 (Text Figure 2).

Text Figure 2. Uganda: Public Domestic Debt
(Cost Value, Percent of GDP, as of End-FY2020/21)



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 for the 2022 Article IV Consultation and First Review Under the Extended Credit Facility** (Text Table 4). The baseline scenario assumes the following:

- *Real GDP growth*. The immediate growth outlook largely depends on the global recovery from the COVID-19 shock. In Uganda, the resurgence in Covid-19 cases triggered a new partial lockdown in June-July 2021, weighing on the recovery that was evident in FY2020/21. Notwithstanding the acceleration of the vaccine rollout, the lifting of the curfew, and the reopening of schools, growth forecast for FY2021/22 has been revised downward from 4.3 percent in the previous DSA to 3.8 percent.

- Over the medium-term, growth is projected to return to the annual 6-7 percent level before the COVID-19 crisis hit. This rebound will be driven by – some of these initiatives are directly supported by the ECF-supported program – a more productive composition of government spending, spending and tax collection efficiency gains, governance and product market reforms boosting agri-business/trade and private investments, a strong recovery in tourism, and the Final Investment Decision (FID) in the oil sector that will attract foreign and domestic private investment in related infrastructure ahead of the start of oil production in FY2024/25. The latter will be supported by the recent agreement on the oil pipeline between the French oil company Total, the Chinese oil company CNOOC, and the governments of Uganda and Tanzania, and the parliamentary approval of three bills regulating the oil sector (see below).

- In the long-term, growth is also supported by other factors. Specifically, infrastructure constraints are addressed (e.g., there are currently major investments to improve transport connectivity, expand access to power, and enhance digital connectivity), agricultural productivity improves, and agro-processing trade and industries are further developed. Finally, Uganda is entering a demographic transition, which has great potential for accelerating growth in per capita terms and reducing poverty. Although fertility rates and the dependency ratio are still high, Uganda's declining fertility rate and growing working-age population are gradually increasing the share of the working-age population and reducing the child dependency ratio.

- *Inflation*. Following projected headline inflation of 3.5 percent in FY2021/22, inflation is projected to be in line with the BoU's 5 percent target over the medium term.

- *Oil revenue projections*. Budget revenues from oil, net of oil-related expenditures, are expected to start in FY2024/25 and peak at around 2.7 percent of GDP in FY2027/28 before gradually declining over the long term. Delays in reaching the FID have allowed government more time to develop relevant legislation and put in place critical institutions to manage the oil resources. Legislation and institutions that have now been established included the Uganda Petroleum Fund, The Consolidated Fund, and the Petroleum Investment Fund to ensure fiscal sustainability over the longer run – these should help with managing the Dutch disease crowding out effects. The ECF-supported program also aims to help the authorities transition to a rules-based framework for oil revenue management, including through the adoption of the Income Tax Amendment Bill, the Public Finance Management Bill, and the East African Crude Oil Pipeline Bill.

- *Primary fiscal deficit*. The primary fiscal deficit is projected to narrow in FY2021/22 on the back of the implementation of the Domestic Revenue Mobilization Strategy (DRMS) (including the reform of tax expenditures and efficiency improvements in tax administration, including the management of tax arrears and the use of new technologies for audits)[3] and a decline in unproductive and poorly executed capital expenditures[4], as well as the non-recurrence of one-off items such as the recapitalization of the Bank of Uganda and on-lending to the Uganda Development Bank as part of the response to the COVID-19 crisis (both in fiscal years 2019/20 and 2020/21). The current deficit target of 7.5 percent of GDP in FY21/22, however, exceeds the target of 6.4 percent of GDP at the time of the approval of the ECF-supported program, due to revenue shortfalls against the backdrop of lower economic growth, certain payments that were

[3] Implementation of the DRMS is projected to raise tax revenues by 0.5 percent of GDP per annum. The strategy outlines key tax policy reforms, including a rationalization of exemptions, and revenue administration modernization to improve compliance. For example, a Tax Expenditure Framework – to streamline and eventually scale down revenue leakages from tax expenditures – has now been finalized and approved by MoFPED. These leakages were estimated to have reached about 5.2 percent of GDP in FY20/21. Furthermore, several partners, including the IMF, World Bank, USAID and FCDO, are providing significant support to the Tax Policy Department (MoFPED) and Uganda Revenue Authority (URA) to ensure full implementation of the DRMS.

[4] Significant Public Investment Management reforms and institutional strengthening have taken place over the last five years, to improve the identification, selection and implementation of projects. This reform momentum is expected to pick up and be sustained over the medium term, with continued support from IFIs (including under the ECF-supported program and an ongoing World Bank program) and bilateral partners.

postponed from FY2020/21, and additional spending in response to the second wave of the pandemic and recent security threats facing the country. After FY21/22, the cyclical improvement, implementation of the DRMS, and elimination of crisis response measures (e.g., spending related to Covid-19, including the enforcement of the curfew, and time-bound support to businesses and households) will lead to a further improvement in the primary balance, even despite oil infrastructure investments previously expected to be financed by the private sector. Moreover, spending rationalization and greater spending efficiency under the ECF-supported program are expected to allow for higher social spending and clearance of arrears during the program, without undue pressures on the primary balance.

- *Current account deficit*. The current account deficit is expected to narrow slightly in FY2021/22, and – once oil-related investments are excluded - further improve over the medium term, helped by fiscal consolidation, further recovery in global demand and oil exports coming on-stream. Export growth will also be supported by better trade logistics, rural access to infrastructure and information, and credit availability, and the rollout of reforms envisaged under the African Continental Free Trade Agreement (AfCFTA).

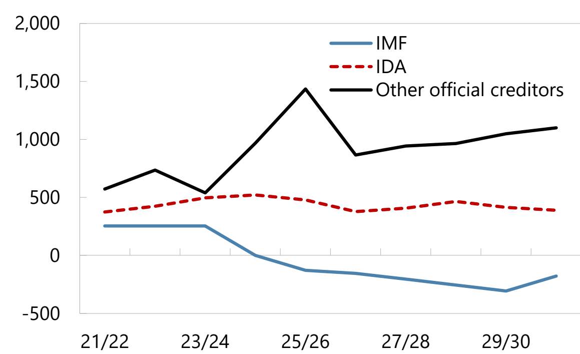
- *FDI inflows* are expected to continue to increase, largely driven by investments in oil-related projects over the medium term, as well as the potential positive impact on FDI from the rollout of AfCFTA among all countries on the continent.

- *Gross official reserves*, excluding the impact of oil project financing and investment-related imports, are expected to gradually rise over the medium term, notwithstanding a temporary decline in FY2022/23, on the back of an increase in FDI, the recovery of tourism, and the start of oil production.

- *Financing mix*. Advances from the Bank of Uganda are assumed to be fully repaid by FY2023/24, thereby leading to a shift in the composition of debt from the central bank to other domestic debt. Given the recent decrease in local currency yields, costs of domestic borrowing are expected to be lower than under the previous DSA. Domestic debt financing is projected to maintain a constant share of T-bonds, covering two-thirds of domestic financing and T-bills. Under the ECF-supported 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 from domestic to external and less concessional debt (Text Figure 3).

Text Figure 3. Uganda: Official External Financing, Net

(US$, millions)



Source: Uganda authorities, IMF and World Bank estimates

- IDA financing is set to be largely delivered through project support over the medium term. The estimated average disbursement over the next five fiscal years is about US$ 750 million per year. About 80 percent of this will be delivered through project financing, with significant disbursements for projects that are supporting municipal infrastructure and road developments, water management and development, and digital acceleration. No budget support operations are planned, with the remainder of IDA financing going through Program for Results (P4Rs), including support to enhancing intergovernmental fiscal transfers for better service delivery.

Text Table 4. Uganda: Macroeconomic Assumptions

	Real GDP growth (percent)		Inflation (percent)		Primary balance (percent of GDP)		Current account (percent of GDP)		FDI inflows (percent of GDP)	
	ECF	Current	ECF	Current	ECF	Current	ECF	Current	ECF	Current
2019/20	3.0	2.9	3.0	2.3	-5.0	-5.0	-5.8	-6.7	2.6	2.6
2020/21	3.3	3.4	4.7	2.5	-7.1	-6.7	-9.2	-10.2	2.0	2.1
2021/22	4.3	3.8	5.0	3.5	-3.4	-4.4	-8.2	-8.0	2.3	2.5
2022/23	6.4	6.0	5.0	4.6	-0.9	-1.8	-8.6	-6.6	5.3	3.0
2023/24	7.0	6.5	5.0	5.0	-0.9	-0.7	-11.3	-5.1	7.8	3.0
2024/25	7.2	6.7	5.0	5.0	-1.3	-0.8	-13.2	-4.9	9.7	3.0
2025/26	7.0	7.1	5.0	5.0	-0.4	-0.3	-11.8	-5.3	9.2	2.9
Avg 2026/27-2040/41	6.0	6.0	5.0	5.0	-0.9	-0.1	-6.8	-4.7	3.9	2.6

Source: Uganda authorities, IMF staff projections.

6. **The realism tool outputs compare 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, with the contributions of past debt creating flows remaining relatively the same for the projection period. Unexpected changes in external debt are above the median of the distribution across low-income countries, while they are outside the interquartile range in the case of public debt, reflecting the combination of the large recent increase in debt against the backdrop of the Covid-19 crisis and the projected decrease on the back of the fiscal consolidation.

- 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. The fact that the first two factors are driven by the economic recovery from the Covid-19 shock explains the simultaneous acceleration in growth and the improvement in the fiscal balance. 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 on the back of reforms to be implemented under the IMF-supported program.

- Investment is expected to increase, with private investment broadly offsetting a temporary decline in public investment. Relative to the last DSA, private investment has been revised slightly downward.

COUNTRY CLASSIFICATION

7. Uganda's debt-carrying capacity is classified as medium, unchanged from the previous DSA. 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 2.99, 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 that determines the four external debt indicative thresholds and the total public debt benchmark (Text Table 5).

Text Table 5. Uganda: Composite Indicator, and Debt Thresholds and Benchmark

Debt Carrying Capacity	Medium	
Final	Classification based on Oct 2021 vintage	Classification based on Apr 2021 vintage
Medium	Medium	Medium
	2.99	2.97

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 25.1 percent (against the threshold of 40 percent), while the PV of debt-to-exports ratio reaches 152.9 percent before gradually declining towards 130 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 17.5 percent, below the threshold of 18 percent, before declining gradually over the medium term, while the debt service-to-exports ratio reaches 14.5 percent in FY21/22 against the indicative threshold of 15 percent.

9. Stress tests and alternative scenarios indicate a moderate risk of debt distress rating. The PV of PPG debt-to-GDP ratio remains under the threshold even under the stress tests, with the combined shock being the most extreme shock. At the same time, the PV of debt-to-exports ratio, the debt service-to-revenue, and the debt service-to-exports ratio breach their respective thresholds under several stress tests (Figure 1 and Table 3). 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.[5] Both indicators breach their thresholds under the combined shock, and the combined contingent liability shock, while the debt service-to-exports ratio also has two temporary breaches under the shock to other flows.

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 44.1 percent in FY2021/22, before declining towards 26 percent by FY2031/32 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.[6] Notwithstanding the increase in the nominal level of public debt-to-GDP to above 50 percent of GDP over the next four years, the trajectory is expected to show a gradual decline 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.

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 combined contingent liabilities shock (Figure 2), under which the PV of total public debt-to-GDP ratio rises 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 around 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 72 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 ECF-supported program scenario. The stress tests, however, indicate breaches of the thresholds and the benchmark. Although the PV of

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[5] Moreover, export shocks might intensify due to volatile oil exports over the long term.

[6] 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.

debt-to-GDP ratio indicates substantial space to absorb shocks without being downgraded to a high risk of debt distress, the PV of debt-to-exports, the debt service-to-revenues ratio, and the debt service-to-exports ratios are close enough to their respective thresholds that a median shock would lead to a breach (Figure 5).

13. Risks to the debt outlook are tilted to the downside. Given the sensitivity of debt projections to growth, revenues 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 external outlook, and increased frequency of natural disasters due to climate change. Domestic risks include the slower-than-expected implementation of reforms, any further delay in oil production, a shift in the composition of financing towards non-concessional loans, and the potentially limited capacity of commercial banks to increase their purchase of government securities in response to future shocks given the increasing weight of those securities in their balance sheets. 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 outlines key tax policy reforms, including a rationalization of exemptions, and tax administration strengthening to improve compliance.

- *Strengthening overall public financial management (PFM), including efforts to avoid arrears and the use of supplementary budgets*. The published international audit of domestic arrears and the domestic arrears strategy should help the authorities in clearing arrears and preventing further accumulation. Following the progress on the extension of coverage of the Treasury Single Account to extra budgetary entities and externally funded projects, an improvement in the accuracy of monthly cash flow forecasting and preparation of an aggregate borrowing plan, considering the government's consolidated cash position, means further progress can be made through the operationalization of monthly and quarterly cash flow forecasting. Finally, in the Memorandum of Economic and Financial Policies in the first review of the ECF-supported program, the authorities made a commitment to aim to avoid supplementary budgets. In the exceptional case where a new one was to become necessary again, they will ensure that these are limited to unforeseeable unexpected shocks, with any such request costed, financing sources identified, and debt impact assessed.

- *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. The recently published project selection criteria will be used to identify priority projects. Public investment management (PIM) shortcomings could be addressed by reducing overcommitment in multi-year projects, and reducing or eliminating the use of emergency procurement procedures, fostering open and competitive bidding while refraining from procuring through direct channels.

- *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 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, including through the publication of a statement of fiscal risks in the budget framework paper that lists contingent liabilities and reports on risks arising to the budget, the extension of coverage to potential debt collateralization in the public sector, as well as better communication, thereby contributing to a better understanding and management of risks.

- *Broadening the scope of potential creditors.* The scope of potential creditors and financing sources could be broadened, including by finalizing the public investment financing strategy (which is already in advanced draft form) and expression of interest guidelines, and setting up a mobile money platform for retail investors to purchase Treasury securities.

- *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. There has been important progress on the collection of data on the debt of state-owned enterprises. Efforts, however, should be stepped up to estimate, disclose, manage, contain, and shorten the lag in the publication of information on contingent liabilities, especially those in the financial sector, state-owned enterprises (including through their potential inclusion in government finance statistics), and PPPs. For example, disaggregated data on state-owned enterprise debt and contingent liabilities is planned to be published by June 2022.

- *Implementing a set of particular reforms to improve fiscal and debt sustainability.* Given the shift to moderate risk of debt distress, the government would need to implement a set of reforms – known as *Performance and Policy Actions* (PPAs) as per IDA's *Sustainable Development Finance Policy* (SDFP) – through actions in the areas of debt sustainability, debt management and fiscal sustainability. The purpose of this is to ultimately incentivise government to reduce debt vulnerabilities. The first set of PPAs will be formulated in FY21/22 and applied in FY22/23.

- *Enhancing governance frameworks.* These are equally essential to safeguard the quality and effectiveness of public investment and other government spending. 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

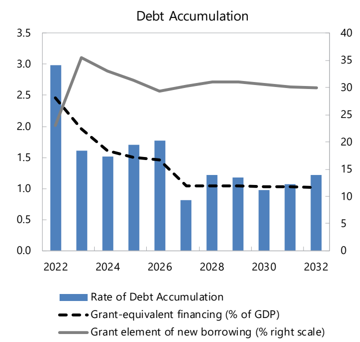
15. The authorities agreed with the assessment of the risk of debt distress. They also emphasized the importance of reducing public debt to below 50 percent of GDP (in nominal terms) over the medium term, through a combination of implementing the DRMS and unwinding the crisis measures introduced in response to Covid-19.

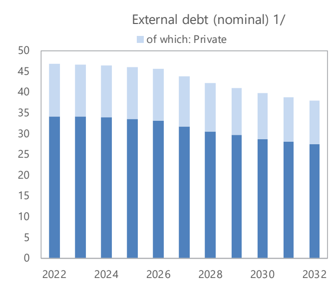
Table 1. Uganda: External Debt Sustainability Framework, Baseline Scenario, FY2018/19-2031/32

(In percent of GDP, unless otherwise indicated)

	Actual			Projections							Average 8/	
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2031/32	Historical	Projections
External debt (nominal) 1/	**37.1**	**41.5**	**44.8**	**46.9**	**46.6**	**46.5**	**46.1**	**45.7**	**43.8**	**37.9**	**34.5**	**43.2**
of which: public and publicly guaranteed (PPG)	**24.2**	**28.6**	**31.7**	**34.1**	**34.1**	**34.0**	**33.5**	**33.2**	**31.6**	**27.5**	**21.0**	**31.7**
Change in external debt	1.2	4.4	3.3	2.1	-0.3	-0.1	-0.4	-0.4	-1.9	-0.9		
Identified net debt-creating flows	**1.1**	**1.8**	**5.0**	**3.9**	**1.2**	**-0.4**	**-0.4**	**-0.4**	**-0.3**	**-0.4**	**0.1**	**-0.3**
Non-interest current account deficit	**6.3**	**5.9**	**9.2**	**6.9**	**7.7**	**9.0**	**11.0**	**10.9**	**9.6**	**7.8**	**6.4**	**8.4**
Deficit in balance of goods and services	1.2	2.0	4.2	2.9	4.1	4.9	6.4	4.6	2.0	0.5	**1.1**	**2.3**
Exports	18.2	14.6	16.3	16.4	16.6	16.6	16.5	17.3	18.5	15.3		
Imports	19.3	16.5	20.5	19.4	20.7	21.5	22.8	21.9	20.4	15.8		
Net current transfers (negative = inflow)	-5.0	-4.8	-4.2	-4.3	-3.9	-3.9	-3.9	-3.7	-3.6	0.0	**-5.3**	**-3.4**
of which: official	-0.4	-0.4	-0.5	-0.5	-0.3	-0.2	-0.2	-0.2	-0.2	0.0		
Other current account flows (negative = net inflow)	10.1	8.8	9.2	8.3	7.5	7.9	8.5	10.1	11.3	7.3	**10.5**	**9.4**
Net FDI (negative = inflow)	**-3.4**	**-2.6**	**-2.1**	**-2.5**	**-5.0**	**-7.6**	**-9.5**	**-9.3**	**-8.0**	**-6.8**	**-3.4**	**-7.1**
Endogenous debt dynamics 2/	**-1.7**	**-1.6**	**-2.1**	**-0.4**	**-1.6**	**-1.8**	**-1.8**	**-1.9**	**-2.0**	**-1.4**		
Contribution from nominal interest rate	0.7	0.7	0.9	1.2	1.0	1.0	1.0	1.0	1.0	0.7		
Contribution from real GDP growth	-2.2	-1.0	-1.3	-1.6	-2.6	-2.8	-2.9	-3.0	-2.9	-2.1		
Contribution from price and exchange rate changes	-0.3	-1.2	-1.8	...	...	...	...	...	...	...		
Residual 3/	**0.1**	**2.6**	**-1.7**	**-1.8**	**-1.5**	**0.3**	**-0.1**	**0.0**	**-1.5**	**-0.5**	**0.6**	**-0.3**
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	**...**	**...**	**24.2**	**25.1**	**24.6**	**23.9**	**23.6**	**23.2**	**22.0**	**19.9**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**148.2**	**152.9**	**147.8**	**144.0**	**143.1**	**134.1**	**119.3**	**129.8**		
PPG debt service-to-exports ratio	**16.6**	**23.7**	**9.5**	**14.5**	**13.4**	**13.5**	**13.1**	**14.4**	**13.0**	**11.7**		
PPG debt service-to-revenue ratio	**23.9**	**27.9**	**11.6**	**17.5**	**15.7**	**15.2**	**14.0**	**14.4**	**12.7**	**10.0**		
Gross external financing need (Million of U.S. dollars)	2,619	3,121	5,196	4,927	4,131	3,794	3,791	4,437	4,663	4,527		
Key macroeconomic assumptions												
Real GDP growth (in percent)	6.4	2.9	3.4	3.8	6.0	6.5	6.7	7.1	7.0	5.7	**3.6**	**6.2**
GDP deflator in US dollar terms (change in percent)	0.7	3.5	4.5	4.4	2.5	2.5	1.7	2.1	1.8	1.5	**9.6**	**2.5**
Effective interest rate (percent) 4/	2.2	2.0	2.4	2.8	2.4	2.3	2.4	2.5	2.4	1.8	**2.0**	**2.5**
Growth of exports of G&S (US dollar terms, in percent)	15.6	-14.7	21.1	9.0	10.1	9.0	7.8	14.7	16.4	2.4	**6.3**	**11.2**
Growth of imports of G&S (US dollar terms, in percent)	21.6	-9.0	34.2	2.1	16.5	13.3	15.2	4.6	1.9	3.5	**6.8**	**8.9**
Grant element of new public sector borrowing (in percent)	...	...	...	23.1	35.4	33.0	31.3	29.4	30.2	30.0	**...**	**30.4**
Government revenues (excluding grants, in percent of GDP)	12.6	12.4	13.4	13.6	14.1	14.8	15.4	17.2	19.0	18.0	**12.6**	**15.7**
Aid flows (in Million of US dollars) 5/	-1,576	-1,570	-2,007	1,335	1,354	1,049	872	748	678	944		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	2.5	2.0	1.6	1.5	1.5	1.0	1.0	**...**	**1.7**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	35.8	42.1	38.8	36.6	33.3	34.4	34.4	**...**	**36.8**
Nominal GDP (Million of US dollars)	35,290	37,596	40,636	44,030	47,858	52,220	56,681	61,972	67,500	97,288		
Nominal dollar GDP growth	7.2	6.5	8.1	8.4	8.7	9.1	8.5	9.3	8.9	7.3	**13.5**	**8.8**
Memorandum items:												
PV of external debt 7/	...	...	37.3	37.9	37.1	36.4	36.1	35.7	34.2	30.2		
In percent of exports	...	...	228.4	230.7	223.4	219.2	219.3	206.3	185.0	197.2		
Total external debt service-to-exports ratio	25.2	33.8	34.6	40.5	35.4	35.3	31.7	32.3	28.6	23.9		
PV of PPG external debt (in Million of US dollars)			9,830	11,045	11,756	12,480	13,366	14,371	14,877	19,337		
(PVt-PVt-1)/GDPt-1 (in percent)				3.0	1.6	1.5	1.7	1.8	0.8	1.2		
Non-interest current account deficit that stabilizes debt ratio	5.1	1.5	6.0	4.7	8.0	9.1	11.4	11.3	11.5	8.8		

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.

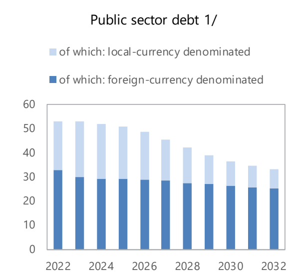
8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 2. Uganda: Public Sector Debt Sustainability Framework, Baseline Scenario, FY2018/19-2031/32

(In percent of GDP, unless otherwise indicated)

	Actual			Projections							Average 6/	
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2031/32	Historical	Projections
Public sector debt 1/	**35.6**	**41.9**	**49.1**	**52.9**	**53.1**	**52.1**	**50.8**	**48.8**	**45.6**	**33.1**	**31.0**	**45.5**
of which: external debt	**24.2**	**28.6**	**31.7**	**34.1**	**34.1**	**34.0**	**33.5**	**33.2**	**31.6**	**27.5**	**21.0**	**31.7**
Change in public sector debt	0.8	6.3	7.2	3.8	0.1	-0.9	-1.4	-1.9	-3.2	-1.4		
Identified debt-creating flows	**0.9**	**5.0**	**5.0**	**4.4**	**0.3**	**-0.7**	**-1.1**	**-1.5**	**-2.8**	**-1.3**	**1.4**	**-1.1**
Primary deficit	**3.0**	**5.0**	**6.7**	**4.4**	**1.8**	**0.7**	**0.8**	**0.3**	**-1.0**	**0.0**	**3.0**	**0.3**
Revenue and grants	13.6	13.2	14.4	14.8	14.6	15.1	15.7	17.5	19.1	18.2	**13.8**	**17.2**
of which: grants	0.9	0.8	0.9	1.1	0.5	0.4	0.3	0.2	0.2	0.2		
Primary (noninterest) expenditure	16.5	18.2	21.1	19.1	16.4	15.8	16.5	17.8	18.1	18.2	**16.8**	**17.5**
Automatic debt dynamics	**-2.1**	**0.0**	**-1.7**	**0.8**	**-1.5**	**-1.4**	**-1.9**	**-1.8**	**-1.8**	**-1.3**		
Contribution from interest rate/growth differential	-0.8	0.1	-0.4	-0.2	-1.7	-1.8	-1.8	-1.9	-1.9	-1.4		
of which: contribution from average real interest rate	1.3	1.2	1.0	1.6	1.3	1.5	1.5	1.5	1.3	0.4		
of which: contribution from real GDP growth	-2.1	-1.0	-1.4	-1.8	-3.0	-3.2	-3.3	-3.3	-3.2	-1.9		
Contribution from real exchange rate depreciation	-1.3	-0.2	-1.3	...	...	...	...	...	...	...		
Other identified debt-creating flows	**0.1**	**0.0**	**0.0**	**-0.7**	**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	-0.7	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	**-0.1**	**1.2**	**2.2**	**-0.6**	**-0.1**	**-0.2**	**-0.3**	**-0.4**	**-0.4**	**-0.1**	**0.7**	**-0.3**
Sustainability indicators												
PV of public debt-to-GDP ratio 2/	**...**	**...**	**41.1**	**44.1**	**43.7**	**42.5**	**41.1**	**39.2**	**36.3**	**25.7**		
PV of public debt-to-revenue and grants ratio	**...**	**...**	**286.0**	**298.8**	**299.4**	**280.9**	**261.6**	**224.5**	**189.8**	**141.4**		
Debt service-to-revenue and grants ratio 3/	**52.5**	**45.5**	**42.9**	**62.4**	**56.7**	**54.0**	**42.7**	**37.2**	**33.6**	**21.9**		
Gross financing need 4/	8.2	9.3	12.8	12.9	10.0	8.9	7.5	6.8	5.4	4.0		
Key macroeconomic and fiscal assumptions												
Real GDP growth (in percent)	6.4	2.9	3.4	3.8	6.0	6.5	6.7	7.1	7.0	5.7	**3.6**	**6.1**
Average nominal interest rate on external debt (in percent)	1.9	1.7	2.1	3.2	2.5	2.5	2.6	2.7	2.5	1.6	**1.6**	**2.3**
Average real interest rate on domestic debt (in percent)	12.7	9.4	8.2	10.2	8.3	6.4	6.5	6.5	6.5	6.4	**1.5**	**7.3**
Real exchange rate depreciation (in percent, + indicates depreciation)	-5.3	-0.7	-4.5	...	...	...	...	...	...	...	**-5.3**	**...**
Inflation rate (GDP deflator, in percent)	2.6	3.1	2.5	2.8	4.0	5.3	5.2	5.1	5.0	4.6	**14.1**	**4.6**
Growth of real primary spending (deflated by GDP deflator, in percent)	18.1	13.6	19.4	-5.8	-9.2	3.0	11.3	15.3	9.2	6.2	**2.9**	**4.8**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	2.1	-1.2	-0.5	0.5	1.6	1.6	2.2	2.2	2.2	1.4	**0.1**	**1.7**
PV of contingent liabilities (not included in public sector debt)	0.0	0.2	0.5	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**



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, FY2021/22-2031/32

(In percent)

	Projections										
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32
PV of debt-to GDP ratio											
Baseline	**25.1**	**24.6**	**23.9**	**23.6**	**23.2**	**22.0**	**21.4**	**21.0**	**20.5**	**20.1**	**19.9**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 1/	25.1	23.7	23.5	23.4	23.3	22.4	23.6	24.5	24.7	24.4	24.2
B. Bound Tests											
B1. Real GDP growth	25.1	26.7	28.5	28.1	27.6	26.3	25.6	25.1	24.4	24.0	23.7
B2. Primary balance	25.1	25.8	27.0	26.9	26.5	25.3	24.8	24.7	24.1	23.6	23.2
B3. Exports	25.1	26.5	29.1	28.6	27.9	26.6	25.8	25.2	24.3	23.5	22.9
B4. Other flows 2/	25.1	28.2	32.9	32.2	31.4	29.9	29.0	28.1	26.9	25.9	25.0
B6. One-time 30 percent nominal depreciation	25.1	30.6	26.7	26.5	26.1	24.8	24.2	23.8	23.4	23.1	23.0
B6. Combination of B1-B5	25.1	31.4	36.4	35.7	34.9	33.2	32.2	31.3	30.0	29.0	28.1
C. Tailored Tests											
C1. Combined contingent liabilities	25.1	31.4	31.5	31.2	30.7	29.4	29.8	29.5	28.9	28.4	28.1
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**40**	**40**	**40**	**40**	**40**	**40**	**40**	**40**	**40**	**40**	**40**
PV of debt-to-exports ratio											
Baseline	**152.9**	**147.8**	**144.0**	**143.1**	**134.1**	**119.3**	**120.2**	**121.4**	**122.4**	**125.2**	**129.8**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 1/	152.9	142.8	141.3	141.8	134.9	121.1	132.3	141.5	147.3	152.0	157.9
B. Bound Tests											
B1. Real GDP growth	152.9	147.8	144.0	143.1	134.1	119.3	120.2	121.4	122.4	125.2	129.8
B2. Primary balance	152.9	155.3	162.5	163.0	153.0	136.7	139.2	142.5	143.8	146.8	151.5
B3. Exports	152.9	**184.6**	**232.8**	**230.3**	**214.8**	**191.2**	**192.3**	**193.2**	**192.5**	**194.6**	**199.1**
B4. Other flows 2/	152.9	169.7	**198.1**	**195.4**	**181.7**	161.8	162.5	162.6	160.7	161.2	163.5
B6. One-time 30 percent nominal depreciation	152.9	146.5	128.1	127.8	120.2	106.8	107.8	109.1	110.9	114.4	119.7
B6. Combination of B1-B5	152.9	**187.0**	**185.1**	**217.9**	**202.9**	**180.7**	**181.6**	**181.6**	**180.2**	**181.4**	**184.8**
C. Tailored Tests											
C1. Combined contingent liabilities	152.9	**189.0**	**189.6**	**189.2**	177.4	159.1	167.0	170.6	172.8	177.1	**183.3**
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	**180**	**180**	**180**	**180**	**180**	**180**	**180**	**180**	**180**	**180**	**180**
Debt service-to-exports ratio											
Baseline	**14.5**	**13.4**	**13.5**	**13.1**	**14.4**	**13.0**	**11.0**	**11.5**	**12.6**	**12.4**	**11.7**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 1/	14.5	12.8	12.5	11.7	12.5	11.0	9.1	9.5	10.4	10.4	10.0
B. Bound Tests											
B1. Real GDP growth	14.5	13.4	13.5	13.1	14.4	13.0	11.0	11.5	12.6	12.4	11.7
B2. Primary balance	14.5	13.4	13.7	13.6	14.9	13.5	11.4	12.4	14.2	14.0	13.5
B3. Exports	14.5	**15.6**	**18.6**	**18.6**	**20.3**	**18.3**	**15.5**	**17.0**	**19.8**	**19.5**	**18.6**
B4. Other flows 2/	14.5	13.4	14.1	14.5	**15.6**	14.1	12.1	13.8	**16.6**	**16.3**	**15.6**
B6. One-time 30 percent nominal depreciation	14.5	13.4	13.5	12.7	14.0	12.7	10.6	11.1	11.4	11.2	10.6
B6. Combination of B1-B5	14.5	14.6	**16.9**	**16.9**	**18.3**	**16.5**	14.0	**16.1**	**18.6**	**18.3**	**17.5**
C. Tailored Tests											
C1. Combined contingent liabilities	14.5	13.4	14.6	14.3	**15.5**	14.0	12.0	12.7	13.8	13.6	13.0
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**15**	**15**	**15**	**15**	**15**	**15**	**15**	**15**	**15**	**15**	**15**
Debt service-to-revenue ratio											
Baseline	**17.5**	**15.7**	**15.2**	**14.0**	**14.4**	**12.7**	**10.3**	**10.6**	**11.3**	**10.8**	**10.0**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 1/	17.5	15.0	14.0	12.5	12.6	10.8	8.5	8.7	9.4	9.1	8.5
B. Bound Tests											
B1. Real GDP growth	17.5	17.1	**18.1**	16.7	17.2	15.1	12.2	12.6	13.5	12.9	11.9
B2. Primary balance	17.5	15.7	15.4	14.5	14.9	13.1	10.7	11.4	12.7	12.3	11.5
B3. Exports	17.5	15.8	15.7	15.0	15.3	13.4	11.0	11.7	13.4	12.8	11.9
B4. Other flows 2/	17.5	15.7	15.9	15.5	15.7	13.8	11.3	12.6	14.9	14.3	13.3
B6. One-time 30 percent nominal depreciation	17.5	**19.8**	**19.1**	17.0	17.7	15.5	12.5	12.8	12.9	12.4	11.4
B6. Combination of B1-B5	17.5	17.4	**18.8**	18.0	**18.3**	16.0	13.1	14.7	16.6	15.9	14.8
C. Tailored Tests											
C1. Combined contingent liabilities	17.5	15.7	16.4	15.3	15.6	13.7	11.2	11.7	12.4	11.9	11.1
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**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, FY2021/22-2031/32

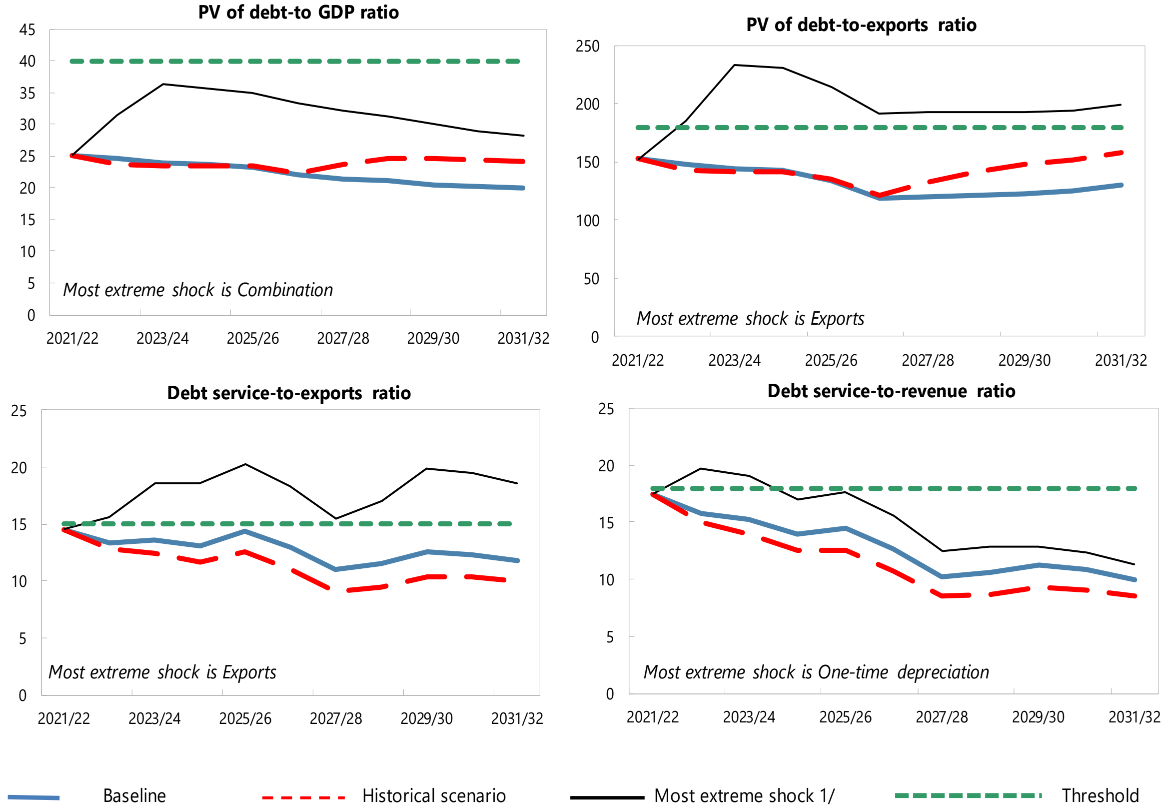
	Projections										
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32
PV of Debt-to-GDP Ratio											
Baseline	**44.1**	**43.7**	**42.5**	**41.1**	**39.2**	**36.3**	**33.4**	**30.9**	**28.4**	**26.8**	**25.7**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 1/	44	42	40	39	37	36	35	34	33	32	31
B. Bound Tests											
B1. Real GDP growth	44	48	54	54	54	53	52	52	51	52	52
B2. Primary balance	44	46	48	46	44	41	37	34	32	30	29
B3. Exports	44	45	47	46	44	41	38	35	32	30	29
B4. Other flows 2/	44	47	52	50	48	44	41	38	35	33	31
B6. One-time 30 percent nominal depreciation	44	48	45	42	38	34	30	27	23	21	19
B6. Combination of B1-B5	44	45	47	43	41	38	35	32	30	28	27
C. Tailored Tests											
C1. Combined contingent liabilities	44	**57**	**55**	53	50	47	43	40	37	36	34
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	**298.8**	**299.4**	**280.9**	**261.6**	**224.5**	**189.8**	**173.9**	**161.7**	**150.6**	**145.1**	**141.4**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 1/	299	287	267	247	214	189	182	177	175	174	173
B. Bound Tests											
B1. Real GDP growth	299	331	353	342	309	277	271	270	271	278	288
B2. Primary balance	299	315	316	293	251	212	194	180	168	162	158
B3. Exports	299	311	313	291	250	212	195	182	169	162	157
B4. Other flows 2/	299	324	342	317	272	232	214	200	185	177	170
B6. One-time 30 percent nominal depreciation	299	330	298	267	221	180	158	141	124	113	104
B6. Combination of B1-B5	299	311	310	271	233	198	182	170	159	153	150
C. Tailored Tests											
C1. Combined contingent liabilities	299	391	364	337	289	246	225	211	199	192	188
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	**62.4**	**56.7**	**54.0**	**42.7**	**37.2**	**33.6**	**26.9**	**28.9**	**29.4**	**26.7**	**21.9**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 1/	62	53	49	39	33	29	26	26	27	26	24
B. Bound Tests											
B1. Real GDP growth	62	61	65	54	49	45	39	44	47	46	42
B2. Primary balance	62	57	57	48	40	36	31	35	33	29	25
B3. Exports	62	57	54	44	38	34	27	30	31	28	24
B4. Other flows 2/	62	57	55	44	38	35	28	31	33	30	25
B6. One-time 30 percent nominal depreciation	62	55	55	44	39	35	28	30	31	28	23
B6. Combination of B1-B5	62	56	56	44	39	36	29	31	32	30	25
C. Tailored Tests											
C1. Combined contingent liabilities	62	57	72	50	42	38	44	36	33	30	25
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, FY2021/22-2031/32[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	2.1%	2.1%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	20	20
Avg. grace period	5	5

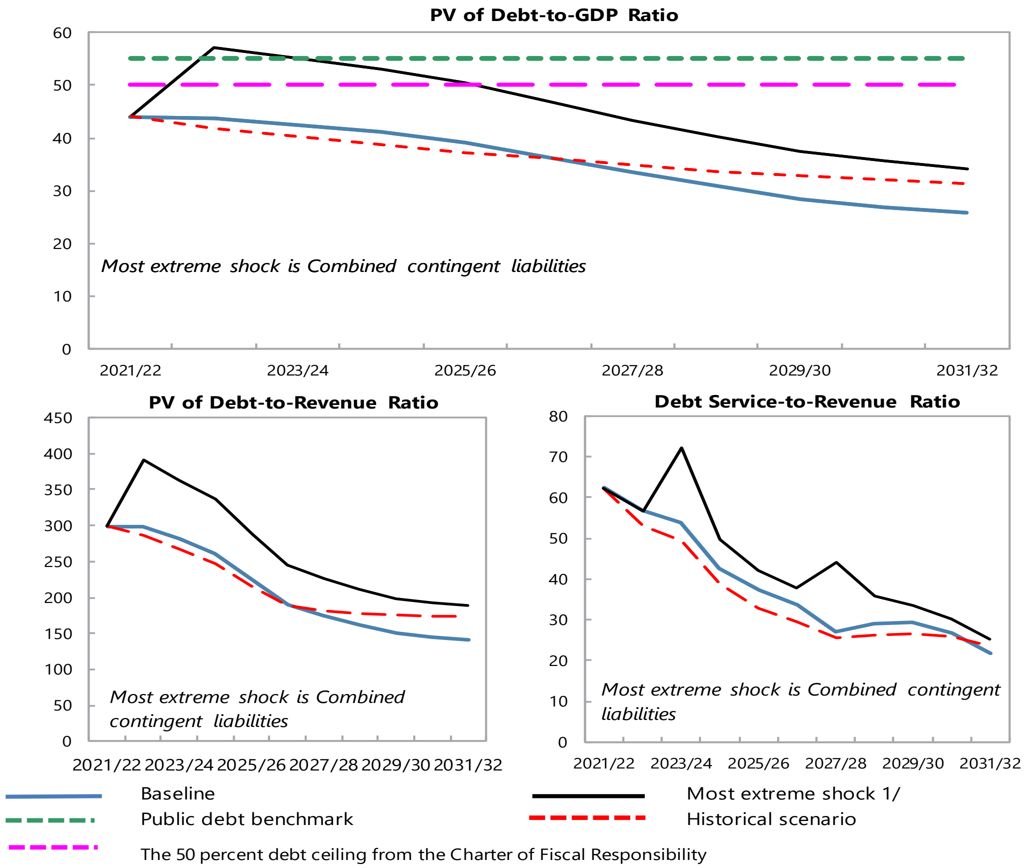
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

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 2032. 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, FY2021/22-2031/32



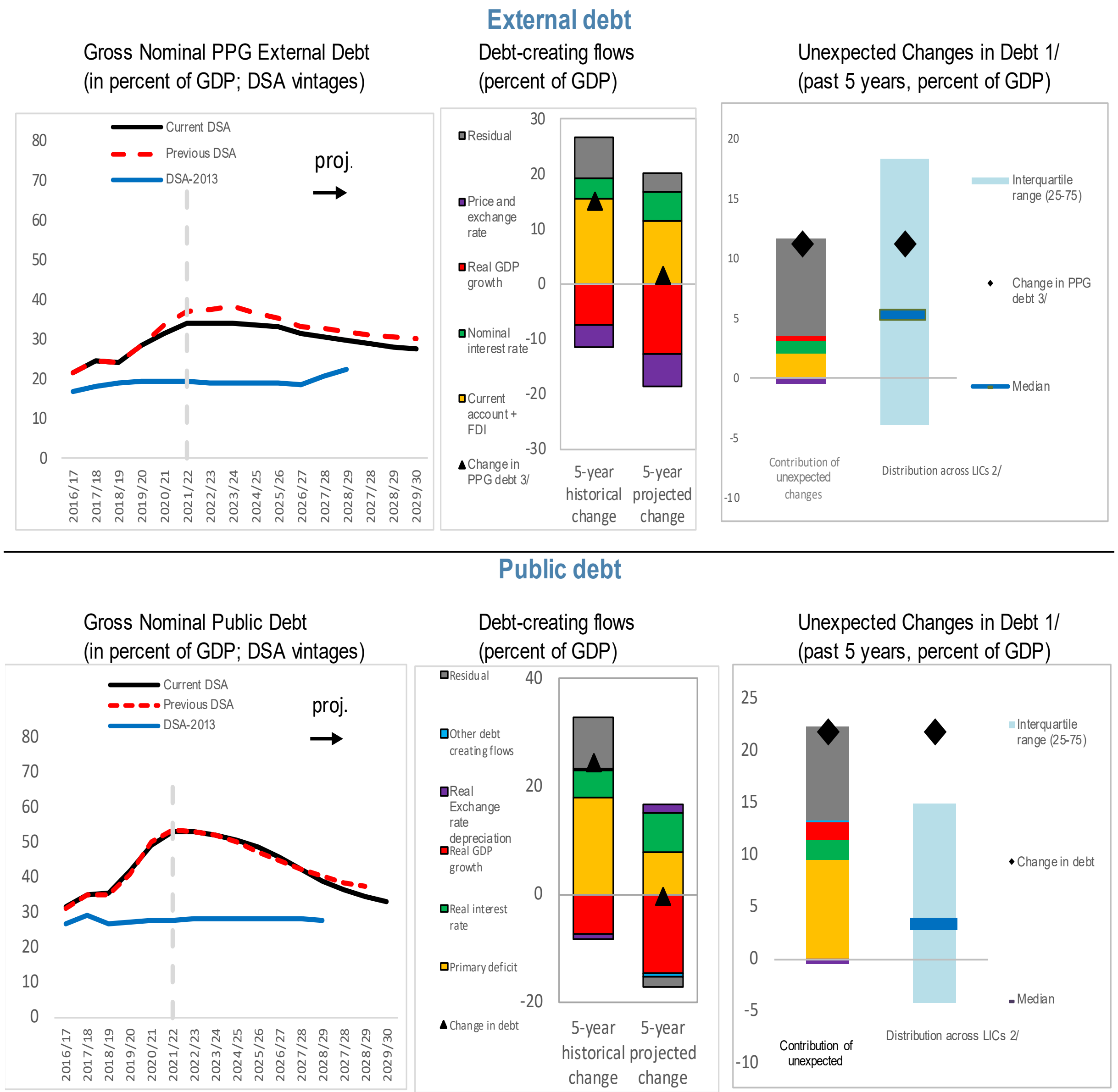
Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	58%	58%
Domestic medium and long-term	29%	29%
Domestic short-term	13%	13%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	2.1%	2.1%
Avg. maturity (incl. grace period)	20	20
Avg. grace period	5	5
Domestic MLT debt		
Avg. real interest rate on new borrowing	7.7%	7.7%
Avg. maturity (incl. grace period)	5	5
Avg. grace period	4	4
Domestic short-term debt		
Avg. real interest rate	3.0%	3.0%

* 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 2032. 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



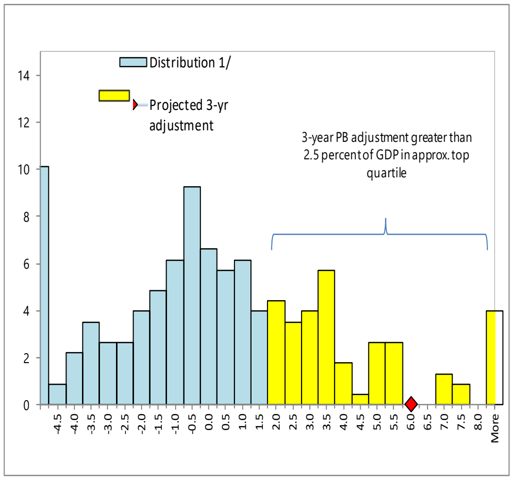
1/ Difference between anticipated and actual contributions on debt ratios.

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.

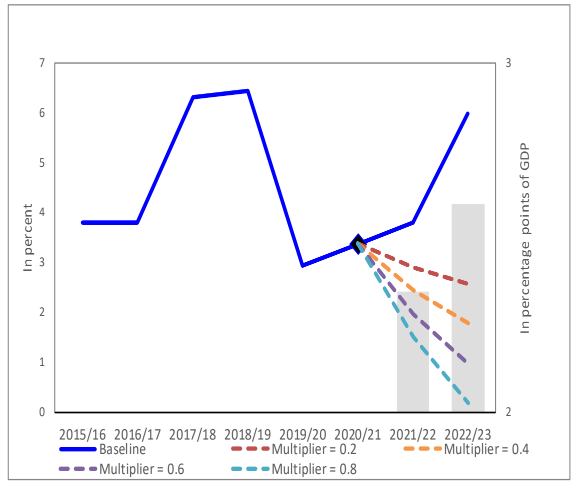
Figure 4. Uganda: Realism Tools

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



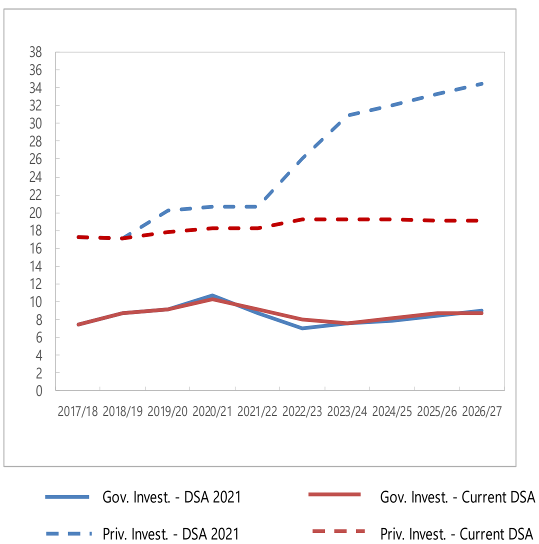
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

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)

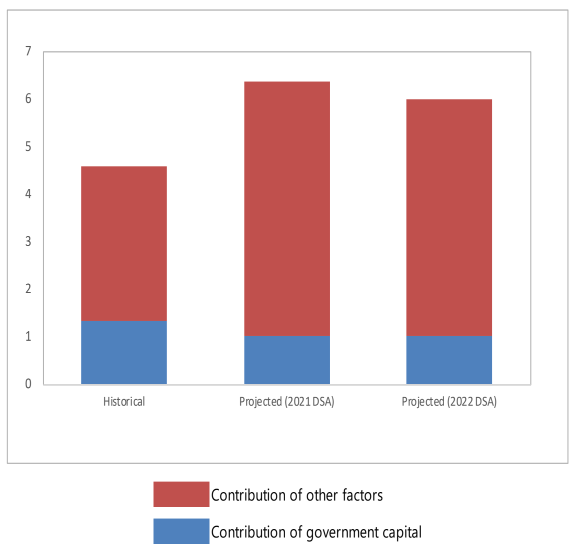
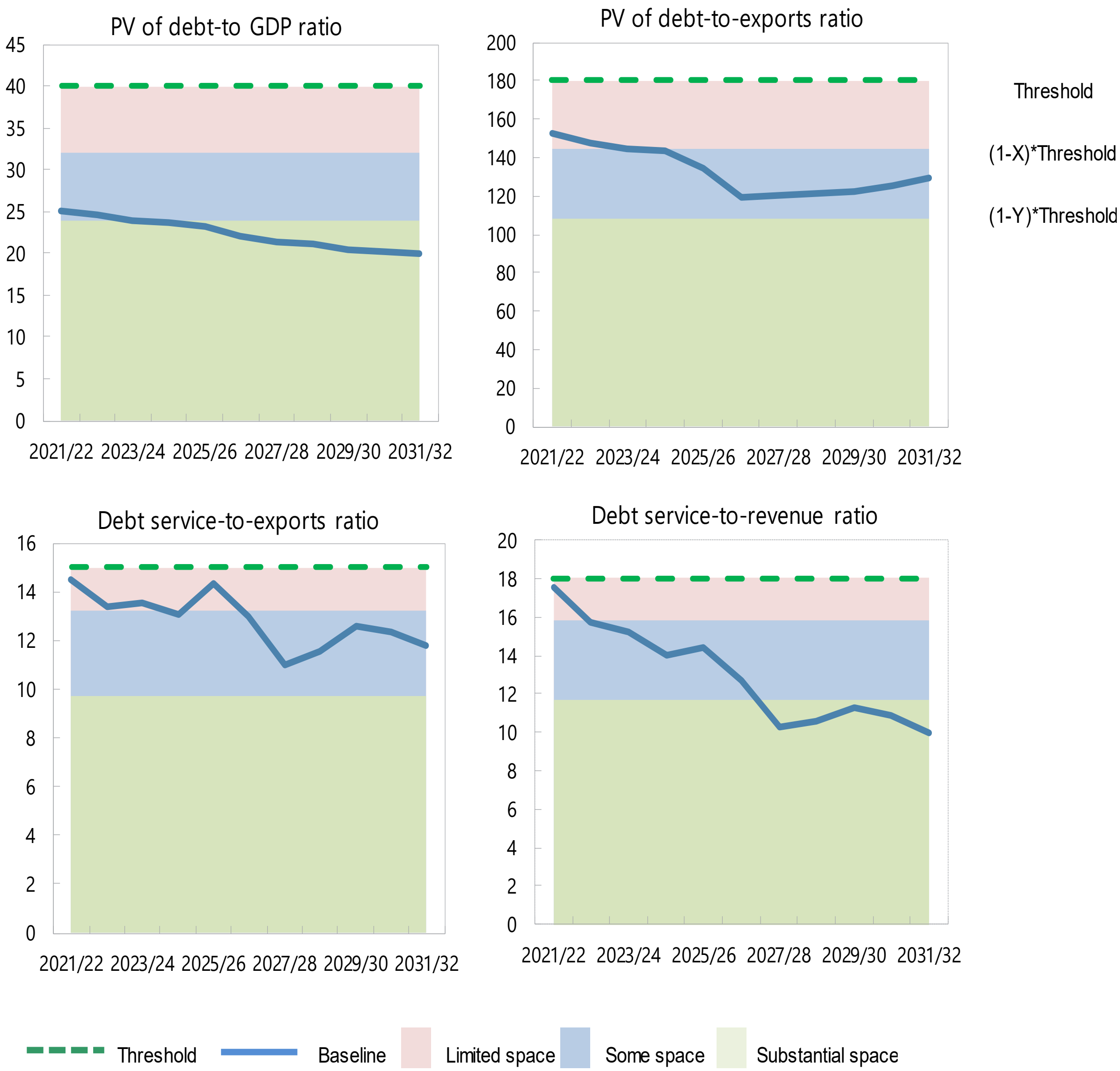


Figure 5. Uganda: Qualification of the Moderate Category, 2021-2031 1/



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.

Statement by Ms. Mannathoko, Executive Director and Ms. Basutli Advisor to the Executive Director on Uganda
Executive Board Meeting
March 9, 2022

Introduction

1. Our Ugandan authorities appreciate the constructive engagement with staff during the recent Article IV consultations and first review under the Extended Credit Facility (ECF) arrangement, and broadly share staff's assessment. We also appreciate staff's Selected Issues Papers, which provide helpful backing analysis.

2. The authorities' economic reform program is guided by the Third National Development Plan (NDP III) 2020/21 -2024/25. NDP III aims to stimulate private sector led growth, facilitating business activity and financial inclusion, while restoring the welfare of the population through broadened vaccination, sustainable re-opening of schools, and infrastructure provision – including roads and digital means such as e-government, e-procurement and e-learning. The plan aims to accelerate industrialization and value-added manufacturing. The ECF program complements this, supporting relevant macroeconomic policy implementation, and adjustment to the pandemic shock with mitigation of its impacts, while preserving macroeconomic stability and positioning the economy for recovery.

3. Visible progress has also been made in the transparency of public spending. The authorities have fully operationalized the mechanism for collecting and publishing beneficial ownership information of companies awarded COVID-19 related contracts, starting in January. They have also expanded this system making it more permanent with the collection of beneficial ownership information in all procurement contracts. This will enhance transparency and anticorruption and anti-fraud safeguards in procurement. The authorities appreciate Fund technical assistance that was instrumental in designing the system to track COVID-19 spending regardless of source of financing. They also published the full year COVID spending audit for FY 20/21, in February and will issue a memorandum addressing corrective actions.

4. With a proven reform track record, the authorities continue to demonstrate their commitment despite difficult conditions. Sustained reform effort enabled satisfactory program performance with all performance criteria and indicative targets met, with the exception of the revenue target that has been constrained by the global pandemic's impacts. The authorities consider support from international partners as having been key to success. Generous help during the pandemic included the supply of much-needed vaccines and facilitation of their deployment. They continue to rely on development partners' financial and technical support in implementing the policy framework and reforms. Executive Directors' support for the completion of the first review under the ECF arrangement, and request for modification of performance criteria, is therefore sought.

Recent Economic Developments and Outlook

5. The Uganda economy suffered a 3.5 percentage point loss in growth in 2019/20, reflecting the impact of the pandemic in the first half of 2020 in the wake of restrictions and lockdowns that started in March 2020. At 2.9 percent in 2019/20 and 3.4 percent in 2020/21, growth remains

significantly below pre-pandemic levels of over 6 percent. It is projected to reach 3.8 percent in 2021/22, only recovering in the medium term to around 6-7 percent as global demand recovers, and new energy projects come on stream.

6. Accelerated vaccination is a priority as it is essential to pave the way for economic recovery. The authorities are committed to vaccinating 22 million people (49.6 percent of the total population) by the end of 2022 having procured enough vaccines to meet this target, including through World Bank financing (covering just over half of the target population) and donations. They have budgeted US$20.2 million of the World Bank grant for deployment interventions to speed up the roll out. Increased vaccine availability and rollout saw 13.5 million doses administered by end February, with about 5.9 percent of the total population fully vaccinated compared to just under 1 percent five months earlier in September 2021.

7. Inflationary pressures remain modest, with headline inflation below 3 percent in 2021 despite continued increases in food, energy and utility prices. Annual inflation fell to 2.7 percent in January 2022, from 2.9 percent in December 2021, reflecting lower transportation costs as travel restrictions are lifted. However, given ongoing uncertainty in the global economy, inflation may rise towards the 5 percent target in the medium term, with increases in energy and food prices, alongside recovery in demand as the economy fully reopens.

8. The current account deficit deteriorated from 5.9 percent of GDP in FY19/20 to 10.2 percent of GDP in FY20/21, the highest on record, reflecting a higher import bill alongside weaker tourism receipts. Aided by the SDR allocation, international reserves reached 4.2 months of import cover in FY20/21, up from 3.9 months in FY19/20, although still lower than the EAC target of 4.5 months. 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.

Program Performance

9. All end-September quantitative performance criteria and almost all indicative targets were met, with a comfortable margin on the primary balance, notwithstanding revenue shortfalls in the wake of the second COVID-19 wave. The pandemic induced revenue shortfalls, however, meant that one indicative target, that for tax revenues, was missed in September.

10. For structural reforms, seven of the ten structural benchmarks (SBs) are completed, albeit with a delay, reflecting capacity constraints and the need to pass supporting legislation dependent on the legal calendar. The structural benchmark on the framework for tracking COVID-19 spending was adopted by end-August in line with the program. The amendments to the Bank of Uganda Act were submitted to Cabinet in January 2022 and are expected to be adopted by Parliament by September 2022. Five of the benchmarks that were not met in 2021 have now been implemented. The remaining three SBs require resetting the timeline to allow for factors beyond the authorities' control. The authorities are working on legislative and technical requirements and engaged in interagency consultations needed to meet benchmarks on the beneficial ownership registry, the upgrade of the national social registry, and the introduction of a sanction regime for unauthorized spending, by a new end-June 2022 deadline.

Macroeconomic Policies

11. Our authorities remain focused on macroeconomic stability and will pursue growth friendly fiscal consolidation and reforms that address impediments to good governance and foster

public sector efficiency. At 49.1 percent, the debt-to-GDP ratio is below levels initially projected for this review period. Given the planned unwinding of crisis measures and implementation of fiscal consolidation, Uganda's public debt continues to be sustainable in the medium term. Persistent pandemic-induced challenges however call for a greater focus on restoring economic activity and health in the near-term. Structural reforms will include strengthening the governance framework, alongside financial sector development and inclusion, consistent with the ECF program, and attention to climate change and adaptation.

Fiscal Performance and Policy

12. The fiscal deficit for FY20/21 deteriorated less than initially expected under the program, with better-than-expected performance of about 0.5 percent of GDP reflecting efforts to bolster revenues with stepped up tax administration that yielded tax arrears collection of about 0.3 percent of GDP, alongside lower execution of public investment projects in the face of financing shortfalls and delayed project implementation. Some ministries also deferred spending some of their cash releases to the next fiscal year. Going forward, the authorities expect tax administration and policy reforms to yield 0.7 percent of GDP in FY21/22 and 0.5 percent of GDP on average per year over the medium term.

13. The authorities intend to enhance the income tax system, improve the excise duty regime and strengthen VAT productivity, reducing exemptions and reviewing the registration threshold. They will also work to increase taxpayer registration, enhance voluntary compliance and strengthen arrears management. With regards to spending, they will streamline expenditures, with higher priority given to public education and health spending; and boost social assistance – furthering the increase already seen in social spending. To ease financing constraints the authorities have earmarked half of the SDR allocation for education and health and water and sanitation projects. Noting the importance of contingency planning, if warranted, non-priority spending would be rationalized. To discourage monetization of the fiscal deficit, effective January 2022, all Bank of Uganda advances will be governed by within-year limits of 10 percent of current year domestic revenue.

14. In the medium term, the authorities aim to strengthen public financial management, reducing the stock of domestic arrears and preventing new accumulation, strengthening cash management reforms, extending the Treasury Single Account to extra-budgetary units and other agencies, and gradually improving the accuracy of monthly cashflow forecasting. Further, to prepare for oil revenue management, the authorities have advanced plans to adopt a fiscal rule for managing oil revenues as part of their medium-term fiscal plan.

15. On debt management, the authorities are committed to the Medium-Term Debt Strategy and envisage that debt will remain sustainable. The authorities highlight the continued importance of non-concessional financing support from donors for large infrastructure projects. They appreciate the enhanced debt transparency afforded by their recent reforms and aim to go further, including by publishing data on SOE debt and contingent liabilities by June 2022.

Monetary and Exchange Rate Policies

16. The Bank of Uganda (BoU) maintained an accommodative monetary policy stance; however, despite rate cuts, inflation remained well below target. Staff's SIP analysis, investigating the reasons for this, found that Uganda's neutral rate of interest had declined since 2015, with the

result that despite cuts, interest rates were above the neutral rate and unable to achieve a de facto accommodative stance. This fact, alongside the drag on growth expected as fiscal consolidation is implemented and crisis measures in the financial sector are unwound, led staff to conclude that a continued accommodative stance is warranted to help bring inflation back up to the target level. While the authorities will maintain an accommodative stance, given additional new uncertainty due to the global implications of the Russia-Ukraine crisis, the authorities will need to continue to monitor inflationary pressures closely and ensure that monetary policy remains data driven. The BoU will continue improving its forecasting tools to better support policy formulation, while strengthening communication. BOU will also limit its direct financing of fiscal operations in line with program requirements.

17. The BOU plans to maintain the COVID-19 Liquidity Assistance Program to manage potential liquidity risks related to the pandemic until the economic situation normalizes. Regarding the envisaged amendments to the BoU law which include dynamic recapitalization, strengthening safeguards for institutional autonomy, clarifying limits for advances to the government, and strengthening the BOU's governance and transparency framework; following submission of the law to Cabinet in January 2022, it is expected that Parliament's approval will follow in September 2022.

18. The authorities will continue to limit foreign exchange interventions to smoothing out excess volatility and will commence a review of the Foreign Exchange Reserves Management Policy. The review aims to ensure alignment with international best practice, while the revised Strategic Asset Allocation seeks to provide an optimal asset allocation mix across various foreign reserve asset classes. Noting that the country will be transitioning to increased mineral export dependency, staff have been providing technical assistance to the authorities to help ensure that the monetary and exchange rate regime adjusts effectively in a few years, once large and lumpy LNG export receipts start to come in.

Financial Sector Policies

19. The banking sector remains profitable, well-capitalized and resilient, though the authorities note that some vulnerabilities remain a concern, and they remain attentive to the potential financial stability risks engendered by the withdrawal of temporary credit relief measures, especially relating to asset quality even with the NPL ratio at around 5.4 percent. Credit relief has been extended for only the two hardest hit sectors, education and hospitality, to September 2022. Several measures aimed at safeguarding financial stability will be implemented, including strengthening the supervisory framework through a shift to risk-based supervision and enhanced stress testing, and continued monitoring of household and corporate credit. The authorities have operationalized the Resolution Policy Framework and are putting in place measures to deal with orderly resolution of banks. They are also prioritizing the strengthening of capital buffers, as evidenced by the implementation of a systemic risk buffer for Domestic Systemically Important Banks, and a capital conservation buffer and leverage ratio, effective January 1, 2022. Furthermore, the counter-cyclical buffer framework was ratified by the BOU Board in December 2021. The authorities underscore the importance of pressing ahead with these measures even under current circumstances, given IFRS9 provisioning requirements and the uncertainty around the economic recovery with the possibility of increased credit losses.

20. The authorities also intend to strengthen the effectiveness of the AML/CFT framework, expediting implementation of the National AML/CFT Strategy and the grey list action plan.

They have amended regulations to apply due diligence measures to politically exposed persons, and their family members and close associates. Establishment of a beneficial ownership registry and enhancing BOU's AML CFT supervisory capacity are also key priorities.

Structural Reforms

21. The authorities' ambitious structural reform agenda guided by NDP III, seeks to generate higher and more inclusive private sector-led growth, including advances in human capital development, with the goal of attaining middle-income status by 2040 and achieving the sustainable development goals. Governance reforms, some of which are underway, are prioritized as is reducing the cost of doing business. Alongside work to reduce legal and administrative impediments to doing business, the authorities' business-centric reforms will address infrastructure-related issues, strengthen SME incubation, improve land administration and further reduce red tape, among others. A one-stop shop for permits and registration of businesses is now operational and accessible physically and online.

22. The authorities have made strides in improving the asset declaration regime, starting with appointment of the Inspector General of Government, and deputies, and operationalizing the Leadership Code Tribunal, which paves way for sanctioning leaders that breach the Leadership Code. Any remaining weaknesses in the asset declaration regime will be addressed going forward, to ensure alignment with international standards.

23. As preventing and stemming corruption remains a priority, there is focus on the implementation and enforcement of the anti-corruption legal framework. As a member of the Extractive Industries Transparency Initiative, Uganda also remains committed to disclosing contracts and licenses for oil and gas production and beneficial owners of corporate entities that hold legal interests, with the first report on such disclosures expected in 2022.

24. We thank staff for the SIP on climate change priorities in Uganda. Urgent policy actions, in line with the authorities' NDPIII include: developing flood risk zoning, upgrading and enforcing development restrictions, as well as standards for construction and maintenance, which would improve the country's resilience to floods; revamping government support to reforestation programs, which would also enhance soil resilience to floods, while contributing to emission reduction through carbon sequestration; improving water mapping and monitoring, and water conservation measures (e.g., price differentiation and groundwater protection, among others), which would increase resilience to droughts; and scaling up capacity to access donor funds that are critical to meet ambitious adaptation plans. For now, noting the high impact on agriculture, water, infrastructure and energy, the authorities are prioritizing water catchment and increasing forest coverage from 14 percent to an envisaged 21 percent by 2030, in line with NDP III aspirations.

Conclusion

25. The Ugandan authorities remain committed to the program's objectives viewing this as key to maintaining macroeconomic stability, durably exiting from the COVID-19 crisis and supporting sustainable growth and an inclusive recovery. The authorities look forward to the support of Executive Directors for the completion of this article IV consultation and the first ECF review.