



**AFRICAN
DEPARTMENT**

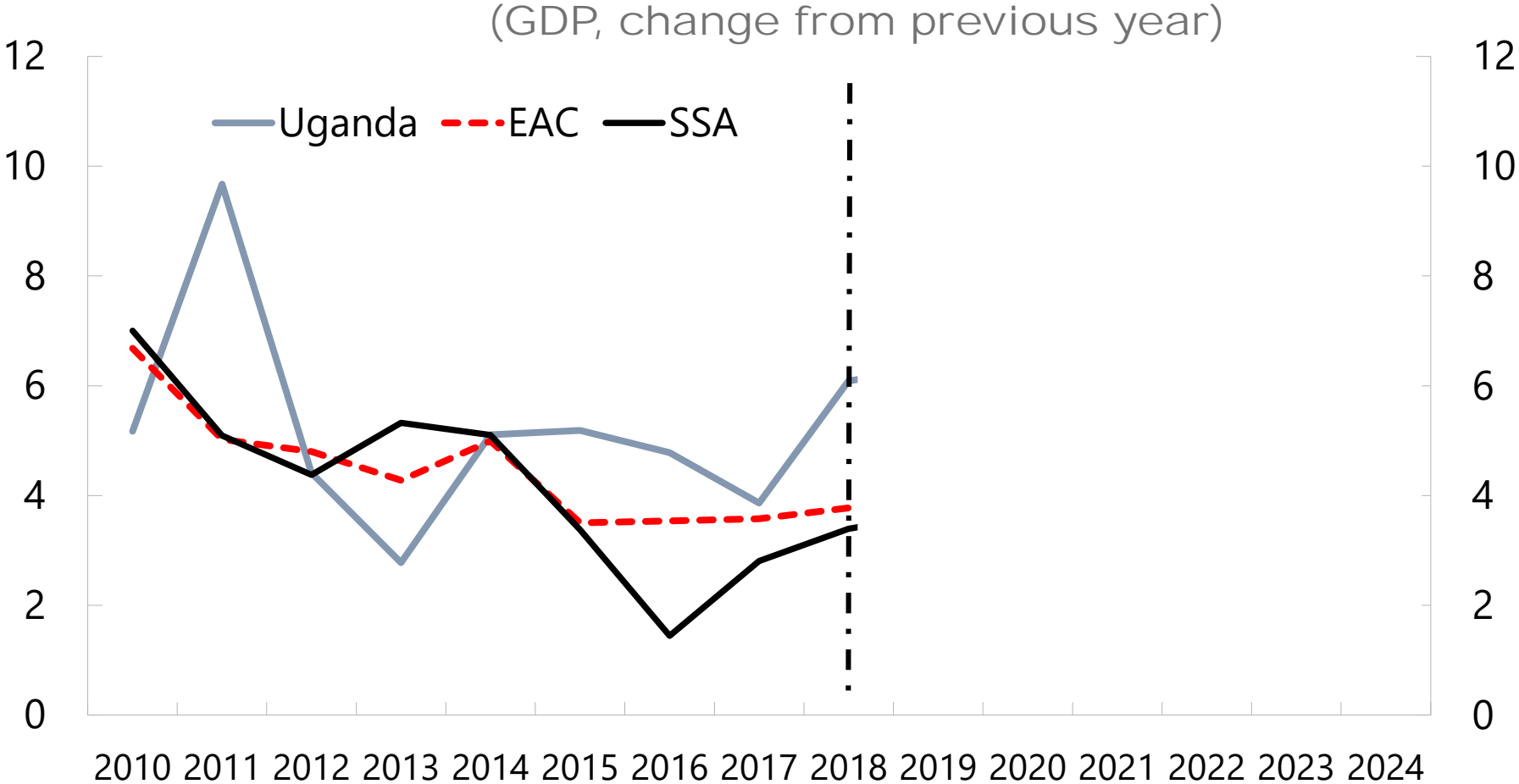


Uganda: takeaways from Article IV Consultation

MAY 2019

Clara Mira
Resident Representative
Kampala, May 2019

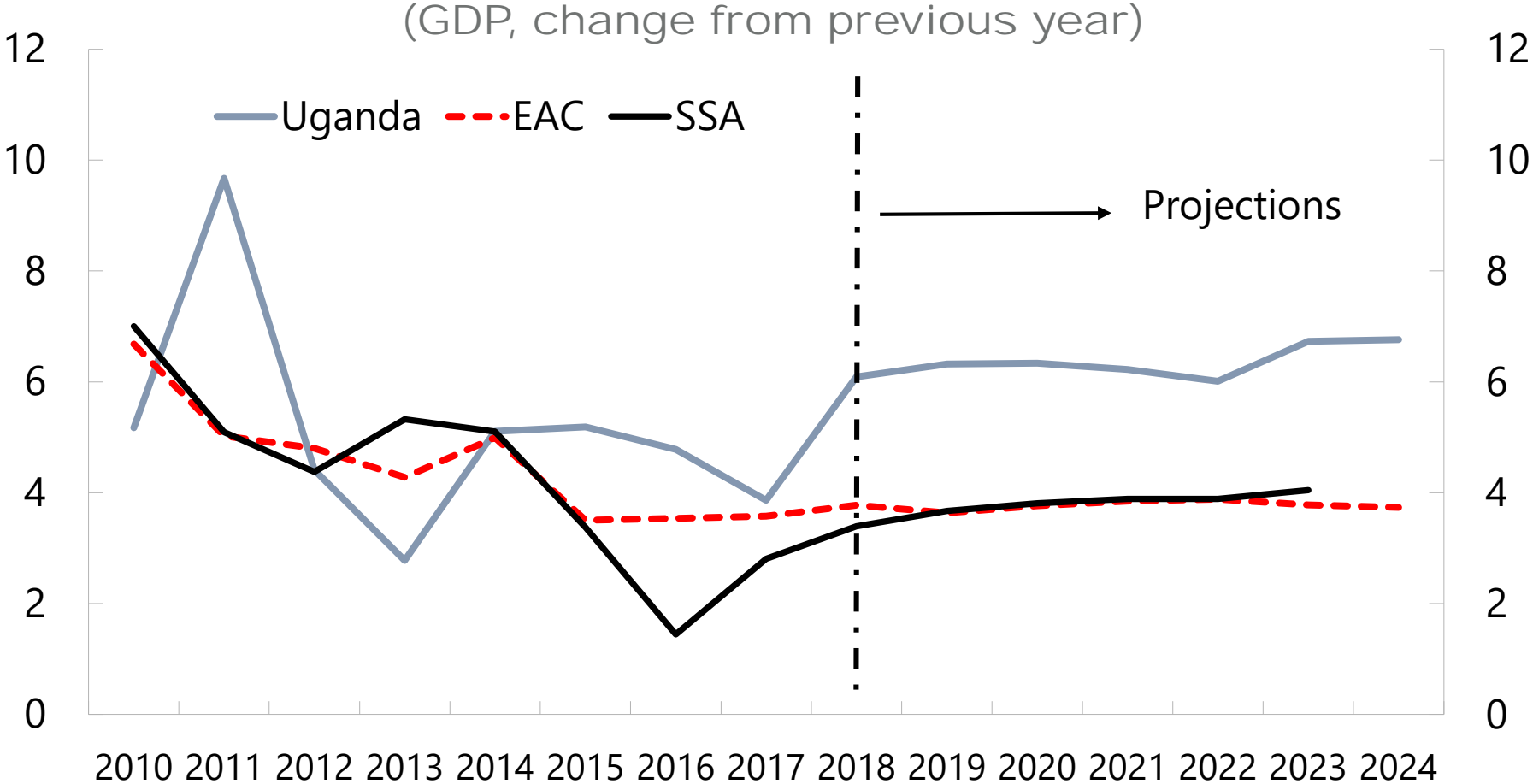
The economy is growing...



Sources: Bank of Uganda, Uganda Bureau of Statistics, and IMF Staff calculations

Notes: EAC average excludes Uganda, Uganda data is in fiscal years

The economy is growing... and the outlook is favorable



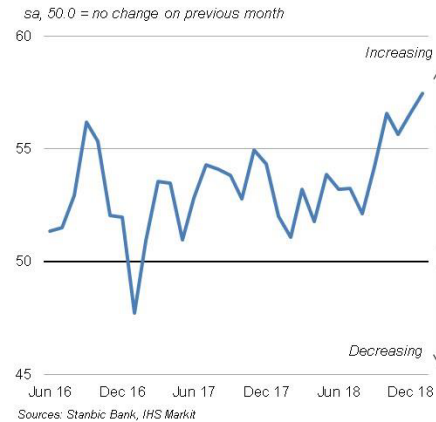
Sources: Bank of Uganda, Uganda Bureau of Statistics, and IMF Staff calculations

Notes: EAC average excludes Uganda, Uganda data is in fiscal years

Medium term outlook is favorable... under these underlying assumptions



Global context stable



**Private sector
confidence
maintained**



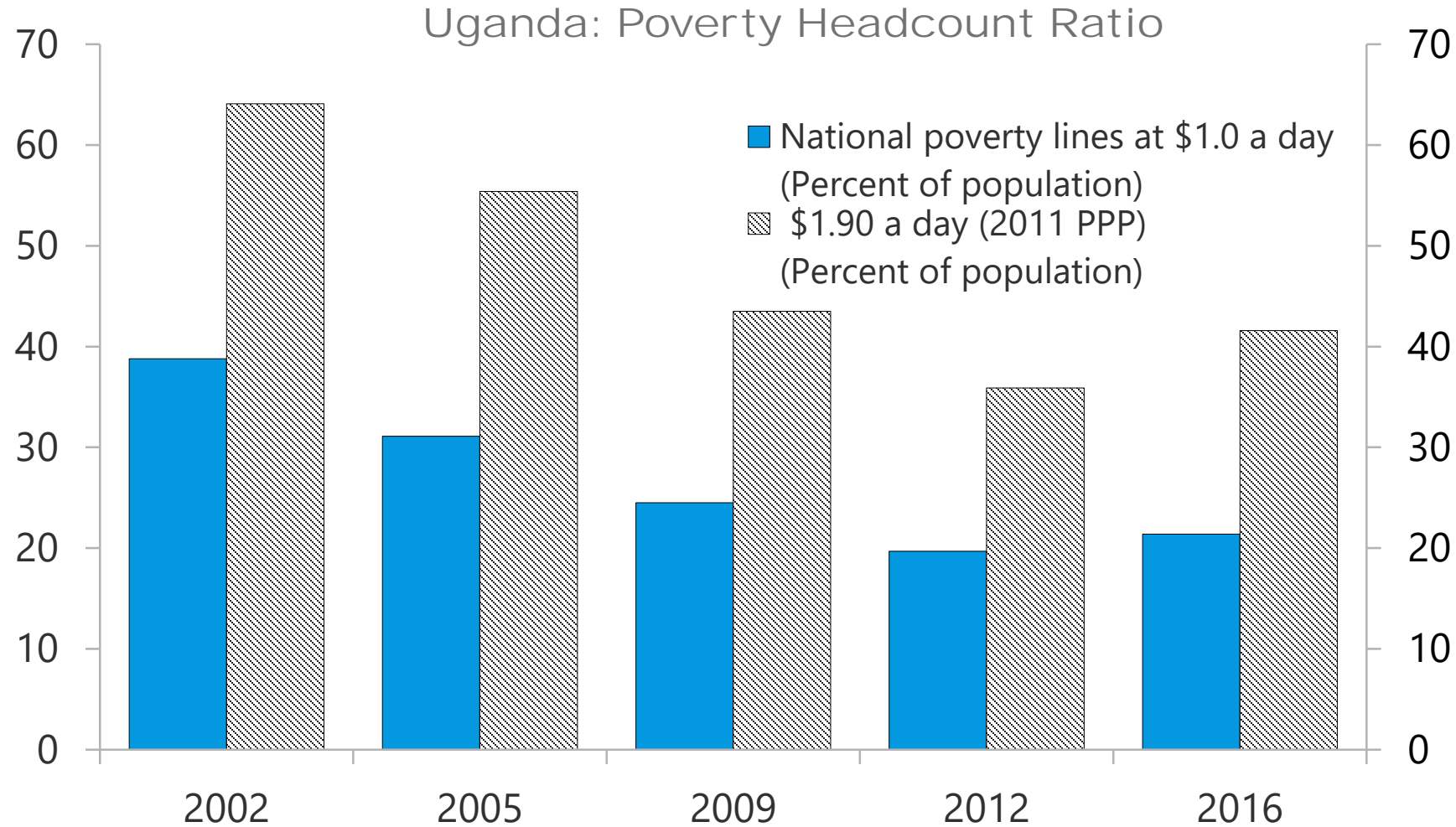
**Growth dividend
realized**



**Oil sector investment
proceeds**

Risks are tilted to the downside

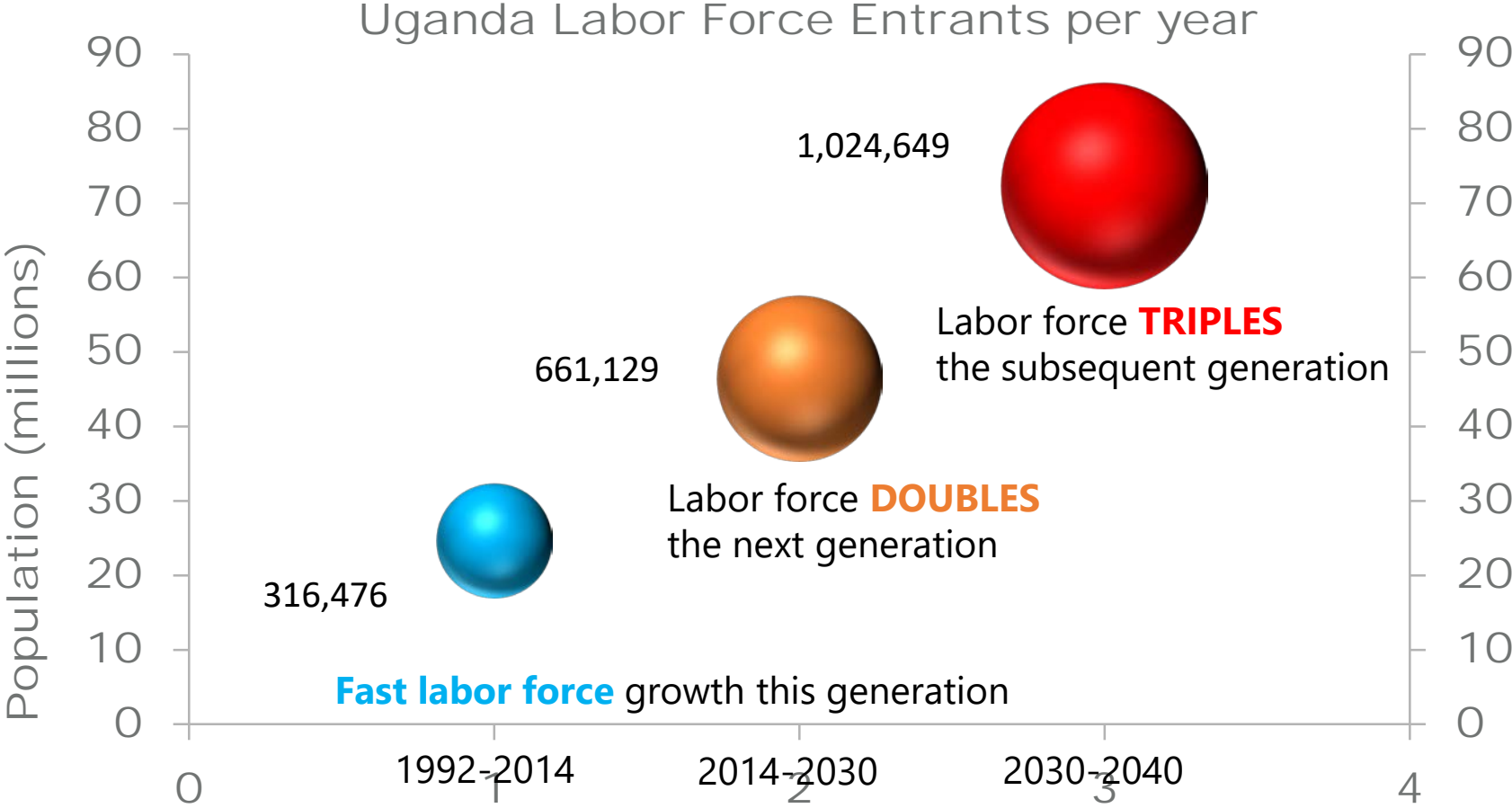
However, poverty reduction has stalled



Agriculture
~ 70 percent of population
GDP ~ 2 percent
Population ~ 3 percent
Per-capita -1 percent

Source: World Development Indicators.

Uganda needs 600,000 new jobs per year



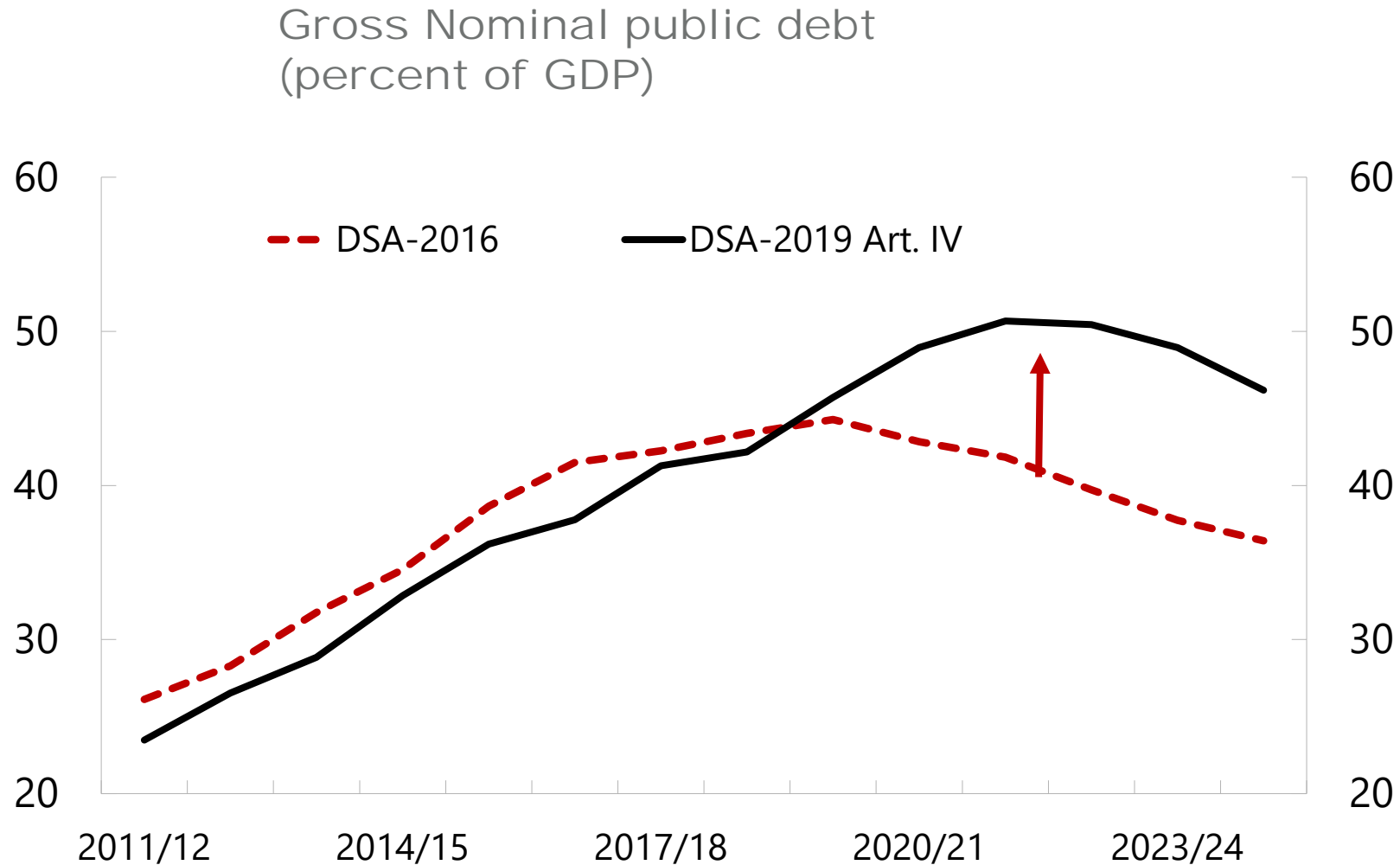
Source: World Bank Uganda Jobs Diagnostic and Strategy (2018, World Bank).

Key policy question for the Article IV:

**How to support inclusive growth
and stability?**

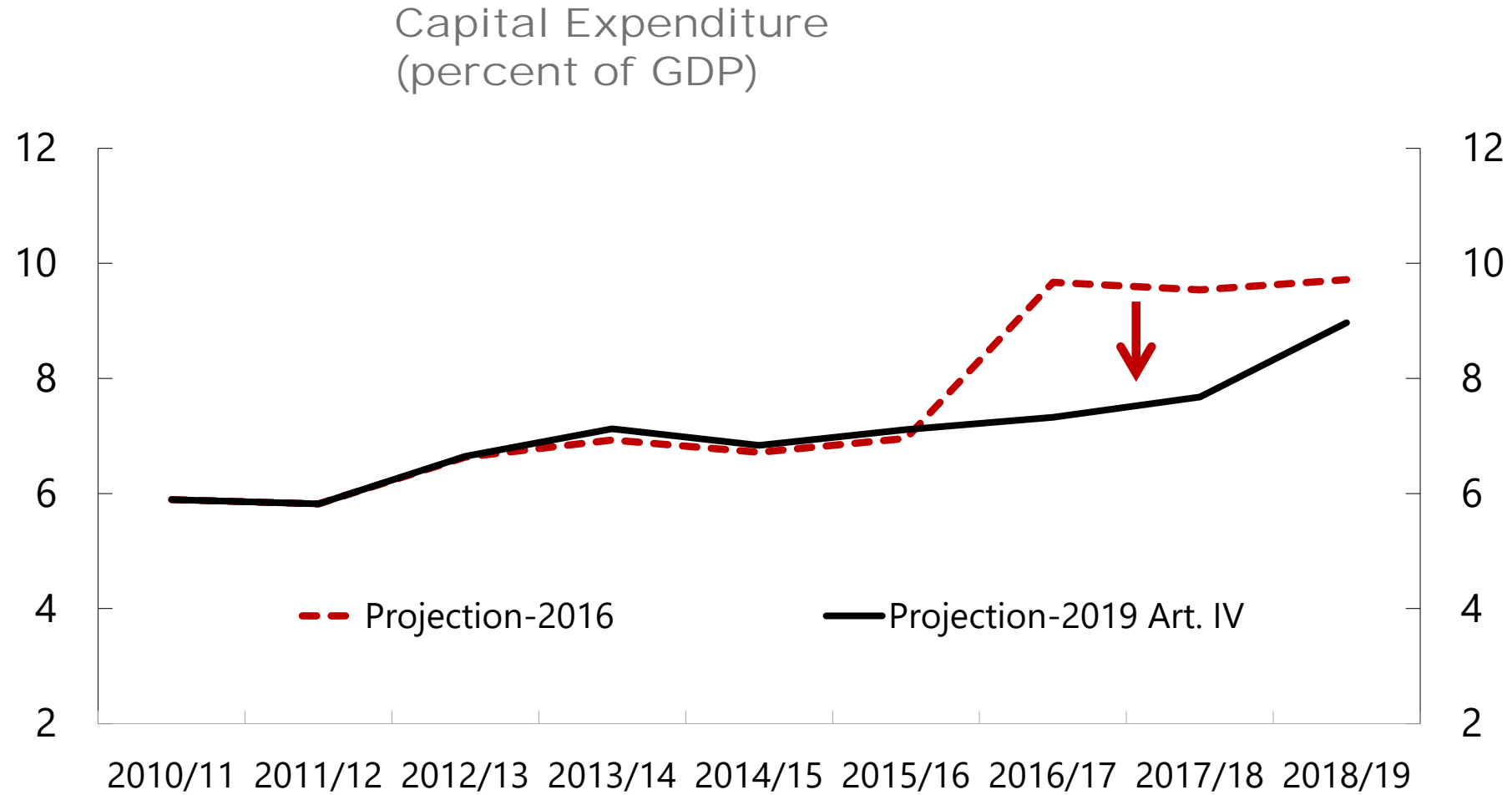
Uganda lacks an effective fiscal anchor

Debt projections are systematically revised up



Sources: Bank of Uganda, Uganda Bureau of Statistics, and IMF staff calculations.

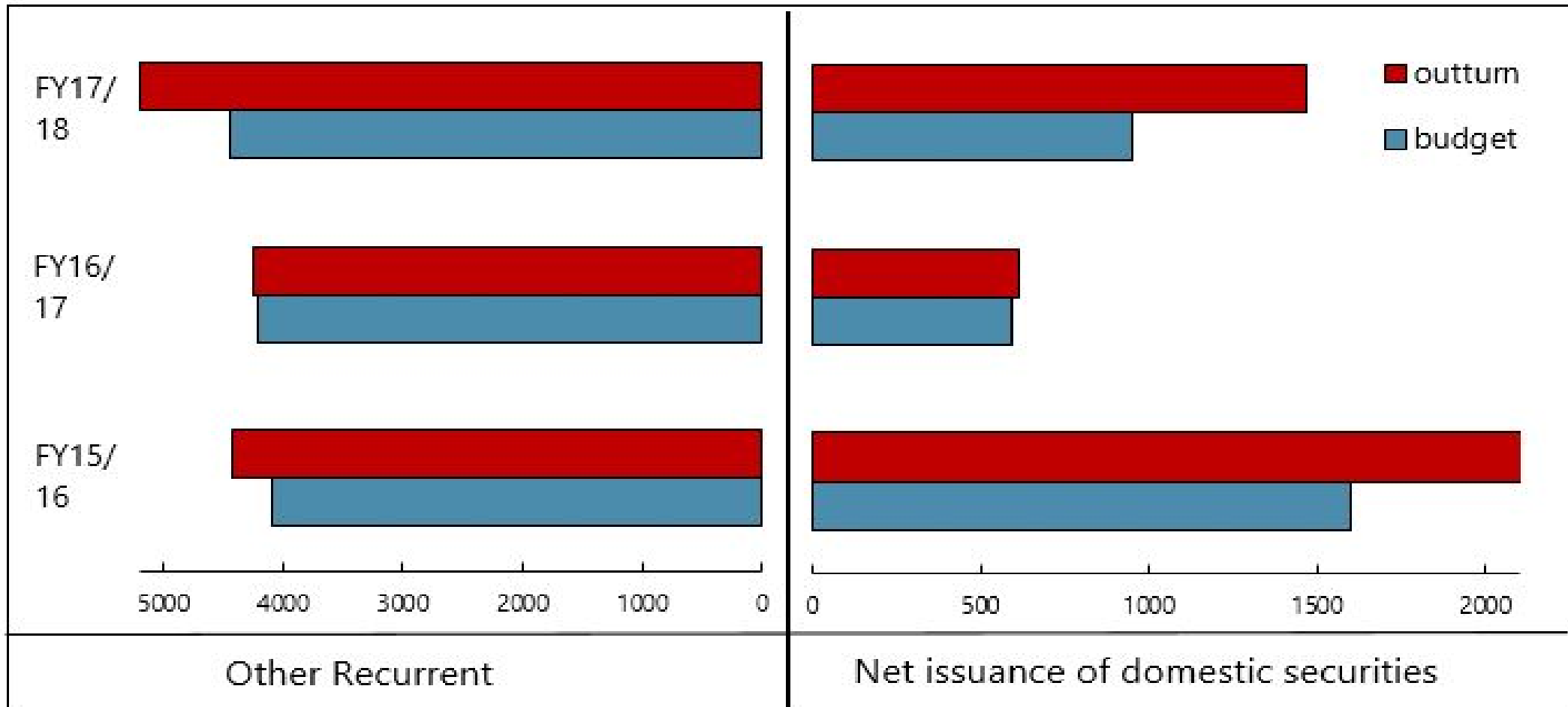
Public investment has fallen short of plans



Sources: Ugandan authorities and staff projections.

Budget is not providing top-down guidance

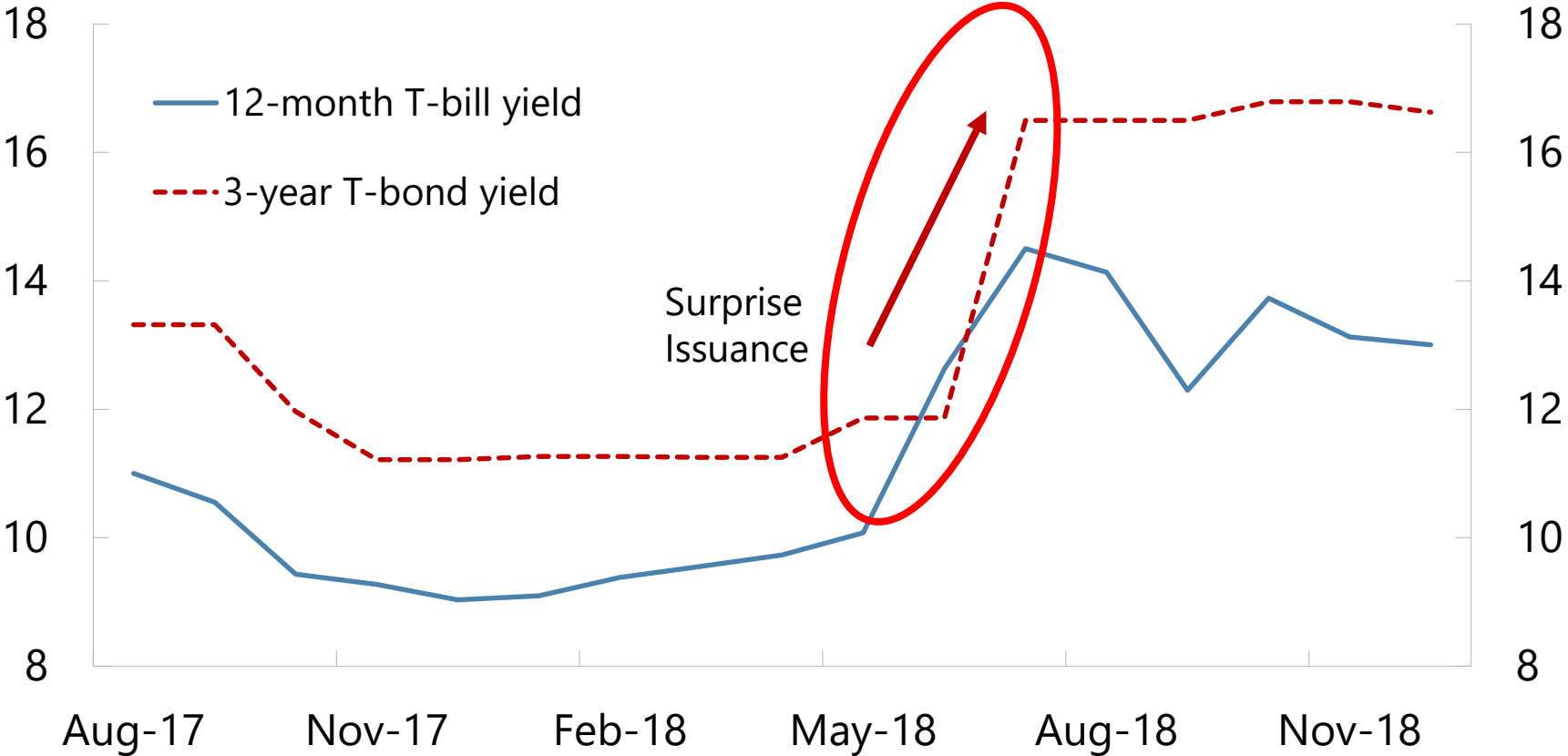
Budget is not providing top-down guidance



Source: Ugandan authorities, and IMF staff calculations.

Surprise issuance push up yields

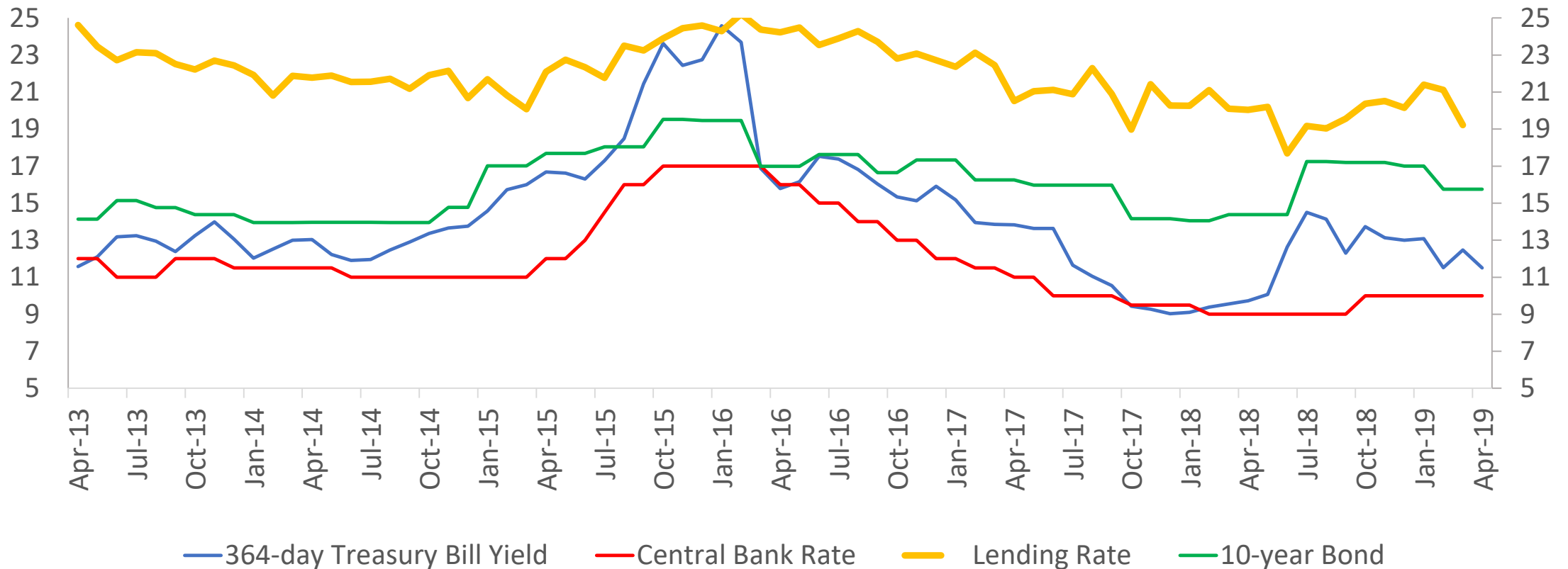
Yield on government securities (percent)



Sources: Ugandan authorities and staff calculations.

Yields on government paper and lending rate

Government Securities Yields, Lending Rate and Central Bank Rate

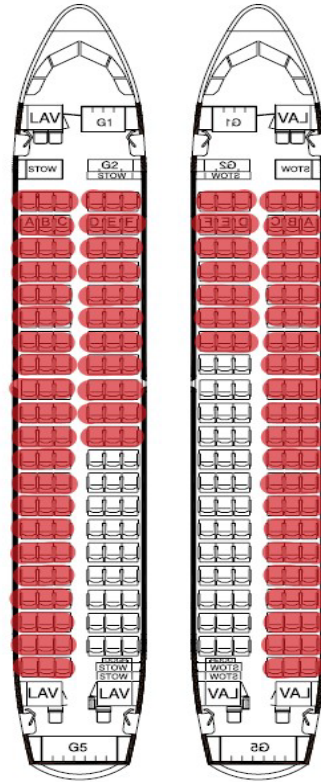


Public investment management

Cost 3x more



Capacity Utilization



Plan
80%

Peer
~70%

Transmission
lines
needed



Spending for inclusive growth—
human capital expenditure is also critical

Declining social sector allocations in FY19/20

EDUCATION



SOCIAL DEVELOPMENT



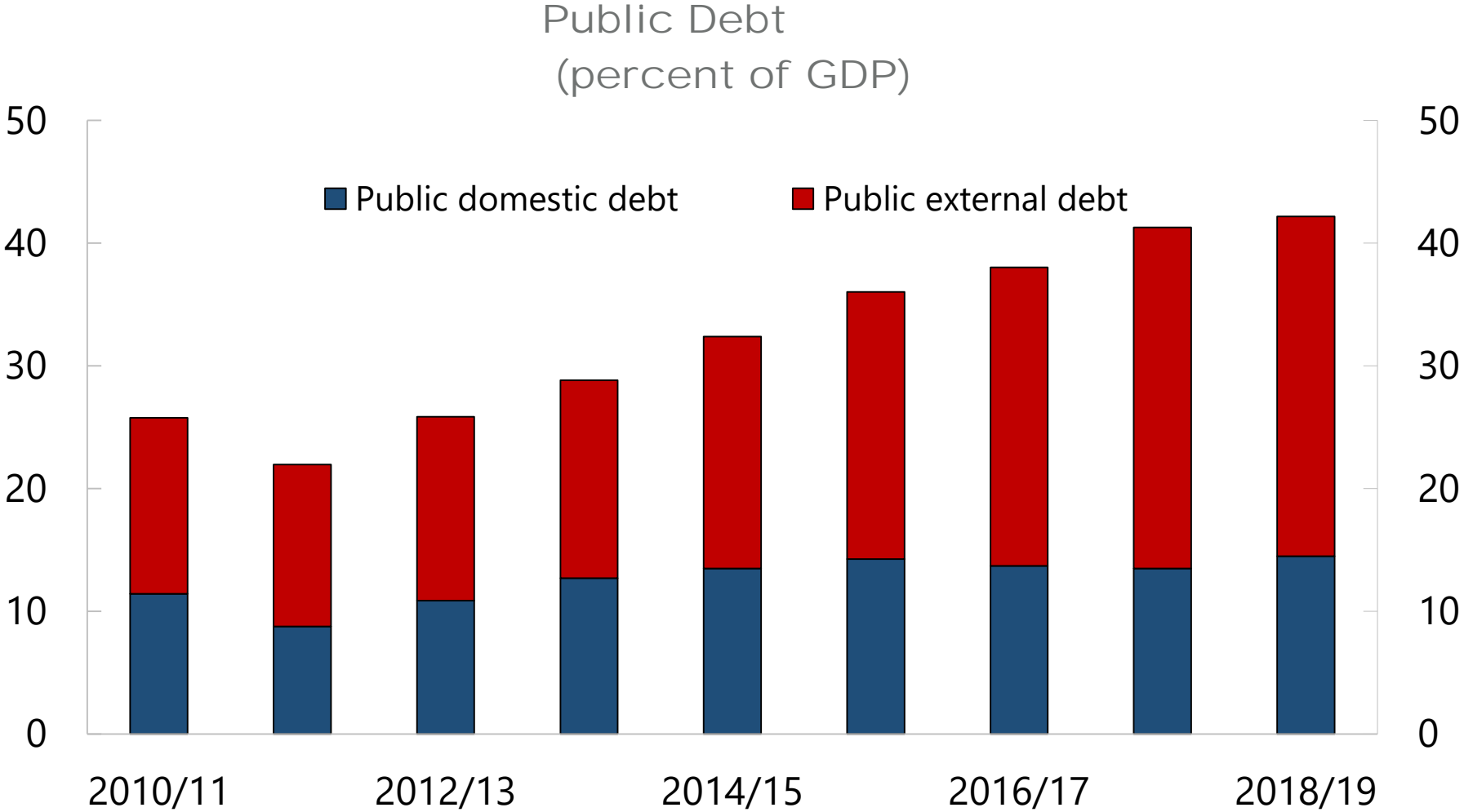
HEALTH



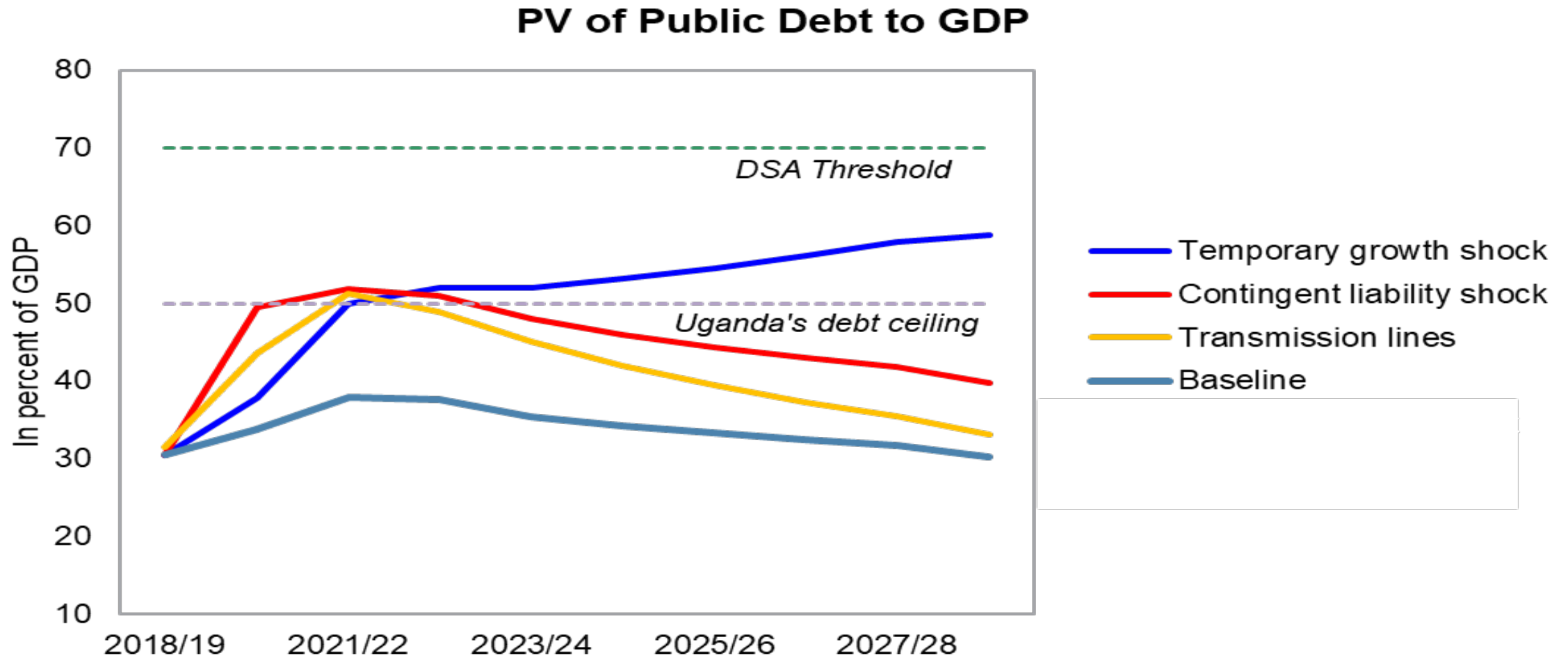
Source: UNICEF; BFP FY19/20 vs. Budget FY18/19.

Uganda remains at low risk of debt distress,
but there are significant vulnerabilities

Public debt has increased

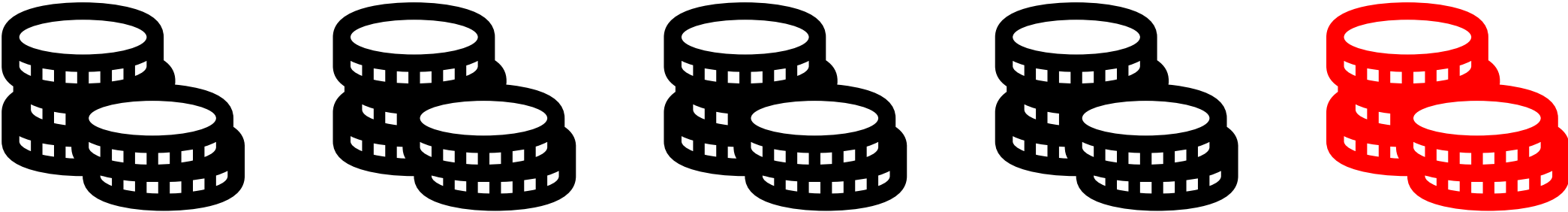


Low risk of debt distress, high vulnerabilities



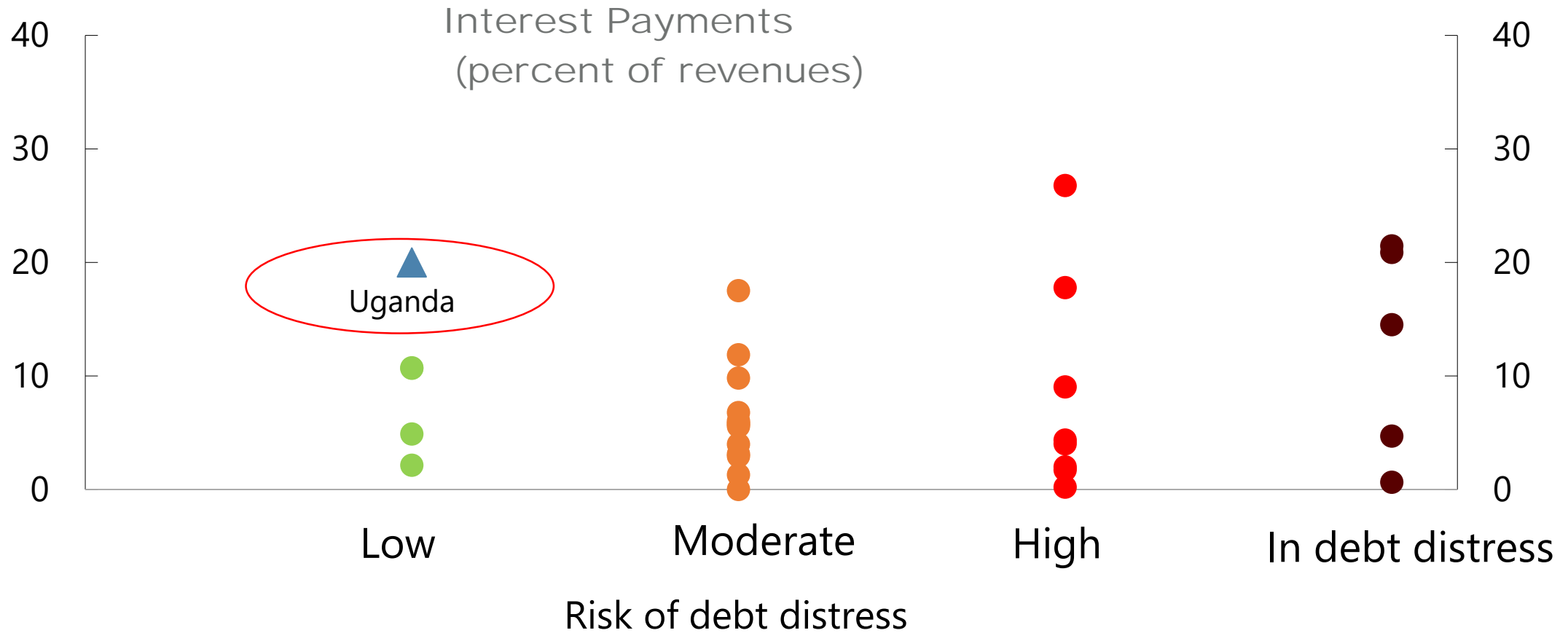
Source: Ugandan authorities; and IMF staff projections.

Low risk of debt distress, high vulnerabilities



One in five shillings collected in revenue is spent on interest payments in FY19/20

Uganda's interest payments on par with countries in debt distress



Notes: Uganda number is for FY19/20. Rest of the countries are from 2018.
Sources: Bank of Uganda. IMF staff calculations.

Assumptions behind the low risk of distress rating



Growth dividend realized



Revenue collection +½ GDP per year



Oil exports by 2023



Infrastructure investment reduced

What could be done

Fiscal anchor:
Keep debt
below 50 % GDP

Spending
quality and
composition

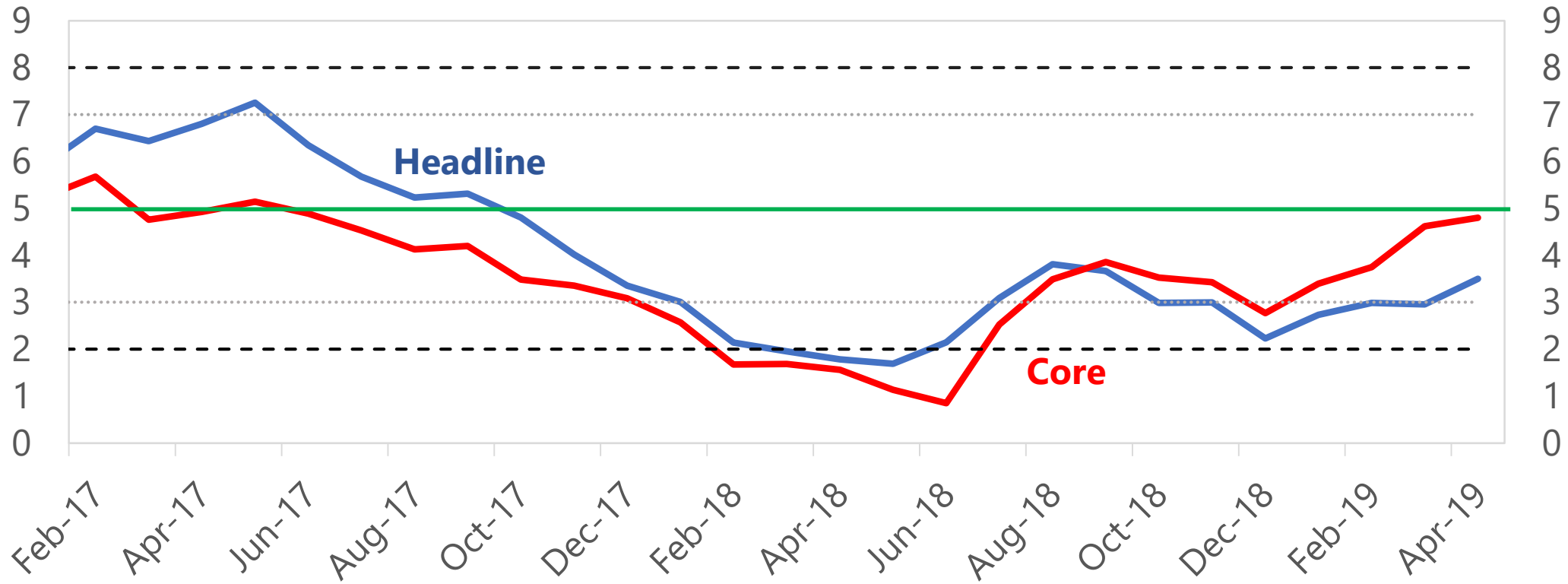
- Defines deficit path
- Adopt domestic revenue strategy
- Determines binding expenditure ceiling
- Develop fiscal rule for oil revenue management

- Public investment management
- Domestic arrears
- Appropriate funding for social sectors

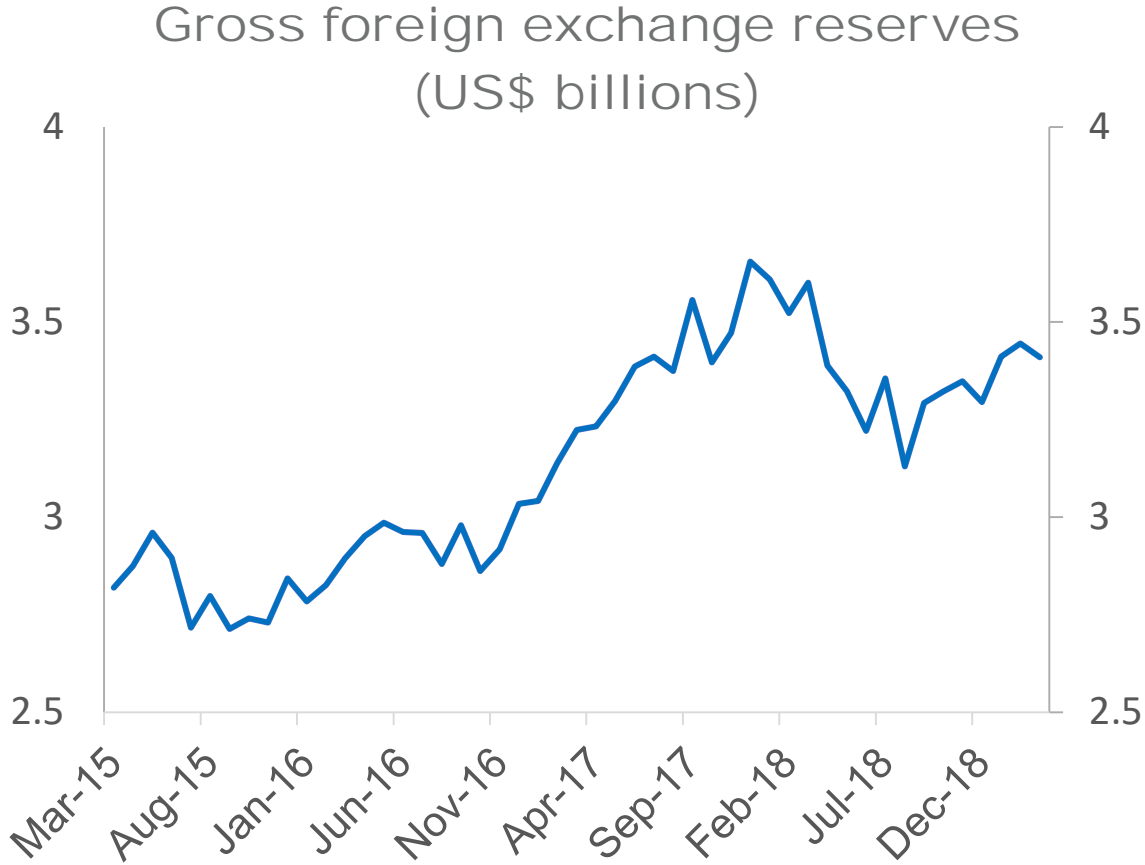
The monetary policy stance is appropriate,
and so is the reserves buffer

The monetary policy stance is appropriate

Inflation Rates
(percent, year on year)



Reserves above adequacy indicators



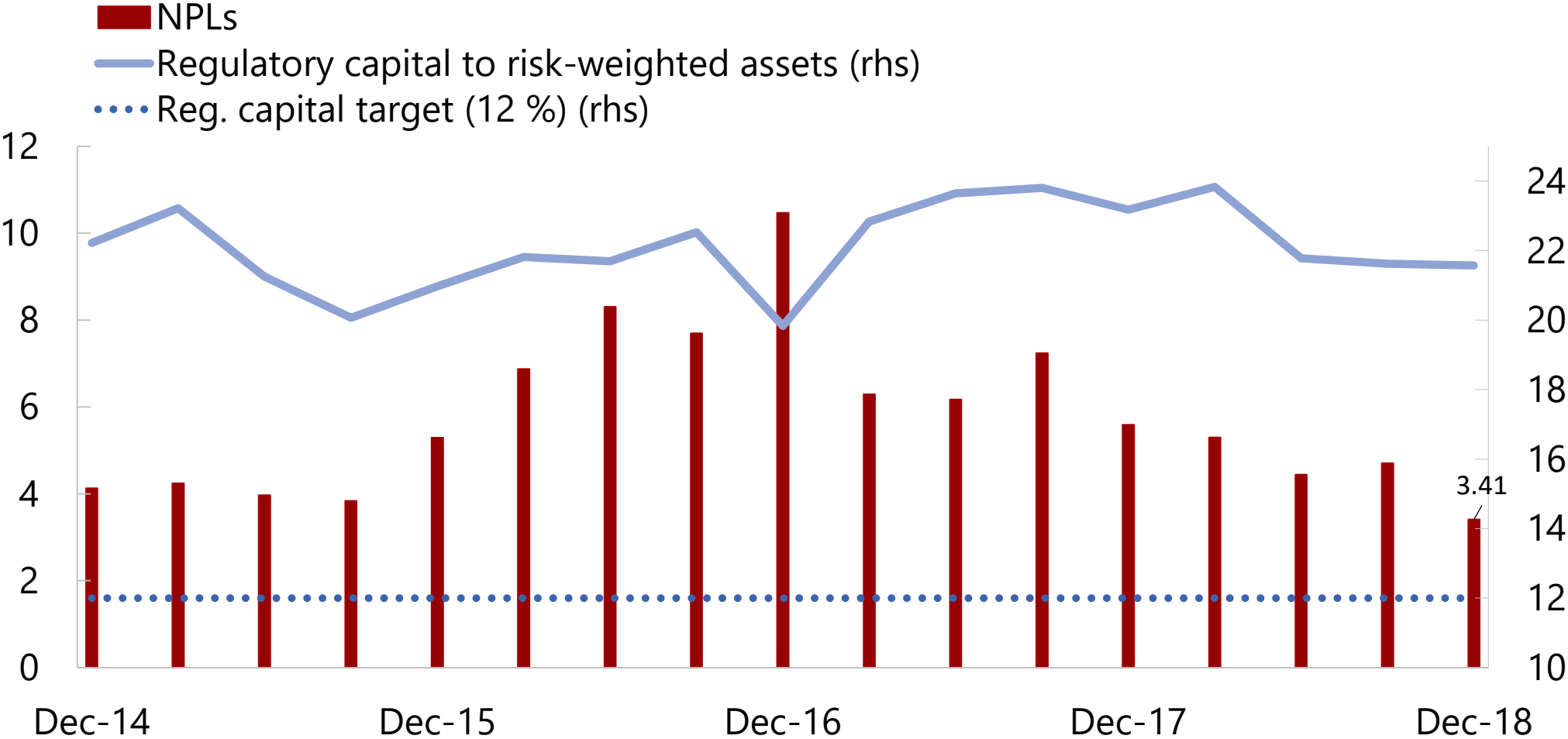
	2018, Actual	Rule
IMF	4.2	2
Import Coverage	4.2	3
Broad Money	73%	20%
ST Debt Coverage	318%	100%

Banking sector health improving

BoU has ensured financial sector stability

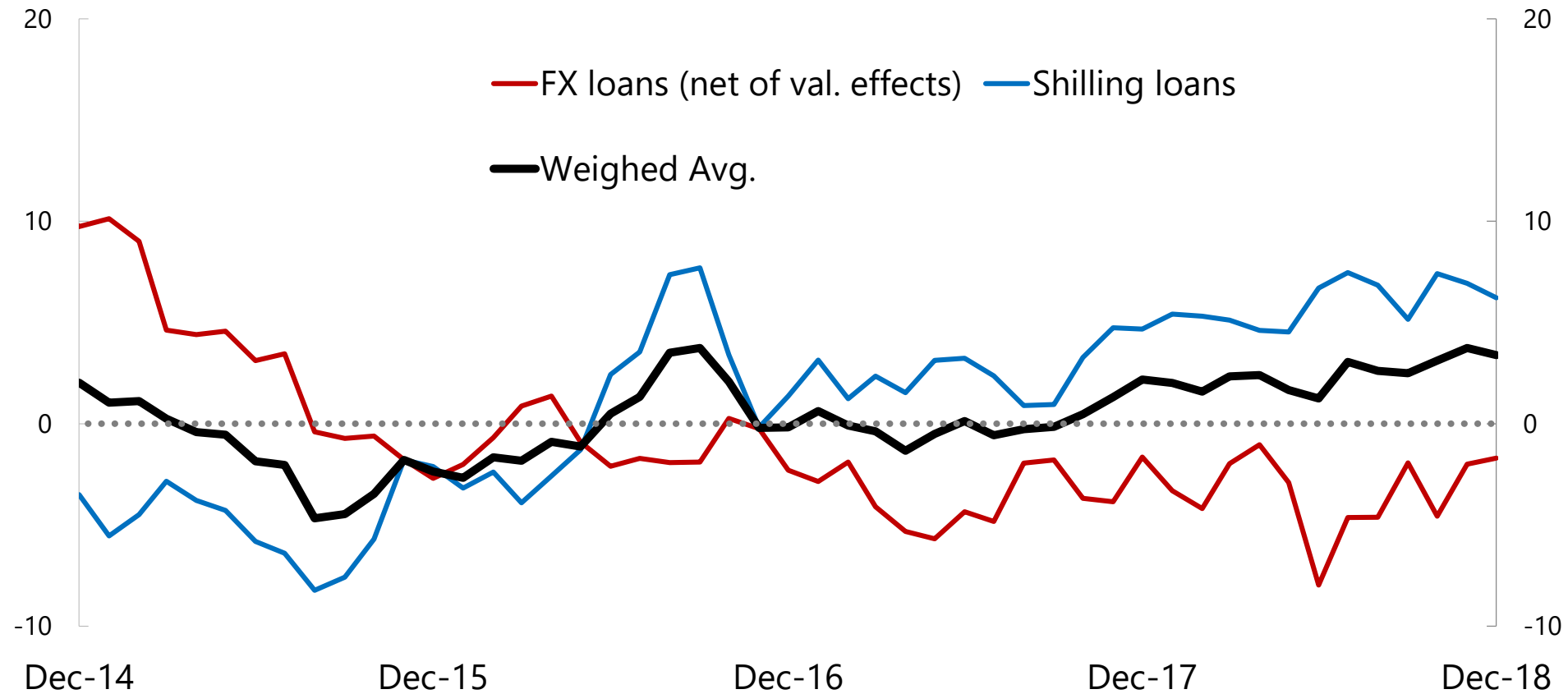
Banking sector health has improved

NPLs as a Share of Total Loans, Capital Adequacy Ratio



Credit growth has gained momentum

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



Banking sector health improving

BoU has ensured financial sector stability

What could be done

Inflation
targeting

- Serves Uganda well
- Stay on hold for now
- Data dependent
- Flexible exchange rate regime

BoU financial
position

- Recapitalize BoU as per law
- Implement MoFPED-BoU MoU
- Review BoU's income and cost structure

Supervision

- Strengthen quality of financial reporting by banks
- Strengthen banks' corporate governance / internal controls
- Strengthen stress testing

All in all...

Medium-Term Macroeconomic Outlook

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	
			<i>Est.</i>			<i>Proj.</i>				
			<i>(Annual percentage change, unless otherwise indicated)</i>							
Real GDP	4.8	3.9	6.1	6.3	6.3	6.2	6.1	6.0	6.6	
Headline inflation (period average)	6.6	5.7	3.4	3.2	4.0	4.8	5.0	5.0	5.0	
Credit to private sector	4.0	5.7	10.5	13.6	11.2	10.2	13.7	13.0	10.4	
			<i>(Percent of GDP, unless otherwise indicated)</i>							
Fiscal overall balance	-4.9	-3.9	-4.8	-5.4	-7.2	-7.4	-6.0	-4.0	-3.6	
of which Capital expenditure	8.7	7.8	8.9	9.6	12.1	11.9	10.8	9.3	9.5	
Public debt	36.0	38.0	41.3	42.2	45.7	49.0	50.7	50.4	48.9	
of which External debt	21.8	24.3	28.7	28.8	31.3	34.1	36.2	36.2	35.8	
Current account	-5.6	-3.7	-6.1	-7.2	-8.9	-9.6	-8.9	-7.0	-4.7	
of which Oil exports	1.7	
Reserves (in months of imports)	5.3	5.2	4.5	4.1	4.0	4.0	4.2	4.3	4.6	

Sources: Ugandan authorities and IMF staff estimates and projections.

Key messages – a recap

- ✓ The economy maintains momentum, and the outlook is favorable
- ✓ The key challenge is to make growth inclusive and ensure stability
- ✓ Uganda lacks an effective fiscal anchor, and the budget does not provide sufficient guidance for top-down resource allocation and spending control
- ✓ Infrastructure investments are positive; protect also human capital development
- ✓ Uganda remains at low risk of debt distress, but there are significant vulnerabilities
- ✓ Inflation targeting and flexible exchange rate continue to serve Uganda well
- ✓ BoU has successfully ensured financial sector stability, including through resolving banks that posed systemic risks

Key policy recommendations

- ✓ Adopt an effective fiscal anchor and strengthen the budget process
- ✓ The fiscal anchor could be keeping debt at 50 percent of GDP in nominal terms, while developing a fiscal rule for managing oil revenues.
- ✓ Finalize and implement the Domestic Revenue Mobilization Strategy
- ✓ Continue strengthening Public Investment Management
- ✓ Support human capital development: provide adequate budget allocations for social sectors, improve efficiency of public services
- ✓ Maintain inflation targeting and the flexible exchange rate

Thank You