INTERNATIONAL MONETARY FUND

IMF Country Report No. 23/229

UGANDA

June 2023

FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUESTS FOR A WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION AND MODIFICATION OF A PERFORMANCE CRITERION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR UGANDA

In the context of the Fourth Review under the Extended Credit Facility Arrangement, the Requests for a Waiver of Nonobservance of a Performance Criterion and Modification of a Performance Criterion and the Financing Assurance Review, 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 June 21, 2023, consideration of the Staff Report on issues related to the IMF arrangement.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 21, 2023, following discussions that ended on June 1, 2023, 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 June 6, 2023.
- A **Debt Sustainability Analysis** prepared by the staffs 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.

Copies of this report are available to the public from
International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR23/223

IMF Executive Board Concludes the Fourth Review Under the Extended Credit Facility Arrangement with Uganda

FOR IMMEDIATE RELEASE

- The Executive Board of the International Monetary Fund (IMF) concluded today the fourth review of Uganda's Extended Credit Facility (ECF). This completion enables the immediate disbursement of the equivalent of SDR 90.25 million (about US$ 120 million). The program aims to support the near-term response to the COVID-19 pandemic and boost more inclusive private sector-led long-term growth. Reforms focus on creating fiscal space for priority social spending, preserving debt sustainability, strengthening governance and reducing corruption, and enhancing the monetary and financial sector frameworks.

- The Ugandan economy is projected to grow by 5.5 percent in FY 22/23 and 6 percent in FY 23/24. Inflation has been declining and is expected to reach the Bank of Uganda's medium-term target of 5% core inflation by end-2023.

- A stronger tightening of global financial conditions would constrain the availability of syndicated loans and weigh on financial sector stability. Fiscal consolidation and tight monetary policy remain essential to keep debt on a sustainable path. Structural reforms will need to continue focusing on strengthening governance and anti-corruption frameworks, enhancing domestic revenue mobilization, and boosting financial inclusion. Together with these initiatives, efforts to increase social spending will also improve prospects for achieving more inclusive, sustainable, private sector led long-term growth.

Washington, DC – **June 21, 2023:** The Executive Board of the International Monetary Fund (IMF) today concluded the fourth review of Uganda's Extended Credit Facility (ECF) Arrangement. Further, the Executive Board granted a waiver of nonobservance of a performance criterion on the ceiling on net credit to the government from the Bank of Uganda (BoU).

The completion of the fourth review enables the immediate disbursement of SDR 90.25 million (about US$ 120 million). This brings the aggregate disbursement under the ECF arrangement to SDR 541.5 million (about US$750 million).

The ECF Arrangement for Uganda for a total of SDR 722 million (200 percent of quota) or about US$1billion was approved by the Executive Board on June 28, 2021 (see Press Release 21/197), aiming to support the near-term response to the COVID-19 pandemic and boost more inclusive private sector-led long-term growth. Reforms focus on creating fiscal space for priority social spending, preserving debt sustainability, strengthening governance and reducing corruption, and enhancing the monetary and financial sector frameworks.

Despite repeated external shocks and tighter financial conditions, the economy is projected to grow by 5.5 percent in FY 22/23 and 6 percent in FY 23/24. Inflation has been declining and is expected to reach the BoU’s medium-term target of 5% core inflation by end-2023. The improved near-term outlook (growth in FY 22/23 has been revised up slightly, and inflation projections are marked down for FY 23/24) reflects the impact of more favorable weather conditions on domestic harvests, the softening of global commodity prices and easing of global demand-supply imbalances, and the lagged effects of monetary and fiscal policy tightening.

Risks to the outlook remain elevated, including from further tightening of external financial conditions, a renewed pickup in inflation which would increase borrowing costs via additional monetary tightening, and a stronger-than-expected drag of higher borrowing costs on private sector credit and investment. The conflict in Sudan could have a negative impact on exports. A stronger tightening of global financial conditions would constrain the availability of syndicated loans and weigh on financial sector stability given that foreign exchange credit accounts for around 30 percent of bank loans. Moreover, the recent signing into law of the ’Anti-Homosexuality Bill, 2023’ could have a larger-than-anticipated impact on the availability of grants and external loans from development partners, as well as Foreign Direct Investment (FDI) flows and tourism.

Fiscal consolidation, tight monetary policy, and continued exchange rate flexibility remain essential to keep debt on a sustainable path, reduce the current account deficit and protect foreign exchange buffers. Structural reforms will need to continue focusing on strengthening governance and anti-corruption frameworks, enhancing domestic revenue mobilization – including through more ambitious rollback of tax expenditures, and boosting financial inclusion. Together with these initiatives, efforts to increase social spending will also improve prospects for achieving more inclusive, sustainable, private sector led long-term growth.

At the conclusion of the Executive Board’s discussion, Mr. Kenji Okamura, Deputy Managing Director and Acting Chair made the following statement:[1]

“The Ugandan authorities remain firmly committed to their economic program amidst a challenging environment. Most quantitative targets were met in December 2022 and March 2023. The Quantitative Performance Criterion (QPC) on the ceiling on the Bank of Uganda (BoU) net credit to government (NCG) was missed by a very small margin in March 2023. All structural benchmarks due between March and June 2023 have been met.

“The full implementation of the Domestic Revenue Mobilization Strategy (DRMS), including the additional tax administrative measures identified by the authorities, is crucial to help maintain the debt-to-GDP ratio on a declining path, and allow for an increase in social spending over the medium term. Increasing the pace of Public Financial Management (PFM) reforms is essential to enhance the capacity to execute social spending in a timely manner. The tax exemption rationalization plan remains an important component of the revenue mobilization effort.

“The banking system is well-capitalized and liquidity has rebounded, but the asset quality of some banks has deteriorated. Against this backdrop, safeguarding financial stability and

[1] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

strengthening the supervisory framework remain paramount. The current monetary policy stance is appropriate, but the BoU should stand ready to resume its tightening if signs emerge of a slower-than-expected disinflation. Exchange rate flexibility remains crucial to preserve external buffers.

“Accelerating the momentum on structural reforms is essential to unlock Uganda’s growth potential and require more proactive efforts. Priorities include enhancing domestic revenue mobilization, strengthening the anti-corruption framework and the AML/CFT regime, advancing the financial inclusion agenda, and climate adaptation measures. The authorities should sustain efforts to improve transparency of implementation of the asset declaration framework including sanctions enforcement for violations.”

Table 1. Uganda: Selected Economic Indicators, FY2020/21-FY2023/24

	FY2020/21	FY2021/22	FY2022/23	FY2023/24
	Act.		Rev. Prog.	
Output				
Real GDP Growth (%)	3.5	4.7	5.5	6.0
Prices				
Headline Inflation - average (%)	2.5	3.4	9.2	5.7
Core Inflation - average (%)	3.5	3.2	7.7	5.3
Central Government Finances				
Revenue and grants (% of GDP)	14.3	14.1	14.7	15.8
Expenditure (% of GDP)	23.7	21.5	19.8	19.3
Primary Balance (% of GDP)	-6.7	-4.3	-1.9	-0.5
Fiscal Balance (% of GDP)	-9.4	-7.4	-5.1	-3.4
Public Debt (% of GDP)	49.0	50.6	48.6	47.8
Money and Credit				
Broad Money (% change)	8.5	10.0	11.3	11.2
Credit to Private Sector (% change)	8.3	11.0	8.9	10.4
Policy Rate, EOP (%)	6.5	7.5	…	…
Balance of Payments				
Current Account Balance (% of GDP)	-9.5	-7.9	-8.6	-8.9
Reserves (in months of next year's imports)	4.9	4.1	3.2	3.1
External Public Debt (% of GDP)	31.6	31.3	30.9	31.2
Exchange Rate				
REER (% change)	0.6	3.7	…	…

Source: Uganda authorities and IMF staff projections

INTERNATIONAL MONETARY FUND

UGANDA

June 6, 2023

FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUESTS FOR A WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION AND MODIFICATION OF A PERFORMANCE CRITERION

EXECUTIVE SUMMARY

Context. The outlook remains challenging. While the economy is recovering from shocks induced by the war in Ukraine and the Ebola outbreak, the recent global market turmoil, and potential spillovers from the conflict in Sudan pose new policy challenges. The authorities have reacted to the shocks with support to vulnerable households, an appropriate monetary policy stance to contain inflation, and fiscal consolidation to contain vulnerabilities.

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. The 1st and the combined 2nd and 3rd reviews under the ECF-supported program were concluded in March 2022 and January 2023, respectively. Full implementation of the program will help support Uganda's economic recovery from the series of external shocks and boost the country's growth potential, thereby contributing to the achievement of the Sustainable Development Goals over the long run.

Program performance. Against the backdrop of a challenging environment, most Quantitative Performance Criteria (QPCs) and Indicative Targets (ITs) were met in December 2022 and March 2023. All structural benchmarks due between March and June 2023 have been met.

Request for non-observance of performance criterion (March 2023). Because of a slight delay in the disbursement of external commercial loans and considering the expected continued successful implementation of the program, the authorities request a waiver for the nonobservance of the March QPC on Bank of Uganda (BoU) net credit to government (NCG) due to the minor nature of the deviation.

Requests for modification of a QPC and ITs. Considering domestic and external developments, including updated financing assumptions, since the conclusion of the combined 2nd and 3rd reviews, the authorities request modifications to: **floors** on primary budget balance of the central government and tax revenues; **ceiling** on PV

of newly contracted external public and publicly guaranteed debt.

- Tax revenue underperformance in the first three quarters of FY22/23 necessitates a downward revision of the floors on tax revenues and the primary budget balance (June IT).

- The requested downward revision of the ceiling on the PV of newly contracted PPG debt reflects the change in the government's borrowing plans (June and December IT, September QPC).

Risks to the program. A further tightening of external financial conditions, a slower-than-expected disinflation which would necessitate more domestic monetary policy tightening and higher interest rates, a larger-than-expected impact of the Anti-Homosexuality Bill 2023 on donor funding, FDI and income from tourism, and spillovers from the conflict in Sudan represent the main near-term risks. Uganda's moderate level of public debt and continued access to concessional financing would provide space to achieve program objectives.

Approved By
Catherine Pattillo (AFR) and Eugenio Cerutti (SPR)

The mission team consisted of Mr. Nabar (head), Messrs. Abdel-Latif, Bannister, Csonto and Melina (AFR), Ms. Khandelwal (AFR), Ms. Zhang (SPR), Ms. Huang (MCM), and Ms. Duasing and Mr. Robinson (LEG). The mission was assisted by Ms. Karpowicz (Resident Representative) and Ms. Sozi (local economist). Mr. Nakunyada, Executive Director IMF, joined the concluding meeting. Ms. Basutli (OED) participated in official meetings. Discussions were held in Kampala during April 24-28, 2023, and remotely from Washington D.C. during May 3-June 1, 2023. The team met with Mr. Kasaija, Minister of Finance, Planning and Economic Development, Mr. Ggoobi, Permanent Secretary and Secretary to the Treasury, 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 development partners. Ms. Abu Sharar provided excellent assistance for the preparation of this report.

CONTENTS

CONTEXT 5

RECENT DEVELOPMENTS 5

PROGRAM PERFORMANCE 8

MACROECONOMIC OUTLOOK AND RISKS 9

POLICIES 10

A. Implementing High-Quality Fiscal Support 11

B. Controlling Inflation 15

C. Preserving External Buffers 15

D. Safeguarding Financial Sector Stability and Reforming the Financial Sector 15

E. Focusing Structural Reforms on Governance and Private Sector Development 17

PROGRAM MODALITIES AND OTHER ISSUES 17

STAFF APPRAISAL 19

FIGURES

1. Real Sector Developments 22
2. External Sector Developments 23
3. Fiscal Developments 24

4. Monetary Developments 25
5. Financial Sector Developments 26
6. Other Financial Sector Developments 27

TABLES

1. Selected Economic and Financial Indicators, FY2020/21-2026/27 28
2a. Fiscal Operations of the Central Government, FY2020/21-2026/27 (Billions of Ugandan Shillings) 29
2b. Fiscal Operations of the Central Government, FY2020/21-2026/27 (Percent of GDP) 30
3. Monetary Accounts, FY2020/21-2026/27 31
4a. Balance of Payments, FY2020/21-2026/27 (Millions of U.S. Dollars, unless otherwise indicated) 32
4b. Balance of Payments, FY2020/21-2026/27 (Percent of GDP, unless otherwise indicated) 33
5. Banking Sector Indicators, March 2020-December 2022 34
6. Access and Phasing Under the ECF Arrangement 35
7. External Financing Requirements, FY2020/21-2026/27 36
8a. Projected External Borrowing Program FY2022/23 (July 1, 2022 to June 30, 2023) 37
8b. Projected External Borrowing Program FY2023/24 (July 1, 2023 to June 30, 2024) 38
9. Indicators of Capacity to Repay the IMF, 2021-30 39
10. Decomposition of Public Debt and Debt Service by Creditor, FY2021/22-FY2023/24 40

ANNEXES

I. Risk Assessment Matrix 41
II. Inflation Developments and Outlook 44
III. Monetary Policy 46
IV. Imports: Trends and Drivers 48

APPENDICES

Appendix I. Letter of Intent 50
Attachment I. Memorandum of Economic and Financial Policies 52
Attachment II. Technical Memorandum of Understanding 75

CONTEXT

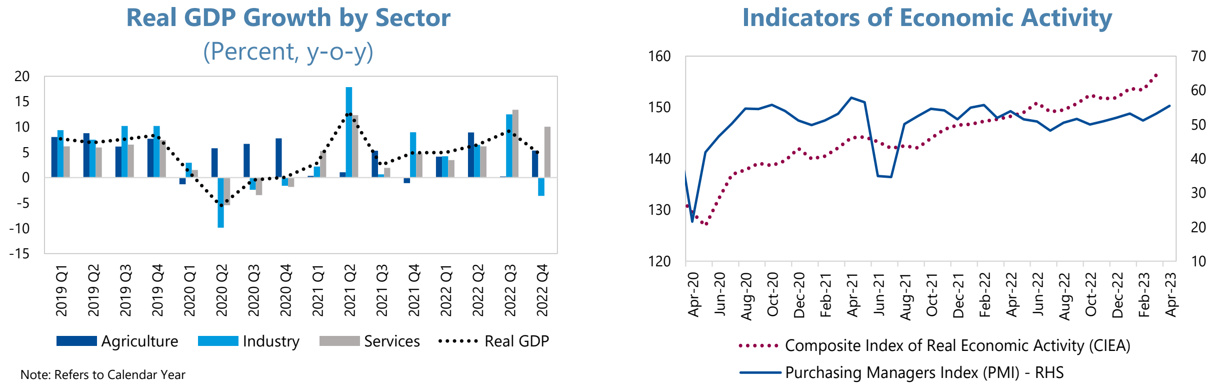
1. Macroeconomic outlook. The economy is recovering from shocks induced by the war in Ukraine and the Ebola outbreak, which affected tourism. Robust industrial activity and services have supported growth while unfavorable weather conditions for agriculture have improved. Inflation appears to have peaked. Thanks to a strong public health effort, the recent Ebola outbreak was declared concluded in January. The growth outlook is slightly more favorable in the near-term relative to the combined 2nd and 3rd reviews, while the end-2023 and FY23/24 inflation projections have been marked down. The current account deficit remains elevated and external financial conditions continue to be tight, reflecting the uncertain outlook for global financial conditions and risk sentiment. The global financial market turmoil that began in March could further tighten external financial conditions if it persists, and the conflict in Sudan could hurt exports and exert further pressure on the balance of payments.

2. Program performance. Most quantitative targets for December 2022 and March 2023 were met. The authorities request a waiver for nonobservance of the end-March QPC on the ceiling on BoU net credit to the government (NCG) that was missed by a very small margin (1 percent above the ceiling) as a slight delay in the disbursement of external commercial loans necessitated a lower-than-planned repayment of BoU advances by the government. Also, end-March ITs on social spending and tax revenue floors were missed. Reform momentum continues, with all structural benchmarks (SBs) due between March and June 2023 met.

RECENT DEVELOPMENTS

3. The economic recovery is gaining strength. Economic activity was strong in the first six months of FY22/23—reflecting robust industrial activity and services, while unfavorable weather conditions weighed down on agricultural output. Thanks to the strong public health effort to rapidly contain the Ebola outbreak and improved weather, high frequency indicators pointed to continued steady growth in recent months, lifted by robust new orders.

Text Figure 1. Economic Activity

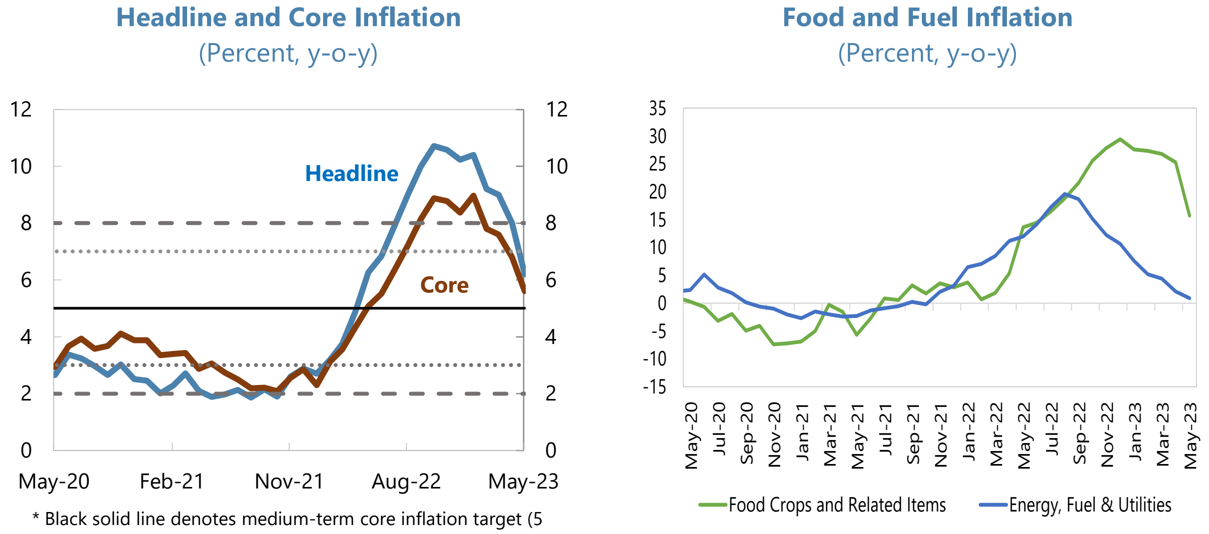


Source: Haver and IMF staff calculations

Source: Haver and IMF staff calculations

4. Inflation has been declining. Year-on-year CPI inflation came in at 6.2 percent in May 2023, down from its peak of 10.7 percent in October 2022, and has been declining for the past four months. Core inflation (excluding food crops and energy) decelerated to 5.6 percent y-o-y in May from its peak of 9.0 percent in January (Annex II).

Text Figure 2. Inflation



Headline and Core Inflation
(Percent, y-o-y)

Food and Fuel Inflation
(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.

Source: BoU and IMF staff calculations

Source: Haver and IMF staff calculations

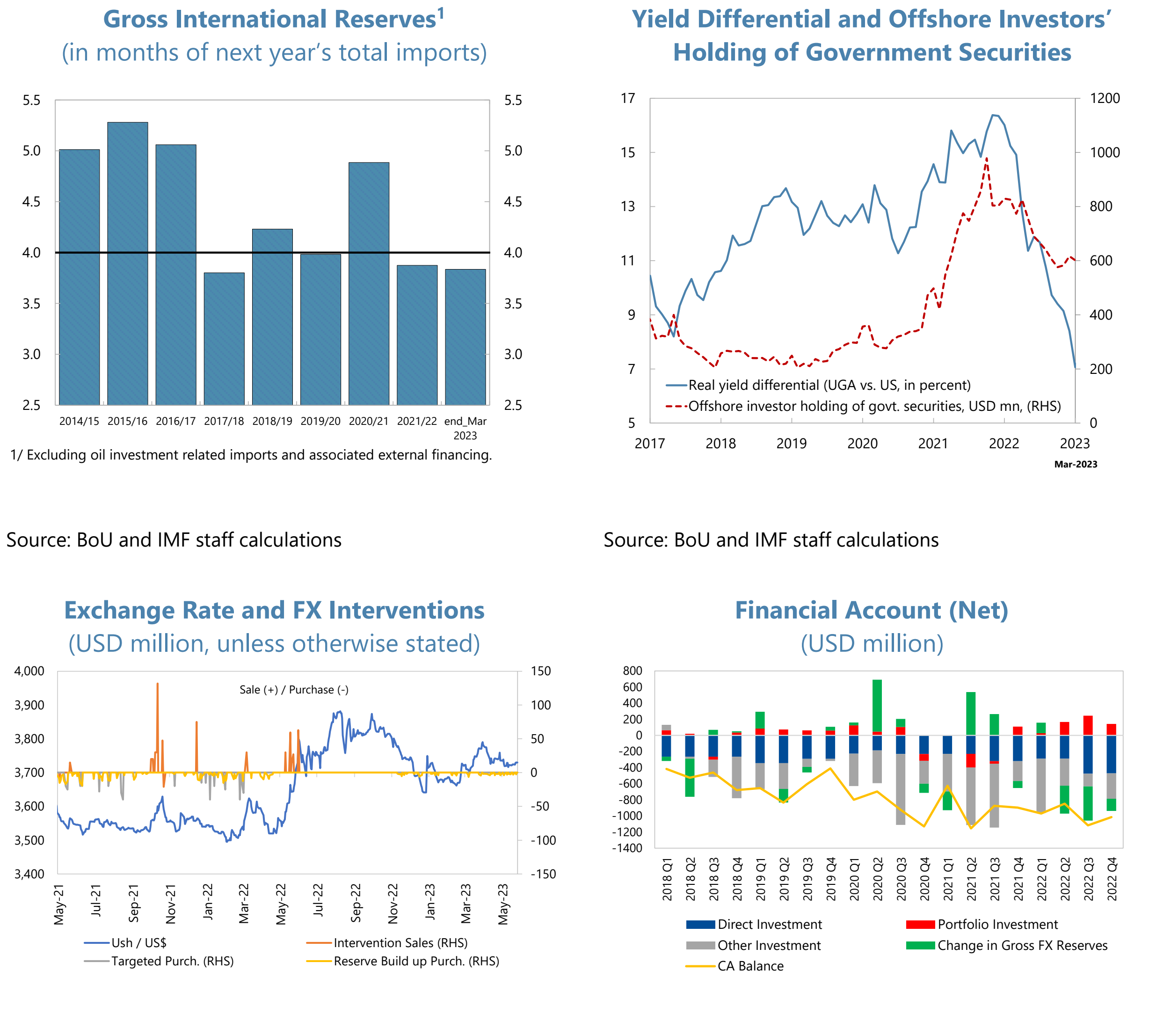
5. The current account deficit remains elevated. The current account deficit widened in Q3:2022, mainly reflecting a decline in tourism receipts and higher imports, partly offset by the recovery of goods exports. The terms of trade improvement following the softening of global oil and metals prices helped narrow the deficit somewhat in Q4:2022, and recent data suggests a further increase in exports in Q1: 2023. FDI and other investment inflows picked up, but portfolio outflows continued. Foreign holdings of government bonds dropped as rising domestic inflation and higher advanced economy interest rates compressed the sovereign real yield differential.

6. FX reserves have stabilized. Following the sharp decline from US$4.1 billion in June 2022 to US$3.5 billion in October 2022, reserves have stabilized since Q4:2022 at around US$3.6 billion on the back of modest FX purchases (facilitated by year-end seasonal inflows and the January ECF disbursement for the combined 2nd and 3rd reviews). The shilling rebounded from the large depreciation (about 9 percent against the US dollar) since the start of the war in Ukraine, before weakening in recent weeks amid higher global financial volatility. By end-April 2023, the shilling depreciated 5.8 percent against the US dollar yoy, while the REER has appreciated 5.7 percent yoy[1]

[1] Data as of March 2023.

(reflecting larger nominal depreciation of trading partners) and is above the level consistent with long-term fundamentals.[2]

Text Figure 3. External Developments



Gross International Reserves[1]
(in months of next year's total imports)

1/ Excluding oil investment related imports and associated external financing.

Source: BoU and IMF staff calculations

Yield Differential and Offshore Investors' Holding of Government Securities

Source: BoU and IMF staff calculations

Exchange Rate and FX Interventions
(USD million, unless otherwise stated)

Source: BoU and IMF staff calculations

Financial Account (Net)
(USD million)

Source: BoU and Haver

7. Private sector credit growth remains subdued. Private sector credit growth moderated to 9.8 percent (yoy) in Q1:2023 from 10.2 percent in Q4:2022. This reflects, in part, risk aversion of financial institutions, as the banking sector's non-performing loan (NPL) ratio slightly increased to 5.8 percent in March 2023 from 5.4 percent in December 2022 while banks continued to write off

[2] The 2022 ESA assessed the shilling to be stronger than the level consistent with medium-term fundamentals and desired policies.

the bad loans proactively. Furthermore, credit demand has softened due to higher borrowing costs (given the increase in the policy rate and the interbank rate).

8. **Monetary policy tightening is on hold.** After hiking the policy rate by 350 basis points between June and October 2022 and raising the cash reserve ratio by 2 percentage points in June 2022, the BoU has paused its current tightening cycle as it assesses core inflation has peaked and is likely to come down to the medium-term target by end-2023 (Annex II). Relative to the projections at the time of the combined 2nd and 3rd reviews, the end-2023 core inflation forecast of 5 percent is 2 percentage points lower (see paragraph 14 below). With the unchanged nominal policy rate, the lower expected inflation means that the current ex-ante real policy rate of around 5 percent is about 200 basis points higher than at the time of the 2nd and 3rd reviews. The current stance is broadly neutral (Annex III).

9. **Fiscal consolidation continues.** Following the 7.4 percent of GDP fiscal deficit in FY21/22 (slightly below the program target of 7.5 percent of GDP), budget execution remains on track to achieve the 5.1 percent deficit target for FY22/23. In the first three quarters of FY22/23, the fiscal deficit was 72 percent of the amount projected for the whole fiscal year. Relative to the full-year target, domestic revenues and spending were about 70 percent while grants were 45 percent. After the expenditure retrenchment in Q1:FY22/23 amid revenue uncertainty and tight global financing conditions, budget execution in Q2 and Q3 caught up broadly as planned. While public debt has increased in recent years, at 50.6 percent of GDP (including outstanding BoU advances), its level at end-FY21/22 was lower than projected at the time of the 1st program review, mainly due to higher nominal GDP.

10. **The roll out of the Parish Development Model (PDM)—a subnational transfer program aimed at supporting rural communities—has commenced.** The PDM aims at providing parishes cash for lending to subsistence households through Savings and Credit Cooperative Organizations (SACCOs) and limiting the increase in the poverty headcount ratio (over 40 percent of the population lives on less than $1.90 a day). About 90 percent of SACCOs have now received the planned funds in their accounts, completed their first general meeting, elected leaders and appointed bank account signatories. However, less than 5 percent of SACCOs have completed the training and internal audit required to start disbursing funds. Therefore, only about 3 thousand households have accessed PDM loans so far. The number of beneficiaries is expected to increase as more SACCOs satisfy the training and auditing requirements, planned to be completed in FY23/24.

PROGRAM PERFORMANCE

11. **Most end-December and end-March quantitative targets were met (MEFP ¶10-11 and Table 1)**. The floors on the primary balance and net international reserves (NIR), and the ceiling on the PV of newly contracted external public and publicly guaranteed debt (PPG) were all met in December (IT) and March (QPC). The ceiling on BoU net credit to the government (NCG) was met in December (IT) and missed by a very small margin (1 percent above the ceiling) in March (QPC) as a slight delay in the disbursement of external commercial loans necessitated a lower-than-planned

repayment of BoU advances by the government. The authorities request a waiver for nonobservance of the end-March QPC on BoU NCG. There was no accumulation of external arrears. The ITs on inflation, repayment of domestic arrears, and support to vulnerable households were met in December and March. The IT on tax revenues was missed on both test dates, mainly reflecting lower-than-anticipated collection of corporate taxes. The IT on social spending was met in December but missed by a small margin (4.8 percent below the floor) in March given PFM and expenditure execution capacity constraints, despite release of funds early in the quarter. Looking forward, the end-June IT on the social spending floor will likely not be met.

12. **All 6 SBs with deadlines between January and June 2023 were met and the structural reform agenda is progressing (MEFP ¶12 and Table 2a).** The SB on establishment of legal and regulatory mechanisms for timely access to accurate basic and beneficial ownership information for legal entities was met in January (SB end-March 2023). The SB on tools for risk-based AML/CFT supervision of the financial sector, reprogrammed to end-May 2023, was also met. The Treasury memoranda that explain how weaknesses raised by the FY20/21 audit will be addressed have been issued (SB end-May 2023). The medium-term ICT strategy supported by a plan for the procurement of a new Integrated Tax Administration System was completed (SB end-May 2023). The financial inclusion module in the PDM information system has been rolled out in various districts and reports on last-mile usage by subsistence household beneficiaries have been prepared based on the rollout (SB end-June 2023). Moreover, the report on decisions arising from investigations into unauthorized spending that led to sanctions was posted on the MoFPED website (SB end-June 2023). Finally, the authorities are making progress towards implementing future SBs.

MACROECONOMIC OUTLOOK AND RISKS

13. **The growth outlook is slightly better in the near term and broadly unchanged over the medium term relative to the combined 2nd and 3rd reviews.** The real GDP growth outlook has been revised upward from 5.3 to 5.5 percent for FY22/23 reflecting higher-than-expected outturns in H1:FY22/23 and remains unchanged at 6 percent for FY23/24. Over the medium term, growth is projected to return to its pre-pandemic trend of 6-7 percent, based on governance reforms boosting confidence and private investment, development of the oil sector, and more efficient and productive government spending.

14. **The outlook for core inflation has improved relative to the combined 2nd and 3rd reviews.** Core inflation is projected to decline to the 5-percent target by end-2023 as the BoU's monetary policy tightening, recently improved domestic harvests, and softer global commodities prices are expected to contribute to disinflation (Annex II).

15. **There is high uncertainty around growth and inflation forecasts**, however, mainly related to the evolution of global commodity prices, the pace of monetary policy tightening globally and domestically, financial conditions (including movements in risk premia and the exchange rate), and potential spillovers from the conflict in Sudan.

Text Table 1. Uganda: Key Economic Indicators

	2020/21	2021/22	2022/23		2023/24		2024/25	2025/26	2026/27
	Act.	Act.	2nd-3rd review	Rev. Prog.	2nd-3rd review	Rev. Prog.	Proj.		
Real GDP growth (percent)	3.5	4.7	5.3	5.5	6.0	6.0	6.6	7.1	7.0
Core inflation, average (percent)	3.5	3.2	7.5	7.7	6.8	5.3	5.0	5.0	5.0
Credit to non-government sector (percent nominal growth)	8.3	11.0	8.3	8.9	12.8	10.4	11.8	12.7	13.8
Overall fiscal balance (percent of GDP)	-9.4	-7.4	-5.1	-5.1	-3.5	-3.4	-3.4	-3.3	-2.7
Public debt (percent of GDP)	49.0	50.6	50.9	48.6	49.6	47.8	46.8	45.6	43.9
Current account balance (percent of GDP) 1/	-9.5	-7.9	-7.1	-6.7	-5.7	-4.2	-4.0	-4.3	-3.2
Gross International Reserves (months of imports) 1/	4.9	4.5	3.7	3.8	4.0	4.0	4.2	4.9	4.9

Source: Uganda authorities and IMF staff estimates and projections

1/ Excluding oil project financing and investment related imports and exports.

16. **Risks to growth are tilted to the downside (Annex I).** Key risks to the outlook include further tightening of external financial conditions, a renewed pickup in inflation which would increase borrowing costs via additional monetary tightening, stronger-than-expected drag of higher borrowing costs on private sector credit and investment, and the potential negative impact of the conflict in Sudan on exports. A stronger tightening of global financial conditions would constrain the availability of syndicated loans and weigh on financial sector stability given that FX credit accounts for around 30 percent of bank loans. Moreover, the recent signing into law of the 'Anti-Homosexuality Bill, 2023' could have a larger-than-anticipated impact on the availability of grants and external loans from development partners, as well as FDI flows and tourism. New public health challenges, such as the Marburg virus identified near the border with Tanzania, are also a potential concern. Over the medium-term, slower-than-expected reform implementation could lead to weaker growth and worse fiscal and balance of payment outcomes than in the baseline. With mostly rain-fed agriculture, Uganda remains vulnerable to climate shocks. An upside risk is from a higher-than-expected impact on spending and growth from the PDM. Faster trade integration within the region could also generate positive effects on medium-term growth potential and lift near-term prospects through higher investment.

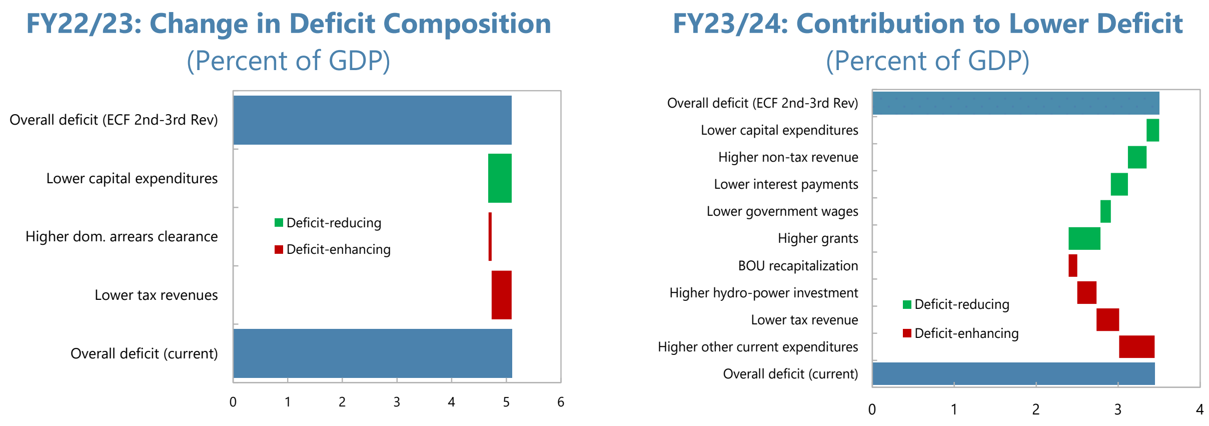
POLICIES

The fiscal deficit will continue to shrink, slightly more than envisioned in the combined 2nd and 3rd reviews, facilitating the decline in the government debt/GDP ratio and slightly contributing to rebuilding reserve buffers. The improvement of spending composition in favor of social spending has slowed down relative to the previous program review. In order to address tax revenue under-performance, the authorities will implement additional revenue mobilization measures in FY23/24—supplemented with higher non-tax revenue—than programmed at combined 2nd and 3rd reviews. The monetary policy stance should depend on the evolution of price expectations and price pressures, and the BoU should stand ready to resume tightening if signs of slower-than-expected disinflation reemerge. Further reduction of government imports financed by FX reserves, together with exchange rate flexibility, will be crucial for rebuilding external buffers and will support needed exchange rate adjustment to restore external balance. Medium-term policies should continue to focus on preserving debt sustainability while creating space for social spending, advancing reforms to improve governance and reduce corruption vulnerabilities, and raising potential growth.

A. Implementing High-Quality Fiscal Support

17. FY22/23 budget execution will remain at the target agreed at the combined 2nd and 3rd reviews. The 5.1 percent headline deficit target strikes the right balance between providing near-term support to the economy and ensuring that debt remains on a sustainable path over the medium term. To maintain the headline deficit at the agreed target (Text Figure 4), the authorities will balance the under-performance of tax revenues (currently projected to be 0.4 percent of GDP lower than at the combined 2nd and 3rd reviews) and the higher domestic arrears clearance (0.1 percent of GDP) by curbing non-priority capital expenditures (0.5 percent of GDP). Lower domestic revenue projections are driven by quarterly outturns reflecting lower-than-expected tax collection, primarily of corporate taxes, due to lower-than-expected yields of implemented tax administrative measures. Quarterly outturns indicate under-execution of social spending by relevant agencies in the health and education sectors, due to PFM constraints. Therefore, by end-FY22/23 social spending is expected to total 22 percent of total spending, 0.2 percent of GDP lower than projected at the combined 2nd and 3rd reviews (Text Figure 5).

Text Figure 4. FY2023/24 Fiscal Deficit - Deviation from Combined 2nd-3rd Reviews



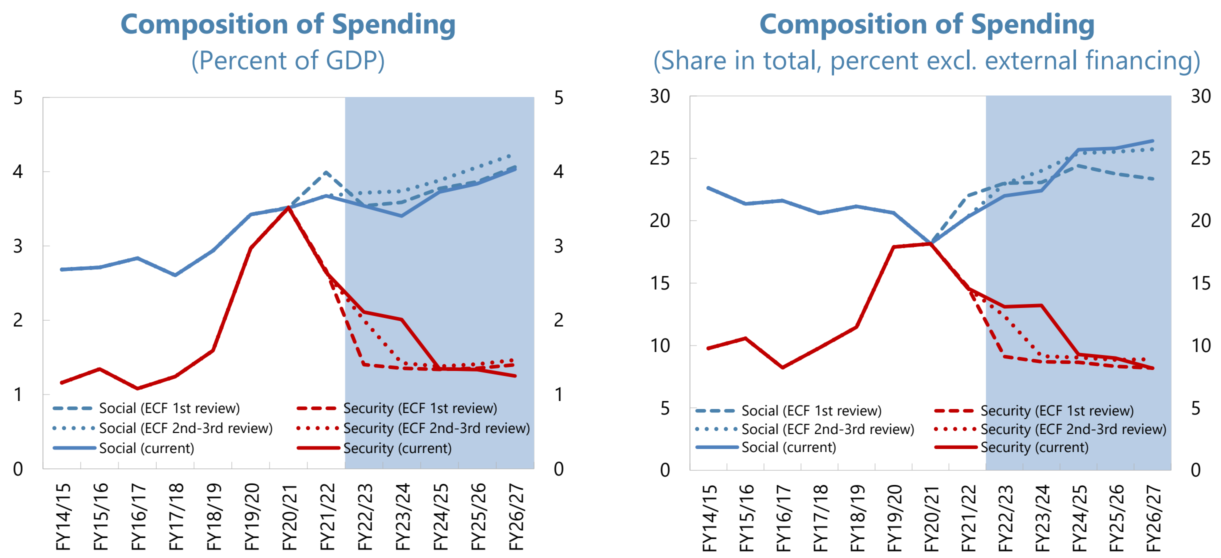
FY22/23: Change in Deficit Composition
(Percent of GDP)

FY23/24: Contribution to Lower Deficit
(Percent of GDP)

Source: Ugandan authorities and IMF staff calculations

18. In FY23/24, the fiscal deficit will be slightly smaller than envisaged at the combined 2nd and 3rd reviews, contributing to keep government debt on a sustainable path and help rebuild reserve buffers (MEFP ¶15). In FY23/24, the fiscal deficit will be 0.1 percent of GDP smaller than envisaged at the conclusion of the combined 2nd-3rd reviews (Text Figure 4). Deficit-enhancing factors (totaling 1 percent of GDP) include lower tax revenues, higher hydropower investment, higher other current expenditures and BoU recapitalization (owing in part to losses on FX-denominated bonds amid rising foreign interest rates). This will be more than offset by higher nontax revenues and grants, lower interest payments and lower government wages and capital expenditures than envisaged at 2nd – 3rd reviews (totaling 1.1 percent of GDP). Continued consolidation efforts will facilitate the decline in the debt/GDP ratio (see DSA), keep a lid on debt service costs, and avoid the crowding-out of private-sector credit and investment. Taking into account incomplete absorption of funds by relevant agencies, social spending is expected to increase to 22.4 percent of total spending, a slower pace than envisaged at the 1st and the combined 2nd-3rd reviews (equivalent to 0.3 percent of GDP lower than previously expected; Text Figure 5). Authorities will seek IMF technical assistance to improve spending execution capacity in government agencies responsible for health and education programs. The expansion of spending programs and the improvement in PFM and spending capacity are expected to bring the social spending ratio slightly above the 2nd-3rd review path from FY24/25 onward. Social assistance programs will be further strengthened by the development of a financial inclusion module in the PDM to track access to funds by targeted vulnerable households (SB, end-June 2023). Finally, given protracted security challenges in the region, security spending will decline less than projected at 1st and combined 2nd3rd reviews. It will remain around 13.2 percent of total domestically financed spending in FY23/24 (against 9.1 percent previously projected). This ratio is expected to converge to the 2nd-3rd review path from FY24/25 onward.

Text Figure 5. Composition of Spending


Composition of Spending
(Percent of GDP)

Composition of Spending
(Share in total, percent excl. external financing)

Source: MoFPED, IMF Staff calculations

19. The government is fast-tracking external borrowing. Budget support loans will come from commercial banks (about US$146 million has already been disbursed by Standard Chartered in FY22/23; an additional US$330 million by Standard Chartered and Amarog Capital and 500 million Euro by Stanbic is expected by end-FY22/23). When approved, the forthcoming ECF disbursements will also contribute to budget support,

Text Table 2. Uganda: BoU Financing to the Government

(Percent of GDP)

	FY21/22	FY22/23	FY23/24
Net financing	0.2	-0.6	-0.6
Deposit withdrawal	-0.1	0.5	0.0
Petroleum fund withdrawal	0.1	0.0	0.0
BoU advances	0.2	-1.1	-0.7
Recapitalization	0.0	0.0	0.1
Memo item:			
Outstanding BoU advances	*2.1*	*0.7*	*-0.1*

Source: MoFPED, IMF staff calculations

while addressing the identified balance of payment need. Half of the recent SDR allocation (equivalent to about US$235 million) is expected to contribute to the repayment of BoU advances and therefore remain on the BoU's balance sheet.[3]

Text Table 3. Uganda: FY2023/24 DRMS Measures

	FY2022/23		FY2023/24	
	UGX bn	Percent of GDP	UGX bn	Percent of GDP
Tax revenue (UGX bn)	**23,458**	**12.63**	**27,424**	**13.23**
Projected increase			**3,967**	**1.91**
Tax administration measures in the National Budget Framework Paper			**615**	**0.30**
of which:				
Leverage information technology by effectively implemleneting DTS and EFRIS			222	0.11
Arrears management			154	0.07
Use of 3rd party information for taxpayer registration and compliance actions			144	0.07
Focused audit of specialized sectors			41	0.02
Transit monitoring of cargo			18	0.01
Exchange of information for valuation of imports			15	0.01
Curb smuggling at porous borders			12	0.01
Conduct non-intrusive inspection of Goods			9	0.00
Additional tax administration measures			**354**	**0.17**
of which:				
Implementation of the new IT strategy to plug revenue leakages			150	0.07
Improved efficiency as a result of URA staff salary enhancement			100	0.05
Sector based audits in income tax and excise duty			100	0.05
Improved tax education			4	0.00
Tax exemptions rationalization			**417**	**0.20**
Income tax			**310**	**0.15**
of which:				
Cap the indefinite carry forward of tax losses			186	0.09
Restrict Section 40A of the TPC to existing commitments			108	0.05
Repeal Section 27A of the ITA			15	0.01
Value added tax			**107**	**0.05**
of which:				
Standard rate on the supply of diapers			87	0.04
Expand the definition of electronic services			10	0.00
Limit VAT exemption on inputs into iron ore smelting only to billets			10	0.00
Leather products made in Uganda and their production inputs			1	0.00
Additional tax policy measures			**253**	**0.12**
Waiver of interest and penalties for taxpayers that voluntarily pay - Jun-Dec 2023			200	0.10
Impose a rate of 10% or Shs.75 per litre of mineral water			29	0.01
Witholding Tax on Commissions derived from Agency banking			15	0.01
Review of the witholding tax on lotteries and gaming sector			9	0.00
Buoyancy			**2,328**	**1.12**

20. Revenue-based fiscal consolidation remains essential to keep debt sustainable while increasing priority spending (MEFP ¶16-18). The downward revision of tax revenue by 0.4 percent of GDP in FY22/23 also implies a downward revision in FY23/24 on account of the lower base. The Domestic Revenue Mobilization Strategy (DRMS) targets an increase in the revenue to GDP ratio of 0.5 percent point per year. However, to partially offset the tax revenue underperformance in FY22/23, authorities have identified additional administrative and tax policy measures to be implemented in FY23/24. Together with the previously identified tax administration measures and tax exemption rationalizations (Text Table 3), these new measures are expected to help increase the FY23/24 tax revenue ratio by 0.6 percentage point relative to FY22/23. In addition, new grant commitments and higher-than-expected non-tax revenues (mainly due to stronger enrollment in higher education) are expected to further remedy tax revenue underperformance in FY22/23, with total government revenues in FY23/24 projected to be 0.3 percent of GDP higher than at the combined 2nd-3rd reviews (Text Table 4). The DRMS will be reinforced by the design of a medium-

[3] A Service Level Agreement (SLA) between MoFPED and the BoU and its addendum were signed in 2022 to govern central bank financing of the government. The SLA also governs the repayment of past advances over the following two years.

term ICT strategy supported by a plan for the procurement of a new Integrated Tax Administration System (SB, end-May 2023) and the formulation of a compliance improvement plan for the large taxpayer office with focus on specialized sectors and taxation of multinational enterprises (proposed new SB, end-March 2024). Expenditure prioritization and improvement in spending efficiency, including by ensuring appropriately targeted and right-size budgetary allocations for education through the expansion of coverage of Education Management Information System (EMIS) to include teachers in public schools countrywide (proposed new SB, end-April 2024), will contribute to lowering the deficit below 3 percent of GDP by FY26/27. The debt-to-GDP level will stay below the levels expected at the time of the combined 2nd-3rd reviews, helped by higher nominal GDP in FY22/23 and stronger fiscal consolidation in FY23/24.

21. Uganda's government debt is sustainable in the medium term and the risk of debt distress is moderate. The fiscal consolidation will help keep debt sustainable. Except for a one-off breach of the external-debt-service-to-export ratio in FY22/23, the DSA indicates that the external debt burden and public debt indicators remain below their respective thresholds and benchmarks under the baseline scenario. Staff's judgement is that the one-off breach of the debt service-to-exports ratio under the baseline scenario does not impact the overall debt sustainability assessment. This largely reflects what is likely to be a temporary dip in export revenue in FY22/23 because of uncertainty around gold export levies. However, stress tests lead to breaches of the thresholds and the benchmark, indicating a moderate risk of overall and external debt distress (see DSA).

Text Table 4. Uganda: Fiscal Operations, FY21/22-FY2023/24

	FY21/22		FY22/23		FY23/24	
	2nd-3rd reviews	Actual	2nd-3rd reviews	Current	2nd-3rd reviews	Current
Total revenue and grants	**14.1**	**14.1**	**15.1**	**14.7**	**15.5**	**15.8**
Revenue	13.4	13.4	13.9	13.5	14.4	14.3
Tax	12.6	12.6	13.0	12.6	13.5	13.2
Nontax	0.9	0.9	0.9	0.9	0.9	1.1
o/w: Oil revenues	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.7	0.7	1.2	1.2	1.1	1.5
Expenditures and net lending	**21.5**	**21.5**	**20.2**	**19.8**	**19.0**	**19.3**
Primary current expenditures	10.1	10.1	9.2	9.3	8.9	9.2
o/w: Parish Development Model	0.0	0.0	0.5	0.5	0.5	0.5
Interest expenditures	3.1	3.1	3.3	3.3	3.2	2.9
Development expenditures	7.9	7.9	7.1	6.7	6.8	6.7
External	2.9	2.9	3.5	3.1	3.3	3.7
Domestic	5.0	5.0	3.7	3.5	3.5	2.9
Net lending and investment	0.2	0.2	0.2	0.1	0.0	0.3
Other spending (arrears clearance)	0.4	0.4	0.4	0.4	0.1	0.1
Overall balance	**-7.4**	**-7.4**	**-5.1**	**-5.1**	**-3.5**	**-3.4**
Overall balance excl. PDM	**-7.4**	**-7.4**	**-4.6**	**-4.6**	**-3.0**	**-3.0**
Primary balance	**-4.3**	**-4.3**	**-1.8**	**-1.9**	**-0.3**	**-0.5**
Primary balance excl. PDM	**-4.3**	**-4.3**	**-1.3**	**-1.3**	**0.1**	**0.0**
Memorandum items:						
Social spending	3.7	3.7	3.7	3.5	3.7	3.4
Security spending	2.6	2.6	2.0	2.1	1.4	2.0

Source: MoFPED and IMF Staff calculations

B. Controlling Inflation

22. The monetary policy stance should be calibrated to the evolution of price expectations and price pressures (MEFP ¶22). Despite the recent easing of inflation there is high uncertainty around the outlook, including due to passthrough from global commodity prices and exchange rate movements related to advanced economies' central bank tightening and global risk sentiment. Under the baseline forecast of core inflation returning to 5 percent target by end-2023, the current stance of monetary policy is broadly neutral (see paragraph 8 and Annex III). The increase in the Cash Reserve Ratio in June 2022 has drained liquidity from the interbank market (the interbank rate is currently 12 percent, 2 percentage points above the policy rate) and contributed to an increase in lending rates and slower credit growth. The monetary policy stance should remain data dependent—in particular, BoU should stand ready to resume its tightening if signs emerge of a slower-than-expected disinflation, including due to pass-through from greater-than-assumed depreciation in the face of further external pressures (i.e., that core inflation will take longer to return to the 5 percent medium-term target than the baseline expectation of end-2023).

C. Preserving External Buffers

23. Fiscal consolidation and exchange rate flexibility are essential for rebuilding external buffers (MEFP ¶24-25). Despite government efforts to cut its imports and recent FX purchases by the central bank, rising debt service amid tight global financial conditions will continue to put pressure on FX reserves. Further reduction of government imports financed by FX reserves in FY23/24, more than envisaged in the combined 2nd-3rd reviews, will be crucial for rebuilding external buffers and will support needed exchange rate adjustment to restore external balance. The NIR floor of 4 months of next year's imports of goods and services (excluding oil investment related financing and imports) need to be retained as the end point of the ECF program in June 2024. Exchange rate flexibility will continue to be essential for restoring external balance (Annex IV). FX sales should be limited only to mitigating excessive volatility and more active FX purchases need to be deployed to replenish reserves when market conditions allow.

D. Safeguarding Financial Sector Stability and Reforming the Financial Sector

24. The recent turmoil in global financial markets places a premium on safeguarding financial sector stability. Across the banking sector, capital buffers appear to be sufficient. The liquidity coverage ratio (LCR) of the banking sector has increased to 283.8 percent in March 2023 from184.5 percent in June 2022. Nonetheless, as advanced economy central banks tighten monetary policy, vulnerabilities in global financial markets could come to the fore, with adverse spillovers to frontier economies. While the overall banking sector is healthy, the picture is heterogenous across banks. Of the six Domestic Systemically Important Banks (DSIBs), which jointly account for 66 percent of gross lending, four had NPLs below 4.5 percent while two had NPL ratios of around 12 percent at end-March 2023. Some small banks might not have sufficient capital or liquidity buffers if financial conditions tighten further (results of stress tests which assessed the impact of higher interest rates on all banks' liquidity positions were reported in the staff report for the combined 2nd and 3rd reviews). Safeguarding financial sector stability and strengthening the supervisory framework—by moving to risk-based supervision and stress-testing capacity based on the Fund's TA—therefore remain critical.

25. Sovereign-bank nexus. The share of Uganda sovereign debt in total bank assets increased from 19 percent in 2019 to 27 percent in 2022, which contributed to crowding out private sector credit. The stress testing recently implemented by BoU indicates that all the DSIBs and Primary Dealer Banks (PDBs) are adequately capitalized to withstand the impact on the value of their bond portfolios of a 300 basis-point increase in interest rates in the next six months. The authorities should closely monitor interest rate risks and assess the need to impose prudential measures on banks' sovereign exposures.

26. BoU needs to sustain progress in strengthening AML/CFT supervision (MEFP ¶27, 32). With the support of Fund TA, BoU has started developing and implementing the AML/CFT risk-based supervision tools for banks. The remaining tools for the foreign exchange bureaus and money remittance sectors (SB, end-May 2023) have been rolled out in mid-May 2023. Effective use of the tools to support AML/CFT supervision would require optimizing its supervisory resources and coordination, which are currently a challenge due to resource constraints. Uganda is still currently in the FATF grey list and its agreed action plan with FATF fully expired in May 2022.[4] The authorities should expedite measures to complete the remaining items under their action plan as agreed with FATF to exit the grey list. To further enhance financial sector governance and financial stability, BoU will formulate policies and procedures to guide the implementation of supervisory sanctioning power provided under the AML (Amendment) Regulations 2023 for non-compliance with AML/CFT requirements by banks (proposed new SB, end-March 2024).

27. The financial sector reform agenda continues to advance (MEFP ¶27). The BoU Board Committee will issue a resolution on the ownership structure for data collected by the Central Data Hub as a prerequisite for the use of Credit Registration Bureau data to compute credit scores for MSMEs and individuals to generate indicators for macroprudential regulations (SB, end-October 2023). With the aim of strengthening corporate governance and financial stability, the Financial Institutions Regulations will be amended in line with the principles provided in the Basel Committee on Banking Supervisions' guidelines (SB, end-December 2023). To enhance financial inclusion and mobilize domestic savings, BOU will operationalize a platform, with requisite safeguards (including risk monitoring), that enables the purchase of government securities using mobile money (proposed new SB, end April 2024). Finally, BoU will develop and implement cybersecurity guidelines for financial services to reinforce consumer protection and financial safety (proposed new SB, end April 2024).

[4] https://www.fatf-gafi.org/en/publications/High-risk-and-other-monitored-jurisdictions/Increased-monitoring-february-2023.html

E. Focusing Structural Reforms on Governance and Private Sector Development

28. Structural reforms are critical for creating the conditions for sustainable, private sector-led growth (MEFP ¶29-31, 33-34, 36-38). The following priority areas are aligned with the authorities' National Development Plan:

- **Enhance transparency.** While the authorities have gazetted the Beneficial Owners Regulations 2023 that provides a mechanism for timely access to beneficial owners' information, capacity to effectively implement the Regulations will remain a challenge largely due to resource constraints and risks to compliance. The authorities need to intensify efforts, including imposing sanctions for non-compliances, to ensure accurate and updated beneficial ownership information can be provided to competent authorities. The authorities obtained a 6-month extension from the global EITI Board for publication of the first annual report 2020/21. Uganda is due for the next EITI evaluation this year (which occurs every two years). The authorities should continue publishing tax expenditures and procurement contracts. Building on the stepped-up efforts regarding domestic arrears clearance, the authorities need to continue compilation and quarterly publication of unpaid invoices and prevent arrears formation.

- **Strengthen the anti-corruption framework.** Building on the SB implemented in November 2022 to support the implementation of the existing asset declaration framework, the authorities should ensure timely collection and publication of decisions from investigations into unauthorized spending commitments (SB, end-June 2023) and maintain progress toward publication of the assessment report under the National Anti-Corruption Strategy (NACS) and the annual report for FY2022/23 on the prevalence of corruption and anti-corruption efforts (SB, end-November 2023).

- **Enhance the oversight of public corporations**, especially in the oil sector, in preparation for significant revenues expected when oil exports start. Stronger oversight, supported by IMF TA in FY23/24, is expected to increase transparency on use of government resources and improve budgeting of government flows to and from SOEs.

- **Accelerate the implementation of climate adaptation strategy,** with appropriate budgeting for the rollout of the disaster risk management plan approved by Cabinet last year and for projects aimed at strengthening water catchment ability and increasing forest coverage. The planned completion of the Climate Module of the PIMA (C-PIMA) and the assessment of long-term climate risks are expected to allow including climate aspects in PIM reforms and fiscal policy planning.

PROGRAM MODALITIES AND OTHER ISSUES

29. The proposed revisions to a QPC and ITs reflect the changing macroeconomic environment, tax revenue underperformance in FY22/23 and revised financing plans. The authorities request modifications to: **floors** on primary budget balance of the central government, and tax revenues; **ceiling** on PV of newly contracted external public and publicly guaranteed debt.

- Tax revenue underperformance in the first three quarters of FY22/23 necessitates a downward revision of the June 2023 IT floors on tax revenues and the primary budget balance.

- The requested downward revision of the ceiling on the PV of newly contracted PPG debt reflects the change in the government's borrowing plans (June and December 2023 IT, September 2023 QPC).

30. Structural benchmarks. The SB pertaining to the issuance of regulations for timely access to the beneficial ownership information has been met ahead of the deadline (end-March 2023). With the help of recent Fund TA, the SB on the development of AML-risk based supervisory tools was completed in May 2023. The Treasury memoranda that explain how weaknesses raised by the FY20/21 audit will be addressed have been issued (SB end-May 2023). The medium-term ICT strategy supported by a plan for the procurement of a new Integrated Tax Administration System was completed (SB end-May 2023). The financial inclusion module in the PDM information system has been rolled out in various districts and reports on last-mile usage by subsistence household beneficiaries are being prepared based on the rollout (SB end-June 2023). The report on decisions arising from investigations into unauthorized spending that led to sanctions was posted on the MoFPED website (SB end-June 2023). Finally, the following new SBs are proposed to reinforce the goals of the program: (i) domestic revenue mobilization through the formulation of a compliance improvement plan for the large taxpayer office with focus on specialized sectors and taxation of multinational enterprises (end-March 2024); (ii) strengthening financial sector governance and financial stability through the formulation of policies and procedures to guide implementation of supervisory sanctioning power provided under the AML Regulations 2023 for non-compliance with AML/CFT requirements by banks (end-March 2024), and the development and implementation of cybersecurity guidelines for financial services (end-April 2024); (iii) enhancing financial inclusion through the operationalization of a BoU platform, with requisite safeguards, that enables the purchase of government securities using mobile money (end-April 2024); and (iv) ensuring appropriately targeted and right-size budgetary allocations for education through the expansion of coverage of EMIS to include teachers in public schools countrywide (end-April 2024).

31. The program is fully financed. New commercial syndicated loans are expected and the planned use of half of the August 2021 SDR allocation will contribute to closing the fiscal financing gap in FY22/23. There are also firm commitments for the next 12 months. Against the backdrop of a structural decline in official development assistance and the moderate appetite of development partners to extend budget support to Uganda, including in the context of the recently adopted Anti-Homosexuality Bill 2023, the financing needs will likely continue to be met largely through commercial financing. Nonetheless, staff encourage the authorities to persevere in seeking grants and concessional loans by strengthening implementation capacity and furthering structural reforms, which would also support the intended catalytic role of the program.

Text Table 5. Uganda: External Financing between FY20/21 and FY23/24

(Millions of US$)

	FY2020/21	FY2021/22	FY2022/23		FY2023/24	
	Actual	Actual	2nd-3rd review	Rev. Prog.	2nd-3rd review	Rev. Prog.
Financing needs	4,076	3,655	3,990	3,944	6,314	5,416
Current account deficit	3,837	3,591	4,418	4,253	5,515	4,849
Net payment to the IMF	0	0	0	0	0	0
Reserve accumulation (+=increase)	239	65	-428	-309	799	567
Financing sources	3,363	3,039	3,641	3,060	6,081	5,173
ow World Bank 1/	374	199	126	14	126	45
ow AfDB	0	32	0	0	0	0
ow commercial banks	289	432	455	976	750	426
BOP financing gap	243	116	349	365	233	243
ECF	243	116	349	365	233	243

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 DSA at program approval).

32. Uganda retains an adequate capacity to repay the Fund (Table 9). The total amount of Fund outstanding credit would peak at SDR1,083 million, or 300 percent of quota in 2024, equivalent to 2.8 percent of GDP, 19.3 percent of exports of goods and services and 46.9 percent of gross international reserves. IMF repayments are expected to peak at 2.2 percent of exports of goods and services and 4.3 percent of reserves in 2029. Considering the strong track record of servicing debt and Uganda's moderate level of public debt and continued access to concessional financing, risks to Uganda's capacity to repay would remain moderate even if downside risks listed in Annex I were to materialize.

33. Statistical issues. Data provision is broadly adequate for surveillance and program monitoring. Further progress is needed in statistics, particularly fiscal and real sectors.

STAFF APPRAISAL

34. The economic recovery continues but faces headwinds from a series of shocks. An Ebola outbreak, spillovers from the war in Ukraine, and the tightening of external financial conditions have weighed on the recovery from the Covid-19 shock. This could lead to a further deterioration in socio-economic indicators, thereby increasing the risk of scarring over the medium term.

35. Risks are tilted to the downside. Key risks to the outlook include further tightening of external financial conditions, a renewed pickup in inflation, the potential negative impact on exports of the conflict in Sudan, and climate shocks. An upside risk is a positive impact on spending and growth from the PDM.

36. Program performance. Most QPCs and ITs were met in December 2022 and March 2023. The ceiling on BoU NCG was missed by a very small margin (1 percent above the ceiling) in March (QPC) as a slight delay in the disbursement of external commercial loans necessitated a lower-than-planned repayment of BoU advances by the government. Building on the recent reform momentum, the structural reform agenda has been progressing and all 6 SBs with deadlines between January and June 2023 have been met. The authorities' commitment to medium-term fiscal consolidation and the 4-month reserve cover remains essential to achieving program objectives.

37. Revenue-based fiscal consolidation remains crucial to keep debt sustainable over the medium term while creating space for social spending. The full implementation of the DRMS, including the additional tax administrative measures identified by the authorities, and strong front-loaded revenue mobilization will help maintain the debt-to-GDP ratio on a declining path, and allow for an increase in social spending over the medium term. Increasing the pace of PFM reforms would enhance the capacity to execute social spending in a timely manner. Authorities should stand ready to implement contingency revenue measures, if planned measures do not fully deliver the intended yields. The tax exemption rationalization plan remains an important component of the revenue mobilization effort. Uganda's debt remains sustainable, with a moderate risk of debt distress.

38. The monetary policy stance should be calibrated to the evolution of price expectations and price pressures. While the current monetary policy stance is appropriate, the BoU should stand ready to resume its tightening if signs emerge of a slower-than-expected disinflation.

39. Tight macro policies and exchange rate flexibility will help strengthen external buffers. Continued fiscal consolidation (including reducing government imports financed by FX reserves) and exchange rate flexibility are essential to bring overall domestic absorption more in line with domestic production, reduce the current account deficit, and replenish reserves. More active FX purchases should be deployed as market conditions allow to replenish reserves, while FX sales to support the currency and mitigate depreciation need to be avoided, except to smooth excessive volatility. Securing further concessional financing will reduce the reliance on external commercial borrowing and limit debt service costs. Strengthening implementation capacity and structural reform momentum would also help accelerate the activation of underutilized World Bank concessional loans.

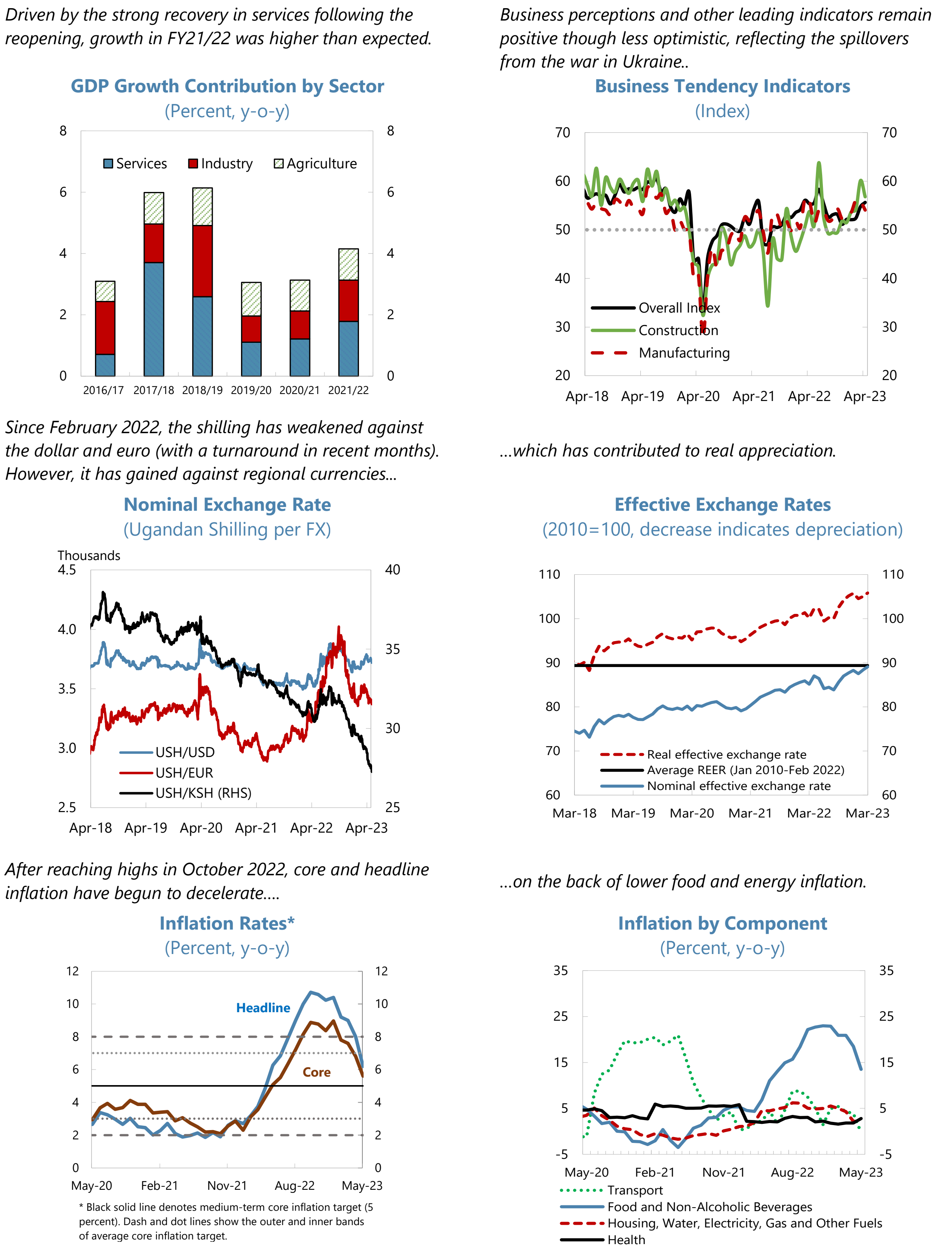
40. Financial stability risks should be minimized. The banking sector remains well capitalized, and liquidity has rebounded. Although the banking sector continues to write off bad loans proactively, the asset quality of some banks has deteriorated. Against this backdrop, safeguarding financial stability and strengthening the supervisory framework remain paramount.

41. Structural reforms remain key to unlock Uganda's growth potential and require more proactive efforts. Priorities include strengthening the anti-corruption framework and the AML/CFT regime, advancing the financial inclusion agenda, and climate adaptation measures. The authorities should sustain efforts to improve transparency of implementation of the asset declaration framework including sanctions enforcement for violations. Making information publicly available on the implementation progress of the National Anti-Corruption Strategy will strengthen effectiveness of the strategy and improve public accountability.

42. The implementation of the 2021 safeguards assessment recommendations should help strengthen BoU's independence and its overall safeguards framework. The authorities have consulted with Staff on the revised principles underpinning the BoU Act Amendments and work is underway on preparing a new draft for consideration by the Cabinet (SB, end-October 2023). The proposed BoU Amendment Act and the new risk management framework will help protect central bank autonomy and reinforce the credibility of the inflation-targeting monetary policy framework. Further, the BoU is taking steps to strengthen its currency operations and the internal audit mechanism, along with other safeguards recommendations that remain in progress (see MEFP para 39).

43. Staff supports the authorities' requests for completion of the Fourth Review, as well as for the waiver of nonobservance of the end-March PC on net credit to government, and the modification of a QPC and ITs.

Figure 1. Real Sector Developments



Driven by the strong recovery in services following the reopening, growth in FY21/22 was higher than expected.

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

Business perceptions and other leading indicators remain positive though less optimistic, reflecting the spillovers from the war in Ukraine..

Business Tendency Indicators
(Index)

Since February 2022, the shilling has weakened against the dollar and euro (with a turnaround in recent months). However, it has gained against regional currencies…

Nominal Exchange Rate
(Ugandan Shilling per FX)

Thousands
2.5
3.0
3.5
4.0
4.5
25
30
35
40
USH/USD
USH/EUR
USH/KSH (RHS)
Apr-18
Apr-19
Apr-20
Apr-21
Apr-22
Apr-23

…which has contributed to real appreciation.

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

60
70
80
90
100
110
Real effective exchange rate
Average REER (Jan 2010-Feb 2022)
Nominal effective exchange rate
Mar-18
Mar-19
Mar-20
Mar-21
Mar-22
Mar-23

After reaching highs in October 2022, core and headline inflation have begun to decelerate….

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

0
2
4
6
8
10
12
Headline
Core
May-20
Feb-21
Nov-21
Aug-22
May-23

* 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.

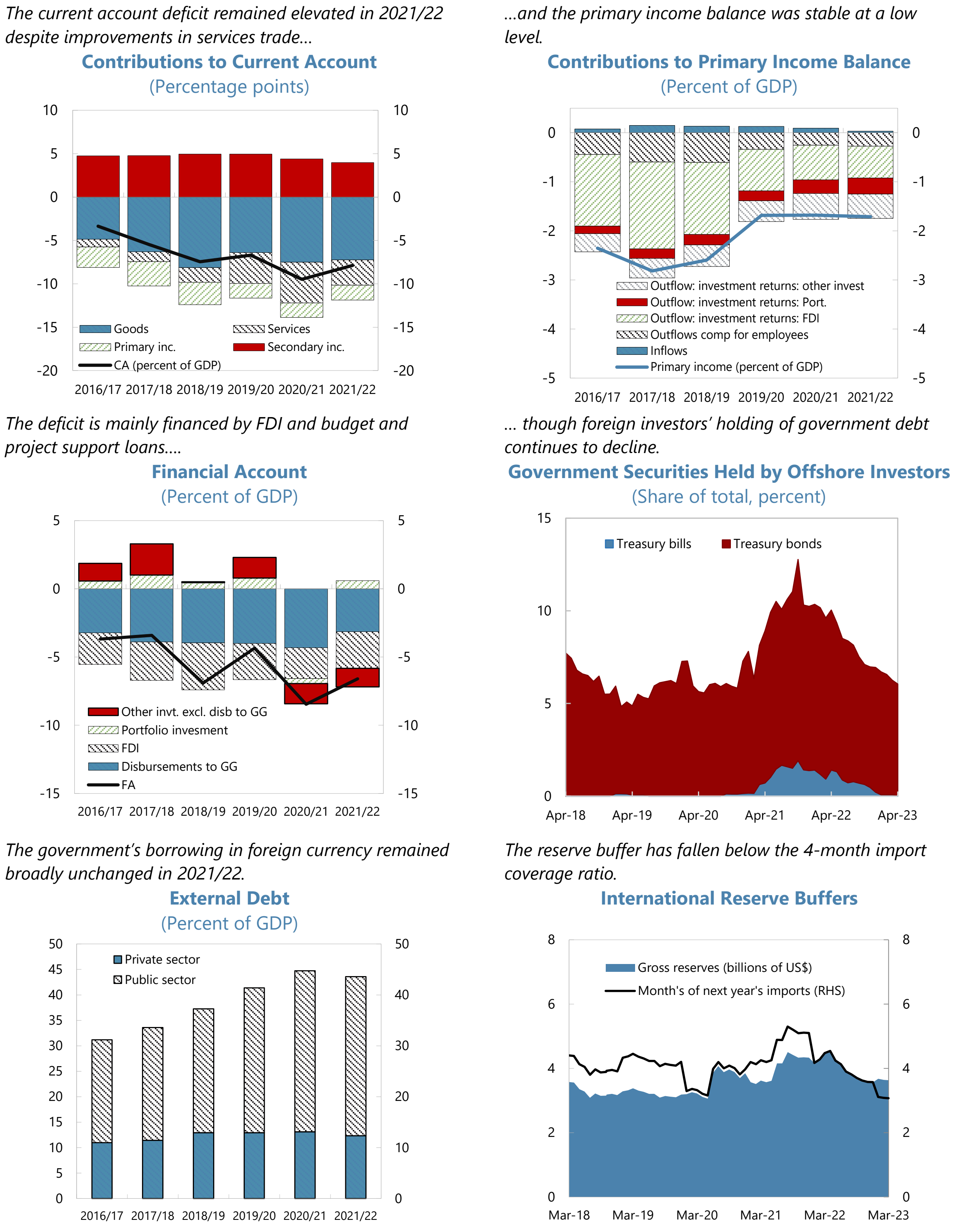
…on the back of lower food and energy inflation.

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

-5
5
15
25
35
May-20
Feb-21
Nov-21
Aug-22
May-23
Transport
Food and Non-Alcoholic Beverages
Housing, Water, Electricity, Gas and Other Fuels
Health

Source: Uganda Authorities and IMF staff calculations

Figure 2. External Sector Developments



The current account deficit remained elevated in 2021/22 despite improvements in services trade…

Contributions to Current Account

(Percentage points)

…and the primary income balance was stable at a low level.

Contributions to Primary Income Balance

(Percent of GDP)

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

Financial Account

(Percent of GDP)

5
0
-5
-10
-15
Other invt. excl. disb to GG
Portfolio invesment
FDI
Disbursements to GG
FA
2016/17 2017/18 2018/19 2019/20 2020/21 2021/22

… though foreign investors' holding of government debt continues to decline.

Government Securities Held by Offshore Investors

(Share of total, percent)

15
10
5
0
Treasury bills
Treasury bonds
Apr-18 Apr-19 Apr-20 Apr-21 Apr-22 Apr-23

The government's borrowing in foreign currency remained broadly unchanged in 2021/22.

External Debt

(Percent of GDP)

50
45
40
35
30
25
20
15
10
5
0
Private sector
Public sector
2016/17 2017/18 2018/19 2019/20 2020/21 2021/22

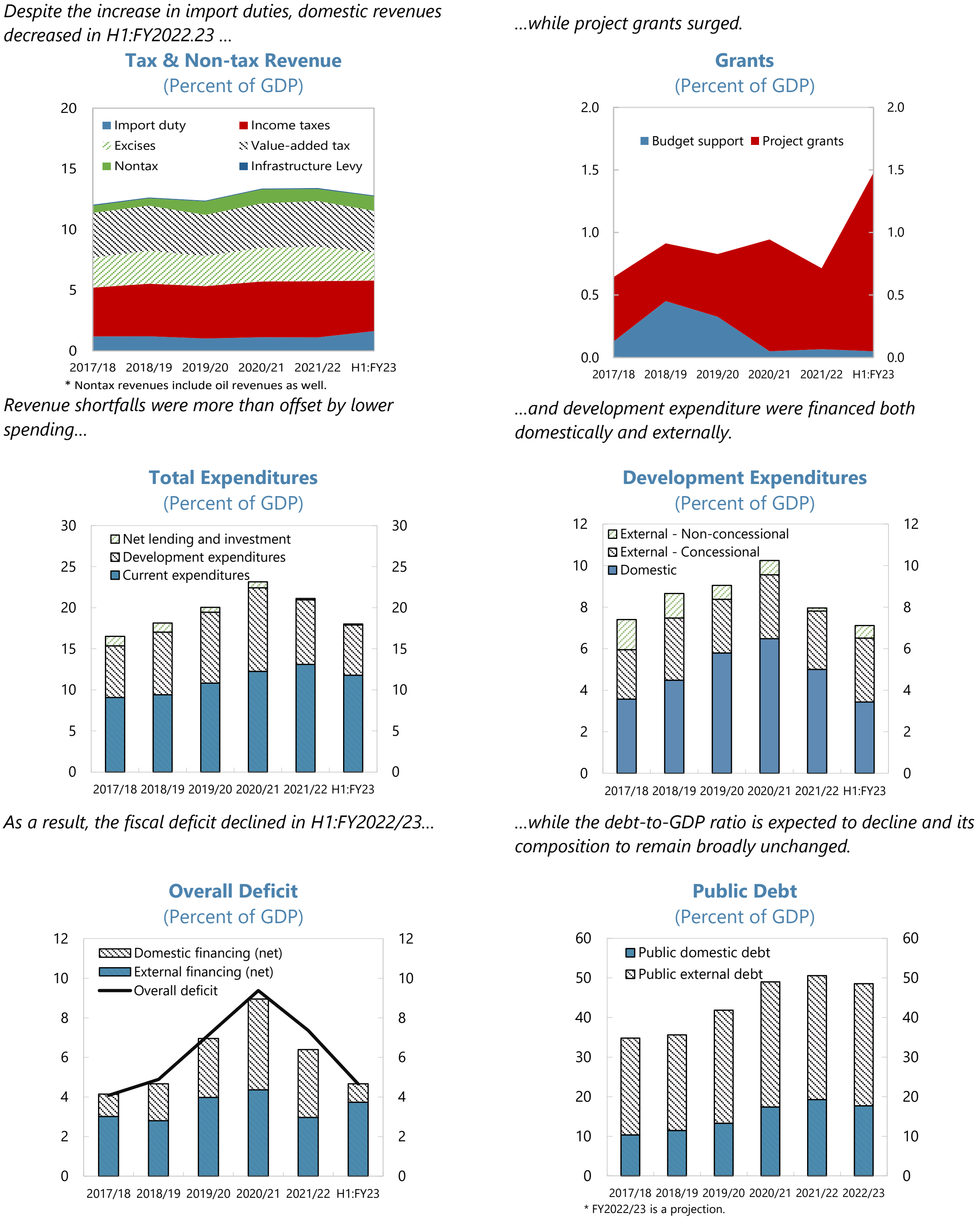
The reserve buffer has fallen below the 4-month import coverage ratio.

International Reserve Buffers

8
6
4
2
0
Gross reserves (billions of US$)
Month's of next year's imports (RHS)
Mar-18 Mar-19 Mar-20 Mar-21 Mar-22 Mar-23

Source: BoU and IMF staff calculations

Figure 3. Fiscal Developments



Despite the increase in import duties, domestic revenues decreased in H1:FY2022.23 …

Tax & Non-tax Revenue

(Percent of GDP)

* Nontax revenues include oil revenues as well.

…while project grants surged.

Grants

(Percent of GDP)

Revenue shortfalls were more than offset by lower spending…

Total Expenditures

(Percent of GDP)

…and development expenditure were financed both domestically and externally.

Development Expenditures

(Percent of GDP)

External - Non-concessional
External - Concessional
Domestic
12
10
8
6
4
2
0
2017/18
2018/19
2019/20
2020/21
2021/22
H1:FY23

As a result, the fiscal deficit declined in H1:FY2022/23…

Overall Deficit

(Percent of GDP)

Domestic financing (net)
External financing (net)
Overall deficit
12
10
8
6
4
2
0
2017/18
2018/19
2019/20
2020/21
2021/22
H1:FY23

…while the debt-to-GDP ratio is expected to decline and its composition to remain broadly unchanged.

Public Debt

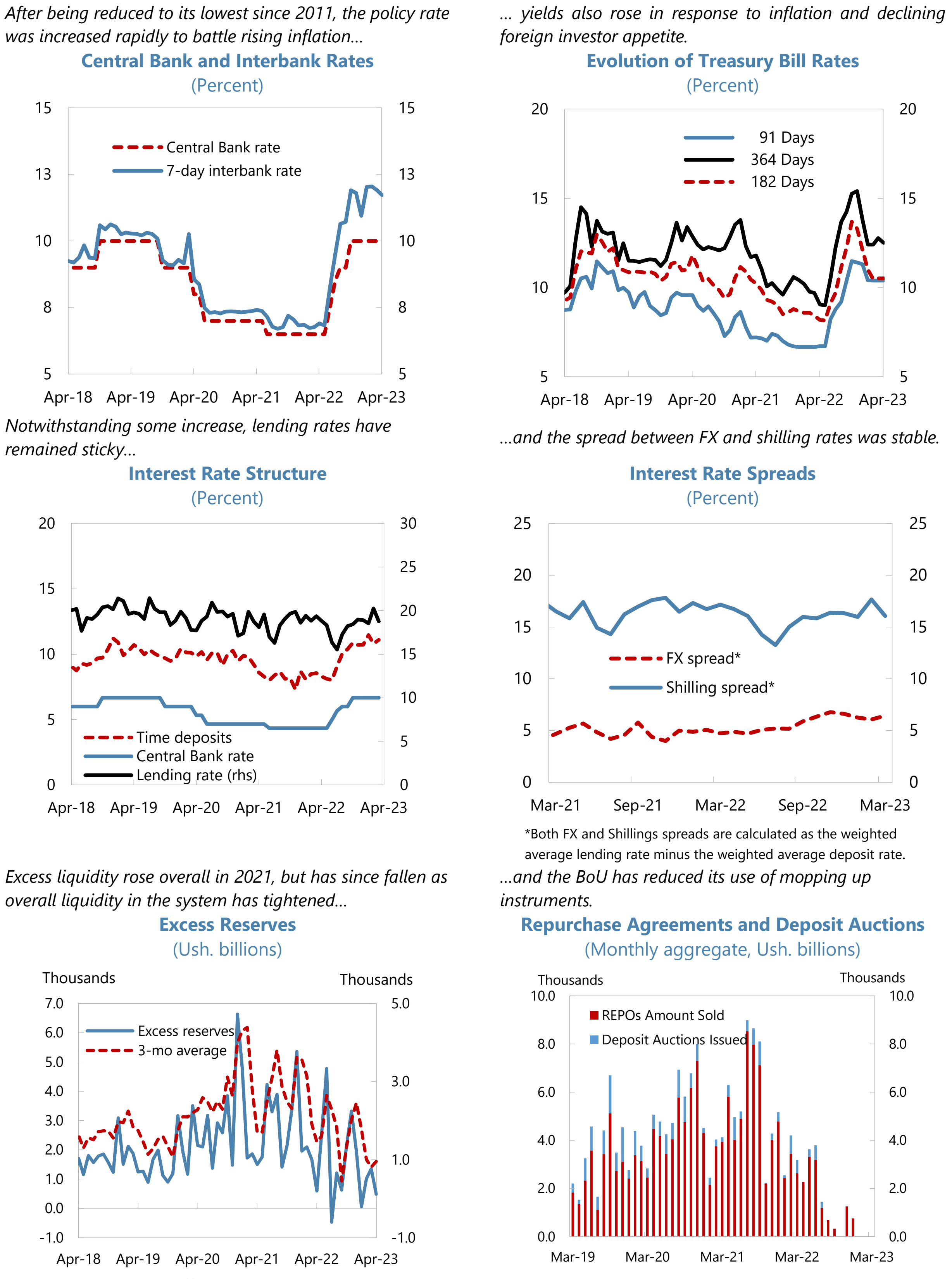
(Percent of GDP)

Public domestic debt
Public external debt
60
50
40
30
20
10
0
2017/18
2018/19
2019/20
2020/21
2021/22
2022/23

* FY2022/23 is a projection.

Source: Uganda Authorities and IMF staff calculations

Figure 4. Monetary Developments



After being reduced to its lowest since 2011, the policy rate was increased rapidly to battle rising inflation…

Central Bank and Interbank Rates
(Percent)

… yields also rose in response to inflation and declining foreign investor appetite.

Evolution of Treasury Bill Rates
(Percent)

Notwithstanding some increase, 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, but has since fallen as overall liquidity in the system has tightened…

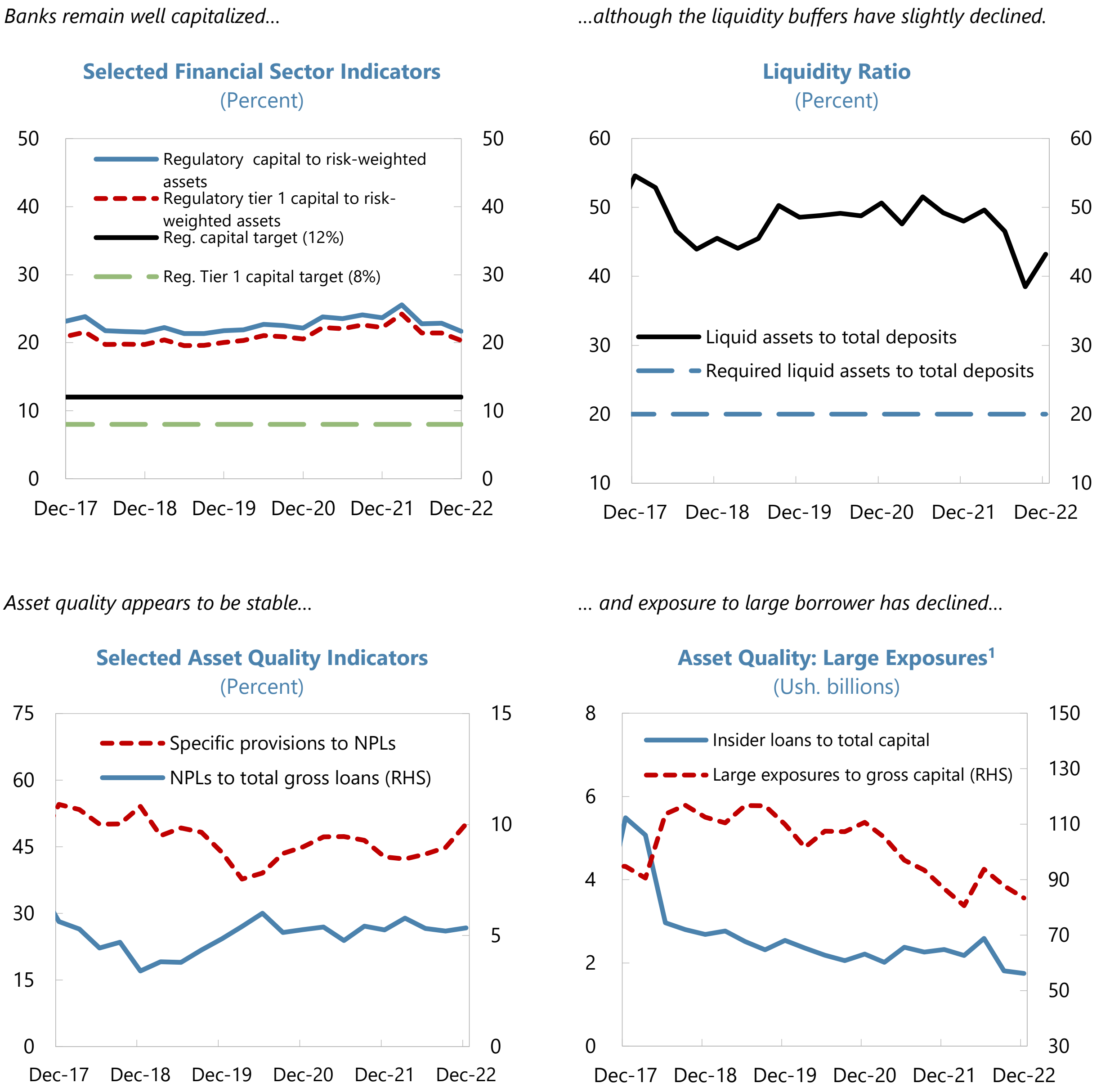
Excess Reserves
(Ush. billions)

…and the BoU has reduced its use of mopping up instruments.

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

Source: BoU and IMF staff calculations

Figure 5. Financial Sector Developments



Banks remain well capitalized…

Selected Financial Sector Indicators
(Percent)

…although the liquidity buffers have slightly declined.

Liquidity Ratio
(Percent)

Asset quality appears to be stable…

Selected Asset Quality Indicators
(Percent)

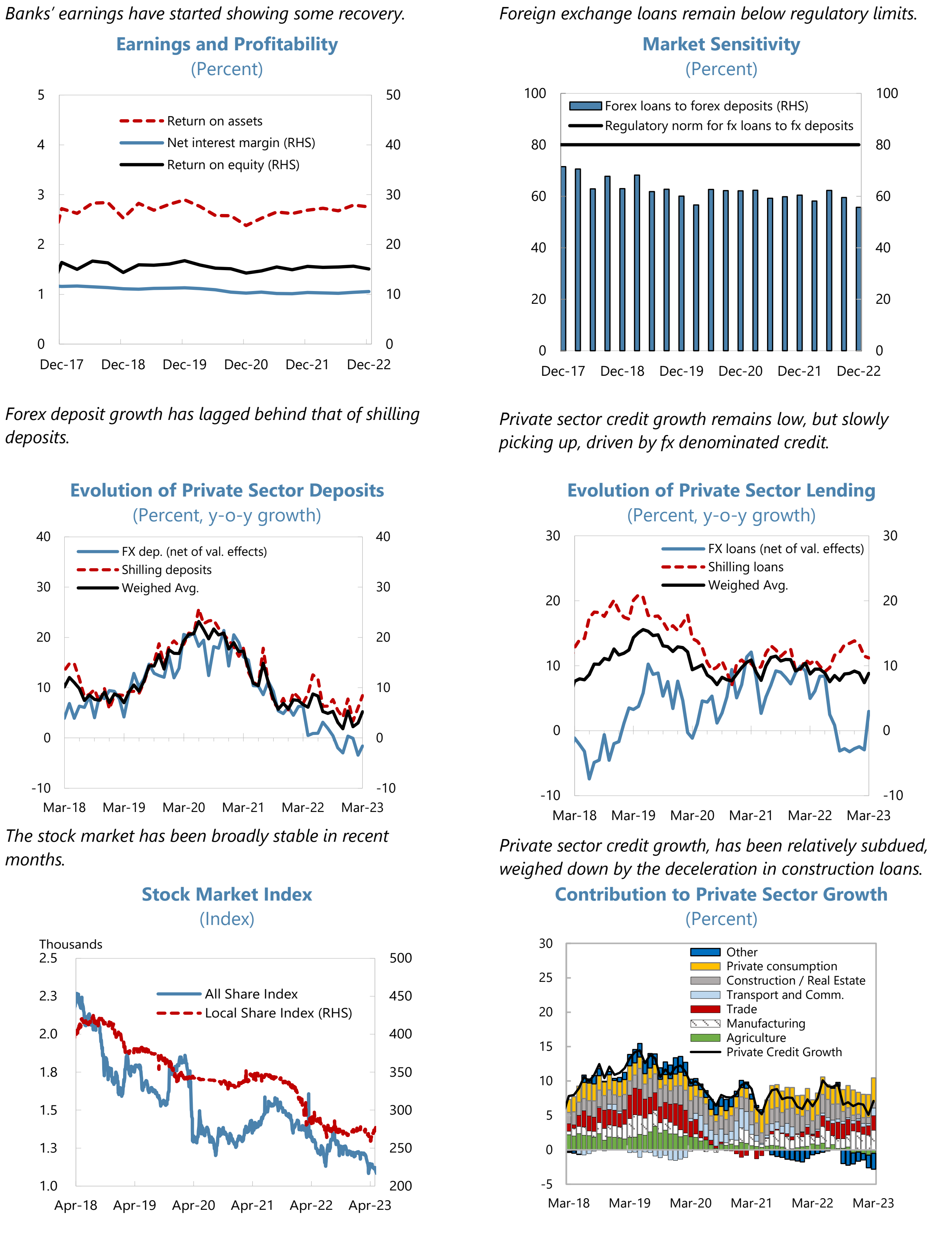
… and exposure to large borrower has declined…

Asset Quality: Large Exposures[1]
(Ush. billions)

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

Source: BoU and IMF staff calculations

Figure 6. 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 lagged behind that of shilling deposits.

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

Private sector credit growth remains low, but slowly picking up, driven by fx denominated credit.

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

The stock market has been broadly stable in recent months.

Stock Market Index
(Index)

Private sector credit growth, has been relatively subdued, weighed down by the deceleration in construction loans.

Contribution to Private Sector Growth
(Percent)

Return on assets
Net interest margin (RHS)
Return on equity (RHS)
5
4
3
2
1
0
50
40
30
20
10
0
Dec-17
Dec-18
Dec-19
Dec-20
Dec-21
Dec-22
Forex loans to forex deposits (RHS)
Regulatory norm for fx loans to fx deposits
100
80
60
40
20
0
Dec-17
Dec-18
Dec-19
Dec-20
Dec-21
Dec-22
FX dep. (net of val. effects)
Shilling deposits
Weighed Avg.
40
30
20
10
0
-10
Mar-18
Mar-19
Mar-20
Mar-21
Mar-22
Mar-23
FX loans (net of val. effects)
Shilling loans
Weighed Avg.
30
20
10
0
-10
Mar-18
Mar-19
Mar-20
Mar-21
Mar-22
Mar-23
Thousands
2.5
2.3
2.0
1.8
1.5
1.3
1.0
500
450
400
350
300
250
200
All Share Index
Local Share Index (RHS)
Apr-18
Apr-19
Apr-20
Apr-21
Apr-22
Apr-23
Other
Private consumption
Construction / Real Estate
Transport and Comm.
Trade
Manufacturing
Agriculture
Private Credit Growth
30
25
20
15
10
5
0
-5
Mar-18
Mar-19
Mar-20
Mar-21
Mar-22
Mar-23

Source: BoU and IMF staff calculations

Table 1. Uganda: Selected Economic and Financial Indicators, FY2020/21-2026/27[1,2]

	2020/21	2021/22	2022/23		2023/24		2024/25	2025/26	2026/27
	Act.	Act.	2nd-3rd Review	Rev. Prog.	2nd-3rd Review	Rev. Prog.		Proj.	
			(Annual percentage change, unless otherwise indicated)						
Output, prices, and exchange rate									
Real GDP	3.5	4.7	5.3	5.5	6.0	6.0	6.6	7.1	7.0
Non-Oil real GDP	3.5	4.7	5.3	5.5	6.0	6.0	6.2	6.1	6.0
GDP deflator	2.5	4.8	7.6	8.2	6.7	5.3	5.0	5.0	5.0
Headline inflation (period average)	2.5	3.4	8.3	9.2	7.2	5.7	5.0	5.0	5.0
Core inflation (period average)	3.5	3.2	7.5	7.7	6.8	5.3	5.0	5.0	5.0
Terms of trade ("–" = deterioration)	-6.7	1.7	-1.7	1.5	1.2	2.2	1.6	1.9	2.0
Exchange Rate (Ugandan Shilling/US$)	-1.5	-2.4	…	…	…	…	…	…	…
Real effective exchange rate ("–" = depreciation)	0.6	3.7	…	…	…	…	…	…	…
Money and credit									
Broad money (M3)	8.5	10.0	14.5	11.3	12.6	11.2	12.2	12.7	12.3
Credit to non-government sector	8.3	11.0	8.3	8.9	12.8	10.4	11.8	12.7	13.8
Bank of Uganda policy rate (percent) [3]	6.5	7.5	…	…	…	…	…	…	…
M3/GDP (percent)	22.0	22.0	22.3	21.5	22.2	21.4	21.5	21.5	21.5
NPLs (percent of total loans)[3]	4.8	5.3	…	…	…	…	…	…	…
			(Percent of GDP, unless otherwise indicated)						
Central government budget									
Revenue and grants	14.3	14.1	15.1	14.7	15.5	15.8	16.2	17.6	18.5
Of which : grants	0.9	0.7	1.2	1.2	1.1	1.5	1.3	1.0	0.8
Of which : oil revenue	0.1	0.0	0.0	0.0	0.0	0.0	0.1	1.3	2.2
Expenditure	23.7	21.5	20.2	19.8	19.0	19.3	19.5	20.9	21.2
Of which: Current	12.2	13.1	12.5	12.6	12.0	12.1	11.3	12.0	13.1
Of which: Capital [4]	10.2	7.9	7.1	6.7	6.8	6.7	7.6	8.0	7.7
Primary balance	-6.7	-4.3	-1.8	-1.9	-0.3	-0.5	-0.6	-0.5	0.1
Overall balance	-9.4	-7.4	-5.1	-5.1	-3.5	-3.4	-3.4	-3.3	-2.7
Excluding budget support grants	-9.4	-7.4	-5.1	-5.1	-3.5	-3.5	-3.4	-3.3	-2.7
Of which: Net domestic borrowing	4.6	3.4	2.0	1.2	0.4	0.8	1.2	0.5	0.5
Public debt									
Public gross debt[5]	49.0	50.6	50.9	48.6	49.6	47.8	46.8	45.6	43.9
External[6]	31.6	31.3	31.9	30.9	32.4	31.2	30.8	31.1	30.8
Domestic	17.4	19.3	19.0	17.7	17.2	16.6	16.0	14.5	13.1
Investment and savings									
Investment	28.4	26.2	25.5	29.2	25.4	33.9	35.7	37.3	38.5
Public	10.2	7.9	7.1	6.7	6.8	6.7	7.6	8.0	7.7
Private	18.2	18.2	18.2	22.4	18.6	27.0	28.1	29.3	30.5
Savings	19.0	18.3	16.2	20.6	14.8	25.0	24.6	26.5	28.8
Public	0.4	0.1	1.7	1.2	2.8	2.8	3.6	4.3	5.0
Private	18.5	18.2	14.6	19.4	11.9	22.2	21.0	22.3	23.8
External sector									
Current account balance	-9.5	-7.9	-9.2	-8.6	-10.7	-8.9	-11.1	-10.8	-9.7
Current account balance (excluding grants)	-9.6	-8.1	-9.3	-8.6	-10.7	-8.9	-11.1	-11.2	-10.0
Exports (goods and services)	16.5	12.2	15.9	13.7	15.0	14.4	14.7	16.1	17.2
Imports (goods and services)	28.7	22.4	25.7	24.6	23.6	26.0	28.7	27.8	26.4
Gross international reserves									
In billions of US$	4.2	4.1	3.7	3.8	4.5	4.3	4.7	5.7	4.9
In months of next year's imports of goods and services	4.9	4.1	3.0	3.2	3.1	3.1	3.1	3.7	3.4
Memorandum items:									
GDP at current market prices									
Ush. billion	148,310	162,721	184,254	185,663	208,356	207,218	232,039	260,849	293,052
US$ billion	40.5	45.6	47.8	49.5	51.7	54.6	59.4	64.8	70.6
GDP per capita (Nominal US$)	969	1,057	1,077	1,115	1,132	1,193	1,261	1,336	1,400
Population (million)[7]	41.8	43.1	…	…	…	…	…	…	…
Interest payments (in percent of revenue)	20.1	22.8	23.8	24.1	22.0	20.6	18.8	17.1	15.4
Gross international reserves excluding oil project financing and investment related imports (in mths of imports)	4.9	4.5	3.7	3.8	4.0	4.0	4.2	4.9	4.9

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, FY2020/21-2026/27[1]

(Billions of Ugandan Shillings)

	2020/21	2021/22	2022/23		2023/24		2024/25	2025/26	2026/27
	Act.	Act.	2nd-3rd Review	Rev. Prog.	2nd-3rd Review	Rev. Prog.		Proj.	
Total revenue and grants	**21,239**	**22,992**	**27,783**	**27,229**	**32,220**	**32,748**	**37,484**	**45,870**	**54,223**
Revenue	19,839	21,830	25,551	25,043	29,934	29,672	34,483	43,239	51,944
Tax	18,337	20,425	23,965	23,458	28,153	27,424	31,869	37,131	42,680
Import duty	1,403	1,557	2,551	2,316	2,963	2,566	3,077	3,785	4,687
Income taxes	6,805	7,543	8,265	8,319	9,564	9,605	11,045	12,783	14,619
Excises	4,119	4,600	4,890	4,632	6,025	5,730	6,684	7,709	8,973
Value-added tax	5,439	6,148	6,732	6,681	7,769	7,712	8,969	10,353	11,733
Infrastructure levy	95	114	115	114	138	138	165	192	223
Other taxes	476	462	1,412	1,396	1,694	1,673	1,929	2,308	2,445
Nontax	1,502	1,405	1,586	1,586	1,781	2,248	2,614	6,109	9,265
o/w: Oil revenue	141	0	0	0	0	0	288	3,503	6,400
Grants	1,400	1,162	2,232	2,186	2,286	3,075	3,001	2,631	2,279
Budget support	75	108	78	77	40	70	29	29	0
Project grants	1,325	1,054	2,154	2,109	2,247	3,006	2,972	2,602	2,279
Expenditures and net lending	**35,140**	**34,967**	**37,175**	**36,710**	**39,513**	**39,895**	**45,294**	**54,558**	**61,998**
Current expenditures	18,165	21,324	23,055	23,327	25,097	25,164	26,253	31,201	38,351
Wages and salaries	5,180	5,628	6,868	6,998	7,573	7,267	7,884	9,109	10,300
Interest payments	3,990	4,966	6,071	6,046	6,578	6,112	6,475	7,390	8,003
Other current	8,995	10,730	10,115	10,283	10,945	11,785	11,894	14,702	20,048
Development expenditures	15,085	12,785	13,160	12,355	14,216	13,822	17,541	20,948	22,516
Externally-financed projects	5,479	4,644	6,385	5,786	6,871	7,716	10,034	12,853	12,125
Of which: Non-concessional borrowing	908	72	966	840	1,397	1,359	3,587	5,716	5,117
Government of Uganda investment	9,606	8,141	6,775	6,568	7,345	6,106	7,507	8,096	10,391
Of which: Oil-related investment	0	758	1,324	1,289	962	908	250	-250	0
Net lending and investment	1,096	252	298	259	0	703	0	0	931
Hydro-power projects	159	252	298	259	0	486	0	0	931
Recapitalization	482	0	0	0	0	217	0	0	0
Of which: Bank of Uganda	482	0	0	0	0	217	0	0	0
Other net lending	455	0	0	0	0	0	0	0	0
Other spending (incl. arrears clearance)	794	606	662	770	200	206	1,500	2,408	200
Overall balance	**-13,902**	**-11,974**	**-9,392**	**-9,481**	**-7,292**	**-7,147**	**-7,810**	**-8,688**	**-7,775**
Primary balance	**-9,912**	**-7,008**	**-3,320**	**-3,435**	**-714**	**-1,035**	**-1,336**	**-1,298**	**228**
Financing	**13,266**	**9,993**	**7,081**	**7,219**	**6,355**	**6,223**	**7,810**	**8,688**	**7,775**
External financing (net)	6,468	4,407	4,362	5,823	5,458	4,486	4,941	7,483	6,456
Disbursement	7,422	6,123	6,664	8,065	8,108	6,985	7,819	11,101	11,070
Budget support	3,302	2,059	2,136	4,128	3,483	1,788	756	850	293
Concessional project loans	3,101	2,890	3,265	2,838	3,227	3,351	3,476	4,535	4,729
Non-concessional project loans	1,019	1,174	1,264	1,099	1,397	1,845	3,587	5,716	6,048
Amortization (–)[2,3]	-954	-1,716	-2,303	-2,242	-2,649	-2,499	-2,877	-3,618	-4,614
Exceptional financing	0	0	0	0	0	0	0	0	0
Domestic financing (net)	6,798	5,585	2,720	1,396	896	1,737	2,869	1,205	1,319
Bank financing	2,425	2,735	321	-341	-177	226	1,435	872	1,012
Bank of Uganda[3]	198	384	-2,078	-2,078	-1,251	-1,286	0	539	705
Commercial banks	2,227	2,351	2,399	1,737	1,074	1,512	1,435	333	307
Nonbank financing	4,373	2,851	2,399	1,737	1,074	1,512	1,435	333	307
Financing gap	**635**	**1,981**	**2,310**	**2,262**	**938**	**924**	**0**	**0**	**0**
Use of SDR Allocation		0	964	893					
ECF		416	1,346	1,369	938	924			
Memorandum Items:									
Social spending (excluding external financing)	5,210	5,980	6,847	6,575	7,786	7,054	8,603	9,904	11,685
Security spending (excluding external financing)	5,213	4,303	3,688	3,920	2,966	4,163	3,107	3,450	3,621

Sources: Ugandan authorities and IMF staff estimates and projections.

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

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

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

Table 2b. Uganda: Fiscal Operations of the Central Government, FY2020/21-2026/27[1]

(Percent of GDP)

	2020/21	2021/22	2022/23		2023/24		2024/25	2025/26	2026/27
	Act.	Act.	2nd-3rd Review	Rev. Prog.	2nd-3rd Review	Rev. Prog.		Proj.	
Total revenue and grants	**14.3**	**14.1**	**15.1**	**14.7**	**15.5**	**15.8**	**16.2**	**17.6**	**18.5**
Revenue	13.4	13.4	13.9	13.5	14.4	14.3	14.9	16.6	17.7
Tax	12.4	12.6	13.0	12.6	13.5	13.2	13.7	14.2	14.6
Import duty	0.9	1.0	1.4	1.2	1.4	1.2	1.3	1.5	1.6
Income taxes	4.6	4.6	4.5	4.5	4.6	4.6	4.8	4.9	5.0
Excises	2.8	2.8	2.7	2.5	2.9	2.8	2.9	3.0	3.1
Value-added tax	3.7	3.8	3.7	3.6	3.7	3.7	3.9	4.0	4.0
Infrastructure levy	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other taxes	0.3	0.3	0.8	0.8	0.8	0.8	0.8	0.9	0.8
Nontax	1.0	0.9	0.9	0.9	0.9	1.1	1.1	2.3	3.2
o/w: Oil revenue	0.1	0.0	0.0	0.0	0.0	0.0	0.1	1.3	2.2
Grants	0.9	0.7	1.2	1.2	1.1	1.5	1.3	1.0	0.8
Budget support	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project grants	0.9	0.6	1.2	1.1	1.1	1.5	1.3	1.0	0.8
Expenditures and net lending	**23.7**	**21.5**	**20.2**	**19.8**	**19.0**	**19.3**	**19.5**	**20.9**	**21.2**
Current expenditures	12.2	13.1	12.5	12.6	12.0	12.1	11.3	12.0	13.1
Wages and salaries	3.5	3.5	3.7	3.8	3.6	3.5	3.4	3.5	3.5
Interest payments	2.7	3.1	3.3	3.3	3.2	2.9	2.8	2.8	2.7
Other current	6.1	6.6	5.5	5.5	5.3	5.7	5.1	5.6	6.8
Development expenditures	10.2	7.9	7.1	6.7	6.8	6.7	7.6	8.0	7.7
Externally-financed projects	3.7	2.9	3.5	3.1	3.3	3.7	4.3	4.9	4.1
Of which: Non-concessional borrowing	0.6	0.0	0.5	0.5	0.7	0.7	1.5	2.2	1.7
Government of Uganda investment	6.5	5.0	3.7	3.5	3.5	2.9	3.2	3.1	3.5
Of which: Oil-related investment	0.0	0.5	0.7	0.7	0.5	0.4	0.1	-0.1	0.0
Net lending and investment	0.7	0.2	0.2	0.1	0.0	0.3	0.0	0.0	0.3
Hydro-power projects	0.1	0.2	0.2	0.1	0.0	0.2	0.0	0.0	0.3
Recapitalization	0.3	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Of which: Bank of Uganda	0.3	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Other net lending	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other spending (incl. arrears clearance)	0.5	0.4	0.4	0.4	0.1	0.1	0.6	0.9	0.1
Overall balance	**-9.4**	**-7.4**	**-5.1**	**-5.1**	**-3.5**	**-3.4**	**-3.4**	**-3.3**	**-2.7**
Primary balance	**-6.7**	**-4.3**	**-1.8**	**-1.9**	**-0.3**	**-0.5**	**-0.6**	**-0.5**	**0.1**
Financing	**8.9**	**6.1**	**3.8**	**3.9**	**3.1**	**3.0**	**3.4**	**3.3**	**2.7**
External financing (net)	4.4	2.7	2.4	3.1	2.6	2.2	2.1	2.9	2.2
Disbursement	5.0	3.8	3.6	4.3	3.9	3.4	3.4	4.3	3.8
Budget support	2.2	1.3	1.2	2.2	1.7	0.9	0.3	0.3	0.1
Concessional project loans	2.1	1.8	1.8	1.5	1.5	1.6	1.5	1.7	1.6
Non-concessional project loans	0.7	0.7	0.7	0.6	0.7	0.9	1.5	2.2	2.1
Amortization (–)[2,3]	-0.6	-1.1	-1.2	-1.2	-1.3	-1.2	-1.2	-1.4	-1.6
Exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing (net)	4.6	3.4	1.5	0.8	0.4	0.8	1.2	0.5	0.5
Bank financing	1.6	1.7	0.2	-0.2	-0.1	0.1	0.6	0.3	0.3
Bank of Uganda[3]	0.1	0.2	-1.1	-1.1	-0.6	-0.6	0.0	0.2	0.2
Commercial banks	1.5	1.4	1.3	0.9	0.5	0.7	0.6	0.1	0.1
Nonbank financing	2.9	1.8	1.3	0.9	0.5	0.7	0.6	0.1	0.1
Financing gap	**0.4**	**1.2**	**1.3**	**1.2**	**0.4**	**0.4**	**0.0**	**0.0**	**0.0**
Use of SDR Allocation		0.0	0.5	0.5					
ECF	0.0	0.3	0.7	0.7	0.4	0.4	0.0	0.0	0.0
Memorandum Items:									
Social spending (excluding external financing)	3.5	3.7	3.7	3.5	3.7	3.4	3.7	3.8	4.0
Security spending (excluding external financing)	3.5	2.6	2.0	2.1	1.4	2.0	1.3	1.3	1.2

Sources: Ugandan authorities and IMF staff estimates and projections.

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

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

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

Table 3. Uganda: Monetary Accounts, FY2020/21-2026/27[1]

(Billions of Ugandan Shillings, unless otherwise indicated)

	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	16,462	15,971	17,501	20,957	21,495	24,101	29,178
Bank of Uganda	15,574	14,435	15,683	19,092	19,639	22,014	25,688
Commercial banks	888	1,537	1,818	1,865	1,856	2,087	3,491
Net domestic assets	16,230	19,971	22,439	23,447	28,336	32,037	33,890
Claims on public sector (net)[3]	9,389	12,095	14,011	15,757	17,575	17,908	18,215
Claims on central government (net)	9,318	11,991	13,097	14,844	16,662	16,995	17,302
Claims on the private sector	18,861	20,936	22,805	25,169	28,143	31,712	36,094
Other items (net) [4, 5]	-12,030	-13,071	-14,377	-17,479	-17,382	-17,582	-20,419
Money and quasi-money (M3)	32,620	35,869	39,939	44,405	49,830	56,138	63,068
Foreign exchange deposits	8,941	9,538	11,553	12,845	14,415	16,239	18,244
	Bank of Uganda						
Net foreign assets	15,574	14,435	15,683	19,092	19,639	22,014	25,688
Net domestic assets	-6,123	-3,560	-3,853	-6,075	-5,295	-5,866	-7,547
Claims on public sector (net)[3]	-940	332	2,017	731	731	731	1,809
Claims on non-financial private sector (net)	593	-865	-2,170	-1,738	-1,284	-1,190	-4,551
Claims on commercial banks	-2,285	-337	-213	-1,084	-1,138	-2,039	-2,205
Other items (net) [4, 5]	-3,491	-2,690	-3,487	-3,985	-3,604	-3,368	-2,600
Base money	9,451	10,875	11,830	13,017	14,344	16,148	18,141
Currency in circulation	6,017	6,828	7,228	8,036	9,018	10,159	11,414
Commercial bank deposits[6]	3,434	4,047	4,602	4,981	5,326	5,988	6,727
	Other Depository Corporations						
Net foreign assets	888	1,537	1,818	1,865	1,856	2,087	3,491
Net domestic assets	26,495	28,614	31,988	35,720	40,322	45,430	49,892
Of which Claims on central government (net)	10,258	11,659	13,389	14,899	16,331	16,664	16,971
Of which Claims on private sector	18,785	20,855	22,805	25,169	28,143	31,712	36,094
Deposit liabilities to the non-bank public	27,382	30,151	33,806	37,585	42,178	47,517	53,383
Shilling deposits	18,441	20,613	22,252	24,740	27,763	31,278	35,139
Memorandum items:							
(Annual percentage change)							
Base money	7.3	15.1	8.8	10.0	10.2	12.6	12.3
M3	8.5	10.0	11.3	11.2	12.2	12.7	12.3
Credit to the private sector	8.3	11.0	8.9	10.4	11.8	12.7	13.8
Memorandum items:							
Base money-to-GDP ratio (percent)	6.4	6.7	6.4	6.3	6.2	6.2	6.2
M3-to-GDP ratio (percent)	22.0	22.0	21.5	21.4	21.5	21.5	21.5
Base money multiplier (M2/base money)	2.5	2.4	2.4	2.4	2.5	2.5	2.5
Credit to the private sector (percent of GDP)	12.7	12.9	12.3	12.1	12.1	12.2	12.3
Velocity (M3)	4.5	4.5	4.6	4.7	4.7	4.6	4.6

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 gover0

[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, FY2020/21-2026/27[1]

(Millions of U.S. Dollars, unless otherwise indicated)

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Act.		Rev. Prog.		Proj.		
Current account	-3,837	-3,591	-4,253	-4,849	-6,571	-6,996	-6,844
Trade balance	-3,045	-3,300	-3,978	-4,896	-6,573	-5,634	-4,365
Exports, f.o.b.	5,279	3,837	4,980	5,723	6,192	7,847	9,486
Of which: oil	0	0	0	0	64	1,387	2,687
Imports, f.o.b.	8,324	7,137	8,958	10,620	12,765	13,481	13,851
Of which: oil	830	1,237	1,401	1,171	1,207	1,216	704
Services (net)	-1,896	-1,324	-1,432	-1,426	-1,723	-1,999	-2,096
Credit	1,423	1,743	1,803	2,133	2,539	2,561	2,689
Debit	-3,319	-3,067	-3,235	-3,559	-4,262	-4,560	-4,785
Primary income (net)	-680	-778	-836	-830	-1,006	-2,202	-3,322
Of which: interest on public debt (debit)	-171	-179	-336	-400	-407	-427	-451
Secondary income (net)	1,785	1,812	1,992	2,303	2,730	2,839	2,939
Private transfers	1,593	1,571	1,756	1,960	2,405	2,556	2,691
Of which: workers' remittances (credit)	1,154	1,134	1,393	1,600	2,031	2,145	2,242
Official transfers	192	241	236	343	326	284	248
Of which: budget support (including HIPC)	60	94	15	19	8	7	0
Capital account	180	158	215	507	492	419	356
Financial account	-3,186	-2,883	-2,844	-4,665	-6,467	-7,542	-5,707
Direct investment (net)	-920	-1,218	-2,475	-3,977	-5,483	-5,890	-5,545
Of which: oil-linked investment (- = inflows)	-1	-12	-924	-2,365	-3,646	-3,838	-3,559
Portfolio investment (net)	-145	274	323	50	59	63	104
Other investment (net)	-2,107	-1,934	-687	-732	-1,038	-1,709	-259
Loans (net)	-1,759	-1,454	-444	-1,370	-1,081	-1,778	-418
Government (net)	-1,219	-906	-577	-1,122	-1,189	-1,842	-1,598
Disbursements	-1,505	-1,319	-1,227	-1,848	-2,018	-2,781	-2,797
Budget support	-432	-412	-368	-471	-193	-211	-211
Project support	-1,074	-906	-859	-1,377	-1,824	-2,570	-2,586
Of Which: non concessional	-286	-313	-293	-479	-905	-1,399	-1,436
Amortization	286	412	650	725	829	939	1,199
Deposits taking corporations	-12	11	77	3	3	1	1
Other sectors	-527	-559	57	-251	105	63	1,179
Other	-15	-4	-5	-7	-5	-6	-6
Net errors and omissions	470	500	520	0	0	0	0
Overall balance	-2	-50	-674	323	388	965	-780
Financing	-241	-66	309	-567	-388	-965	780
Central bank net reserves (increase = –)	-239	-65	309	-567	-388	-965	780
Use of Fund credit	258	125	0	0	0	0	0
Exceptional Financing	-3	-1	0	0	0	0	0
Financing gap	243	116	365	243	0	0	0
Non-concessional project loans	243						
ECF	243	116	365	243	0	0	0
Memorandum items:							
Gross international reserves							
In US$ billions	4.2	4.1	3.8	4.3	4.7	5.7	4.9
In months of next year's imports of goods and services	4.9	4.1	3.2	3.1	3.1	3.7	3.4
Gross international reserves excluding oil project financing and investment related imports							
In US$ billions	4.2	4.1	3.7	4.3	4.9	5.9	6.1
In months of next year's imports of goods and services	4.9	4.5	3.8	4.0	4.2	4.9	4.9
Donor support							
Of which : budget support (loans and grants)	491	480	382	489	201	218	211
Of which : project support (loans and grants)	1,254	1,064	1,074	1,884	2,317	2,989	2,942
Current account balance (excl. oil project financing and investment related imports)	-3,837	-3,591	-3,313	-2,295	-2,394	-2,779	-2,281

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, FY2020/21-2026/27[1]

(Percent of GDP, unless otherwise indicated)

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Act.		Rev. Prog.		Proj.		
Current account	-9.5	-7.9	-8.6	-8.9	-11.1	-11.8	-10.6
Trade balance	-7.5	-7.2	-8.0	-9.0	-11.1	-9.5	-6.7
Exports, f.o.b.	13.0	8.4	10.1	10.5	10.4	13.2	14.6
Of which: oil	0.0	0.0	0.0	0.0	0.1	2.3	4.1
Imports, f.o.b.	20.5	15.7	18.1	19.5	21.5	22.7	21.4
Of which: oil	2.0	2.7	2.8	2.1	2.0	2.0	1.1
Services (net)	-4.7	-2.9	-2.9	-2.6	-2.9	-3.4	-3.2
Credit	3.5	3.8	3.6	3.9	4.3	4.3	4.1
Debit	-8.2	-6.7	-6.5	-6.5	-7.2	-7.7	-7.4
Primary income (net)	-1.7	-1.7	-1.7	-1.5	-1.7	-3.7	-5.1
Of which: interest on public debt (debit)	-0.4	-0.4	-0.7	-0.7	-0.7	-0.7	-0.7
Secondary income (net)	4.4	4.0	4.0	4.2	4.6	4.8	4.5
Private transfers	3.9	3.4	3.6	3.6	4.1	4.3	4.2
Of which: workers' remittances (credit)	2.8	2.5	2.8	2.9	3.4	3.6	3.5
Official transfers	0.5	0.5	0.5	0.6	0.5	0.5	0.4
Of which: budget support (including HIPC)	0.1	0.2	0.0	0.0	0.0	0.0	0.0
Capital account	0.4	0.3	0.4	0.9	0.8	0.7	0.6
Of which: project grants	0.4	0.3	0.4	0.9	0.8	0.8	0.6
Financial account	-7.9	-6.3	-5.7	-8.6	-10.9	-12.7	-8.8
Direct investment (net)	-2.3	-2.7	-5.0	-7.3	-9.2	-9.9	-8.6
Of which: oil-linked investment flows	0.0	0.0	-1.9	-4.3	-6.1	-6.5	-5.5
Portfolio investment (net)	-0.4	0.6	0.7	0.1	0.1	0.1	0.2
Other investment (net)	-5.2	-4.2	-1.4	-1.3	-1.7	-2.9	-0.4
Loans (net)	-4.3	-3.2	-0.9	-2.5	-1.8	-3.0	-0.6
Government (net)	-3.0	-2.0	-1.2	-2.1	-2.0	-3.1	-2.5
Disbursements	-3.7	-2.9	-2.5	-3.4	-3.4	-4.7	-4.3
Budget support	-1.1	-0.9	-0.7	-0.9	-0.3	-0.4	-0.3
Project support	-2.6	-2.0	-1.7	-2.5	-3.1	-4.3	-4.0
Of Which: non concessional	-0.7	-0.7	-0.6	-0.9	-1.5	-2.4	-2.2
Amortization	0.7	0.9	1.3	1.3	1.4	1.6	1.9
Deposits taking corporations	0.0	0.0	0.2	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net errors and omissions	1.2	1.1	1.1	0.0	0.0	0.0	0.0
Overall balance	0.0	-0.1	-1.4	0.6	0.7	1.6	-1.2
Financing	-0.6	-0.1	0.6	-1.0	-0.7	-1.6	1.2
Central bank net reserves (increase = –)	-0.6	-0.1	0.6	-1.0	-0.7	-1.6	1.2
Use of Fund credit	0.6	0.3	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
Financing gap	0.6	0.3	0.7	0.4	0.0	0.0	0.0
Non-concessional project loans	1						
ECF	0.6	0.3	0.7	0.4	0.0	0.0	0.0
Memorandum items:							
Gross international reserves							
In US$ billions	4.2	4.1	3.8	4.3	4.7	5.7	4.9
In months of next year's imports of goods and services	4.9	4.1	3.2	3.1	3.1	3.7	3.4
Gross international reserves excluding oil project financing and investment related imports							
In US$ billions	4.2	4.1	3.7	4.3	4.9	5.9	6.1
In months of next year's imports of goods and services	4.9	4.5	3.8	4.0	4.2	4.9	4.9
Donor support							
Of which : budget support (loans and grants)	491	480	382	489	201	218	211
Of which : project support (loans and grants)	1,254	1,064	1,074	1,884	2,317	2,989	2,942
Current account balance (excl. oil project financing and investment related imports)	-9.5	-7.9	-6.7	-4.2	-4.0	-4.3	-3.2

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 2020-December 2022

(Percent)

	2020				2021				2022			
	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Capital adequacy												
Regulatory capital to risk-weighted assets	21.9	22.7	22.5	22.2	23.8	23.5	24.1	23.7	25.6	22.8	22.9	21.7
Regulatory tier 1 capital to risk-weighted assets[1]	20.3	21.1	20.9	20.6	22.2	22.1	22.6	22.3	24.2	21.4	21.4	20.3
Asset quality												
NPLs to total gross loans	5.4	6.0	5.1	5.3	5.4	4.8	5.4	5.2	5.8	5.3	5.2	5.3
NPLs to total deposits	3.3	3.7	3.1	3.2	3.3	2.9	3.3	3.2	3.5	3.2	3.2	3.3
Specific provisions to NPLs	37.8	39.1	43.5	45.0	47.3	47.3	46.5	45.1	42.3	43.4	44.8	50.1
Earning assets to total assets	68.2	67.4	69.8	69.1	69.1	69.7	71.5	68.8	71.0	69.0	68.9	72.6
Large exposures to gross loans	40.6	42.0	42.6	42.5	42.0	40.4	40.1	37.6	35.0	38.8	35.9	36.4
Large exposures to total capital	101.7	107.5	107.3	110.7	105.2	97.0	93.5	87.9	80.6	93.7	87.8	83.4
Earnings and profitability												
Return on assets	2.8	2.6	2.6	2.4	2.5	2.7	2.6	2.7	2.7	2.7	2.8	2.8
Return on equity	15.9	15.2	15.1	14.2	14.7	15.5	14.9	15.4	15.4	15.5	15.6	15.1
Net interest margin	11.2	10.9	10.4	10.2	10.4	10.2	10.1	10.4	10.3	10.2	10.4	10.6
Cost of deposits	2.6	2.5	2.5	2.4	2.4	2.4	2.4	2.3	2.2	2.1	2.2	2.3
Cost to income[2]	73.2	74.3	74.3	75.1	73.5	71.7	72.6	72.2	72.2	72.1	71.6	72.6
Overhead to income[2]	51.6	51.0	50.8	50.9	49.5	49.1	48.7	47.5	47.9	48.1	48.2	48.0
Liquidity												
Liquid assets to total deposits	48.8	49.1	48.8	50.7	47.6	51.5	49.2	48.2	49.6	46.5	38.5	43.2
Market sensitivity												
Foreign currency exposure to regulatory tier 1 capital	-6.5	-6.9	-7.5	-6.0	5.5	-6.6	-7.6	5.9	-5.0	-8.3	-5.9	(5.4)
Foreign currency loans to foreign currency deposits[2]	56.6	62.7	62.2	62.1	62.3	59.2	59.8	60.5	58.1	62.3	59.5	55.7
Foreign currency assets to foreign currency liabilities	93.8	98.1	95.7	99.5	94.3	93.5	86.4	98.9	92.6	95.3	94.3	92.8

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 1, 2023	90.25	25.0	Completion of the fourth review and observance of continuous and end-March 2023 performance criteria
December 1, 2023	90.25	25.0	Completion of the fifth review and observance of continuous and end-September 2023 performance criteria
June 1, 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, FY2020/21-2026/27

(Millions of U.S. Dollars)

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Financing needs	**4,076**	**3,655**	**3,944**	**5,416**	**6,959**	**7,961**	**6,063**
Current account deficit	3,837	3,591	4,253	4,849	6,571	6,996	6,844
Net payment to the IMF	0	0	0	0	0	0	0
Reserve accumulation (+=increase)	239	65	-309	567	388	965	-780
Financing sources	**-3,363**	**-3,039**	**-3,060**	**-5,173**	**-6,959**	**-7,961**	**-6,063**
Capital account	180	158	215	507	492	419	356
Financial account	-3,186	-2,883	-2,844	-4,665	-6,467	-7,542	-5,707
FDI (net)	-920	-1,218	-2,475	-3,977	-5,483	-5,890	-5,545
Public sector (net)	1,088	1,015	1,445	1,471	1,654	1,888	1,790
Exceptional financing	-3	-1	0	0	0	0	0
Errors and omissions	**470**	**500**	**520**	**0**	**0**	**0**	**0**
Financing gap	**243**	**116**	**365**	**243**	**0**	**0**	**0**
Prospective financing	**243**	**116**	**365**	**243**	**0**	**0**	**0**
ECF	243	116	365	243	0	0	0
Residual financing gap	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Sources: Ugandan authorities and IMF staff estimates and projections.

Table 8a. Uganda: Projected External Borrowing Program FY2022/23

(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	**2779.1**	**100**	**2318.5**	**100**
Concessional debt, of which	**786.0**	**28**	**431.2**	**19**
Multilateral debt	786.0	28	431.2	19
Bilateral debt	0.0	0	0.0	0
Other	0.0	0	0.0	0
Non-concessional debt, of which	**1993.1**	**72**	**1887.3**	**81**
Semi-concessional	439.8	16	334.0	14
Commercial terms	1553.4	56	1553.4	67
By Creditor Type	**2779.1**	**100**	**2318.5**	**100**
Multilateral	1602.2	58	1145.0	49
Bilateral - Paris Club	40.4	1	40.4	2
Bilateral - Non-Paris Club	208.2	7	204.8	9
Other	928.3	33	928.3	40
Uses of debt financing	**2779.1**	**100**	**2318.5**	**100**
Infrastructure	1557.4	56	1199.6	52
Social Spending	293.4	11	190.7	8
Budget Financing	928.3	33	928.3	40
Other	0.0	0.0	0.0	0.0

Source: Ugandan authorities and IMF staff estimates

Table 8b. Uganda: Projected External Borrowing Program FY2023/24

(July 1, 2023 to June 30, 2024)

PPG external debt	Volume of new debt in 2023		PV of new debt in 2023 (program purposes)	
	USD million	Percent	USD million	Percent
By sources of debt financing	**4746.4**	**100**	**3521.7**	**100**
Concessional debt, of which	**943.0**	**20**	**437.2**	**12**
Multilateral debt	943.0	20	437.2	12
Bilateral debt	0.0	0	0.0	0
Other	0.0	0	0.0	0
Non-concessional debt, of which	**3803.4**	**80**	**3084.4**	**88**
Semi-concessional	3299.6	70	2580.6	73
Commercial terms	503.8	11	503.8	14
By Creditor Type	**4746.4**	**100**	**3521.7**	**100**
Multilateral	1143.0	24	582.3	17
Bilateral - Paris Club	281.7	6	234.3	7
Bilateral - Non-Paris Club	2614.0	55	2053.7	58
Other	707.8	15	651.3	18
Uses of debt financing	**4746.4**	**100**	**3521.7**	**100**
Infrastructure	4220.3	89	3035.4	86
Social Spending	110.0	2	70.1	2
Budget Financing	416.2	9	416.2	12
Other	0.0	0.0	0.0	0.0

Source: Ugandan authorities and IMF staff estimates

Table 9. Uganda: Indicators of Capacity to Repay the IMF, 2021-30[1]

	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	36.1	90.3	117.3	144.4	162.5	126.4
Charges and interest	0.0	0.6	4.4	5.9	5.9	5.9	5.9	5.9	5.9	5.9
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	117.3	153.4	207.6	180.5
Charges and interest	0.0	0.6	4.4	5.9	5.9	5.9	5.9	5.9	5.9	5.9
Total IMF obligations based on existing and prospective credit										
In millions of SDRs	0.0	0.6	4.4	5.9	42.0	96.2	123.3	159.4	213.5	186.4
In millions of U.S. dollars	0.0	0.8	6.2	8.3	59.1	135.1	173.2	223.9	300.0	261.9
In percent of GDP	0.0	0.0	0.0	0.0	0.1	0.2	0.2	0.3	0.4	0.3
In percent of exports of goods and services	0.0	0.0	0.1	0.1	0.7	1.3	1.4	1.8	2.2	1.9
In percent of government revenue	0.0	0.0	0.1	0.1	0.7	1.3	1.4	1.6	2.0	1.6
In percent of gross international reserves	0.0	0.0	0.2	0.3	1.6	3.0	4.7	4.3	4.6	3.6
In percent of IMF quota	0.0	0.2	1.2	1.6	11.6	26.6	34.1	44.1	59.1	51.6
IMF credit outstanding based on Existing and Prospective Drawings (end-of-period)										
In millions of SDRs	631.8	812.3	992.8	1083.0	1046.9	956.7	839.3	685.9	478.3	297.8
In millions of U.S. dollars	877.9	1132.4	1387.4	1518.6	1473.2	1346.2	1181.1	965.2	673.1	419.1
In percent of GDP	2.2	2.5	2.8	2.8	2.5	2.1	1.7	1.3	0.8	0.5
In percent of exports of goods and services	13.1	20.3	20.5	19.3	16.9	12.9	9.7	7.5	5.0	3.0
In percent of government revenue	16.2	18.5	20.8	19.4	16.7	12.5	9.4	6.9	4.5	2.6
In percent of gross international reserves	24.7	37.5	52.0	46.9	40.6	30.0	31.9	18.5	10.4	5.8
In percent of IMF quota	175.0	225.0	275.0	300.0	290.0	265.0	232.5	190.0	132.5	82.5
Net use of IMF credit (end-of-period)										
In millions of SDRs	180.5	90.3	361.0	90.3	-36.1	-90.3	-117.3	-153.4	-207.6	-180.5
In millions of U.S. dollars	250.8	125.8	504.5	126.5	-50.8	-127.0	-165.1	-215.9	-292.1	-254.0
In percent of GDP	0.6	0.3	1.0	0.2	-0.1	-0.2	-0.2	-0.3	-0.4	-0.3
In percent of exports of goods and services	3.7	2.3	7.4	1.6	-0.6	-1.2	-1.4	-1.7	-2.2	-1.8
In percent of government revenue	4.6	2.1	7.6	1.6	-0.6	-1.2	-1.3	-1.6	-2.0	-1.6
In percent of gross international reserves	7.1	4.2	18.9	3.9	-1.4	-2.8	-4.5	-4.1	-4.5	-3.5
In percent of IMF quota	50.0	25.0	100.0	25.0	-10.0	-25.0	-32.5	-42.5	-57.5	-50.0
Memorandum items										
Nominal GDP (in millions of U.S. dollars)	40,530	45,557	49,472	54,555	59,359	64,790	70,628	76,620	83,056	89,769
Exports of goods and services (in millions of U.S. dollars)	6,702	5,580	6,783	7,857	8,731	10,408	12,175	12,794	13,405	13,971
Government revenue (in millions of U.S. dollars)	5,421	6,112	6,673	7,812	8,821	10,740	12,519	13,901	14,949	15,932
Gross international reserves (in millions of U.S. dollars)	3,551	3,023	2,670	3,236	3,624	4,486	3,706	5,225	6,483	7,284
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.

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

Table 10. Uganda: Decomposition of Public Debt and Debt Service by Creditor[1], FY2021/22-FY2023/24

	Debt Stock (end of period)			Debt Service					
	FY2021/22			FY21/22	FY22/23	FY23/24	FY21/22	FY22/23	FY23/24
	(In millions of US$)	*(Percent total debt)*	*(Percent GDP)*	*(In millions of US$)*			*(Percent GDP)*		
Total	21,901.9	100.0	50.6	3263.5	4,569.8	2,817.4	7.5	9.2	5.2
External	13,542.9	61.8	31.3	667.3	1,159.0	1,039.2	1.5	2.3	1.9
Multilateral creditors[2,3]	7,908.0	36.1	18.3	160.1	250.6	251.8	0.4	0.5	0.5
IMF	842.0	3.8	1.9						
World Bank	4,418.6	20.2	10.2						
ADB/AfDB/IADB	667.3	3.0	1.5						
Other Multilaterals	1,980.1	9.0	4.6						
Bilateral Creditors[2]	3,574.1	16.3	8.3	309.5	398.1	395.8	0.7	0.8	0.7
Paris Club	824.7	3.8	1.9	45.3	65.6	69.4	0.1	0.1	0.1
Non-Paris Club	2,749.4	12.6	6.3	264.2	332.4	326.4	0.6	0.7	0.6
o/w: Eximbank of China	2,649.2	12.1	6.1						
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial creditors	1,331.7	6.1	3.1	47.2	257.7	246.7	0.1	0.5	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	700.2	3.2	1.6	150.4	252.7	145.0	0.3	0.5	0.3
Domestic	8,359.0	38.2	19.3	2,596.2	3,410.8	1,778.1	6.0	6.9	3.3
T-Bills	1,163.3	5.3	2.7	n/a	n/a	n/a	n/a	n/a	n/a
Bonds	6,298.4	28.8	14.5	n/a	n/a	n/a	n/a	n/a	n/a
BoU advances	897.3	4.1	2.1	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							45,557	49,472	54,555

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

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).

Annex I. Risk Assessment Matrix[1]

Source of Risks	Likelihood/ Time Horizon	Expected Impact on Economy	Policy Response
Potential Domestic Risks			
Intensification of security risks and spillovers from the civil conflict in Sudan	**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 be geared 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.
Social unrest. Renewed inflation surge that depresses real incomes, worsens inequality, and causes social unrest.	**Low** **Short term**	**High** Economic activity would be disrupted. Growing political instability would weaken the 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.
Slow progress on fiscal reforms, including on improving revenue mobilization and public sector efficiency.	**Medium** **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
Slow progress on action plan agreed with FATF for jurisdictions under increased monitoring.	**Medium** **Short term**	**Medium** This could adversely impact corresponding banking relationship and stability of the financial system	Accelerate efforts to complete the action plan items agreed with FATF, including by ensuring strong coordination among relevant stakeholders.

[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
Natural disasters related to climate change. Higher frequency of natural disasters causes 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			
Systemic financial instability. Sharp swings in real interest rates, risk premia, and assets repricing amid economic slowdowns and policy shifts trigger insolvencies in countries with weak banks or non-bank financial institutions, causing markets dislocations and adverse cross-border spillovers.	Medium **Short Term**	Medium Tightening of external financing conditions; capital outflows and exchange rate volatility.	- Temporary FXI could be considered to smooth excess volatility - Formulate credible medium-term fiscal path to support investor confidence.
Intensification of regional conflict(s). Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, refugee flows, FDI and financial flows, and payment systems.	High **Short to Medium Term**	Medium Would weaken the recovery and intensify the inflationary pressure through surging commodity prices.	- Adjust monetary policy as needed in response to the inflationary pressure - Accommodative fiscal policy to mitigate the impact on the poor - Formulate credible medium-term fiscal path to support investor confidence.
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts and export restrictions) and demand fluctuations (e.g., reflecting China reopening) causes recurrent commodity price volatility, external and fiscal pressures, and social and economic instability.	Medium **Short to Medium Term**	Medium Poor households would be particularly vulnerable to the rising commodity prices. Renewed	- Provide targeted fiscal support to vulnerable households - Formulate credible medium-term fiscal path to support investor confidence

Source of Risks	Likelihood/ Time Horizon	Expected Impact on Economy	Policy Response
		inflationary pressure and weaker recovery. However, higher energy prices could provide stronger incentive for swift planned investments. As a net food exports, Uganda could also benefit from higher export receipts.	- Adjust monetary policy in view of the inflationary pressure
Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and markets fragmentation.	Medium **Short Term**	**High** Slowdown in exports and GDP growth.	- Allow automatic fiscal stabilizers to operate; could temporarily ease macroeconomic policies if growth slows sharply.
Cyberthreats. Cyberattacks on critical domestic and/or international physical or digital infrastructure (including digital currency and crypto ecosystems) trigger financial and economic instability.	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 II. Inflation Developments and Outlook

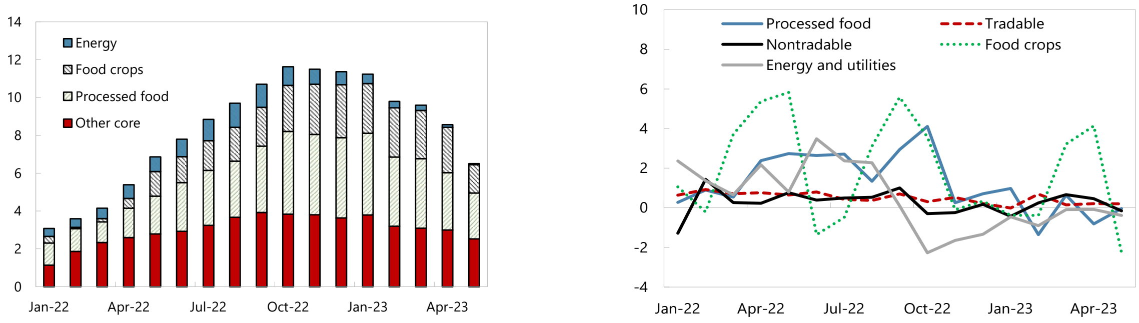
1. **Against the backdrop of surging global food and energy prices, inflation accelerated sharply in 2022.** Headline and core inflation accelerated sharply from an average of 2.2 and 2.8 percent yoy in 2021 to 10.7 and 8.9 percent, respectively, in October 2022. The pickup in inflation was comparable to developments in the rest of sub-Saharan Africa, largely driven by global factors. Specifically, in line with global energy prices, fuel and utilities price inflation started accelerating in late-2021, peaking at 19.6 percent yoy in August 2022. Similarly, against the backdrop of rising global food prices and the absence of price caps and subsidies, increasing fertilizer costs and adverse weather conditions, food crops inflation turned double-digit in May 2022 and reached 29.4 percent yoy in December 2022.

2. **The acceleration in core inflation was largely driven by processed food and tradable prices**, which account for around 50 and 60 percent of the headline and core basket, respectively, while nontradable core inflation remained modest. Specifically, the uptick in processed food inflation followed that of food crops, estimated to have accelerated to 25-26 percent between October 2022 and January 2023. Within processed food, a few categories significantly contributed to this acceleration. For example, other rice, maize flour, cassava flour, sugar, chapati, and mukene alone contributed 3.1 percentage points to headline inflation in January 2023. Following a gradual acceleration, tradable core inflation is estimated to have reached 7.6 percent in November 2022. Nontradable core inflation, estimated to have peaked at 4.5 percent in January 2023, has stayed below the medium-term target of 5 percent, suggesting that monetary policy tightening successfully contained second-round effects.

Text Figure 1. Inflation Developments

Headline Inflation
(Contribution, ppt)

Inflation
(Percent, m/m)



Source: UBOS, BoU, IMF staff calculations

3. **Both headline and core inflation seem to have peaked in late-2022.** Notwithstanding a temporary uptick in January 2023, both headline and core inflation have been decreasing since October 2022, reaching 6.2 and 5.6 percent yoy, respectively, in May 2023. While fuel and utilities price inflation started decelerating already in September 2022 on the back of softening global

energy prices, food crops and processed food inflation peaked only in late-2022. Tradable and nontradable core inflation have also been decelerating, estimated to have reached 4.7 and 2.8 percent, respectively, in May 2023.

4. Headline and core inflation are expected to decelerate sharply in 2023, with the latter to reach the medium-term target of 5 percent by end-2023. The decline in inflation will be largely driven by food crops and processed food prices on the back of the base effect and good harvest due to favorable weather conditions. Moreover, tradable core inflation will also decrease gradually while nontradable core inflation will remain modest, supported by the stable exchange rate since mid-2022 and monetary policy tightening (Annex III) since the start of the war in Ukraine. Nonetheless, risks remain tilted to the upside, including related to the agricultural harvest, the recent OPEC announcement about an oil supply cut, and exchange rate depreciation in case of further external pressures.

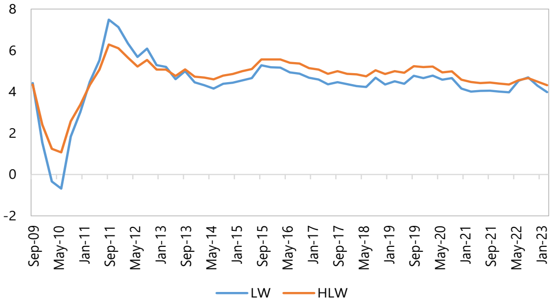
Annex III. Monetary Policy

1. **A pressing issue confronting authorities is to tackle a decade-high inflation level while supporting economic growth.** To tame inflation, the BoU raised its policy rate four times in 2022, reaching 10 percent, compared to 6.5 percent in 2021 and increased the cash reserve ratio by 200 basis points to 10 percent. Liquidity conditions are tight, with the interbank rate settling at 12%. However, the BoU has recently halted its tightening cycle.

2. **How high should the policy rate be to cool inflation down?** The neutral rate, defined as the real interest rate consistent with output at potential and price stability, provides an anchor for monetary policy, presenting a guidepost as to whether monetary policy is tight, loose, or neutral. If the policy rate is below (above) the neutral interest rate, monetary policy is seen as loose (tight). However, the neutral interest rate is not observed and therefore its estimates are highly uncertain, particularly in developing countries.

Text Figure 1. Neutral Interest Rate Estimate

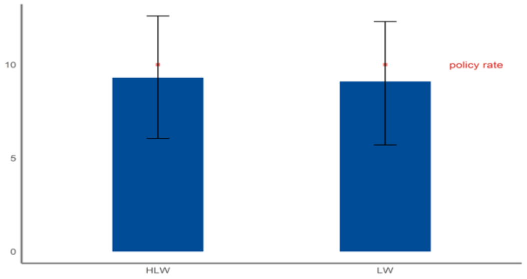
(Percent)



Source: IMF staff calculation
Notes: HLW= Holston, Laubach, and Williams (2017) model. LW= Laubach-Williams 2003.

Text Figure 2. Monetary Policy Stance, 2023Q1

(Percent)



Source: IMF staff calculations
Notes: Bar= estimated neutral interest rate plus one year ahead inflation forecast based on the WEO database. HLW= Holston, Laubach, and Williams (2017) model. LW= Laubach-Williams 2003. The range around the bars is the 95% confidence intervals and one-year-ahead inflation forecast.

3. **Different estimates suggest Uganda's neutral interest rate has been declining recently.** To gauge the monetary policy stance in Uganda, this annex estimates the real neutral rate using two methods: Laubach-Williams 2003 (LW) and Holston-Laubach-Williams 2017 (HLW). The LW approach specifies a simple theoretical relationship that links interest rates to measures of economic activity, while the HLW model relaxes some of the LW model assumptions. The results point to a decline of the Ugandan neutral interest rate, in part due to lower potential growth, which is in line with the 2022 IMF selected issues paper for Uganda documenting a declining trend of the neutral rate to around 4 ½ percent in 2021.

4. **The monetary policy stance is neutral, but must remain vigilant to changes in inflation expectations.** Under the baseline forecast of 5% core inflation by end-2023, the ex-ante real policy rate is currently 5% (and the effective ex ante real policy rate based on the interbank rate is 7%).

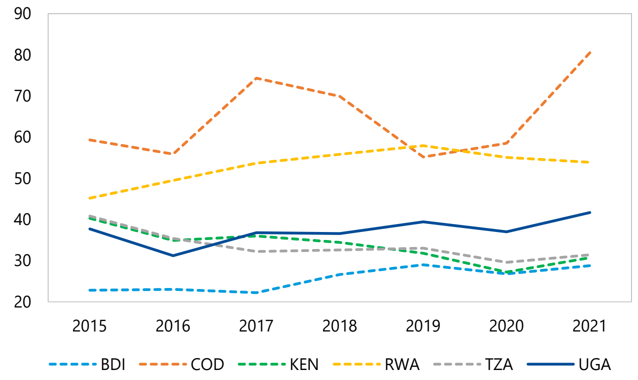
Compared to the estimated neutral rate of 4 - 4 ½ percent (Annex Figure), this suggests the monetary policy stance is broadly neutral. Although core inflation appears to have peaked and is on a declining path thanks to the effects of past tightening, improved weather conditions, and softer global price pressures, the risks to the inflation outlook remain on the upside largely due to possible renewed surges in global commodity prices. Monetary policy should remain data dependent, given the fast-changing external conditions. In particular, the BoU should stand ready to resume its tightening cycle if signs of slower-than-expected disinflation reemerge.

Annex IV. Imports: Trends and Drivers

1. **Uganda's trade integration has continued in recent years, with its overall trade openness surpassing many EAC peers.** Uganda, a landlocked nation, with a rapidly expanding economy, is becoming increasingly integrated into the global economy. In 2021, Uganda's exports and imports accounted for 42 percent of GDP, higher than some East Africa Community (EAC) peers, such as Burundi, Kenya, and Tanzania, while below that of the Democratic Republic of Congo and Rwanda (Text Fig.1). Like many of its regional counterparts, Uganda heavily depends on imports to meet its domestic demand for goods and services. In 2021, the nation's imports of goods and services represented 26 percent of GDP, amounting to US$10.4 billion. This annex takes a closer look at Uganda's imports, exploring the country's main trade partners and imported products, and analyzes the main drivers of import demand in Uganda.

Text Figure 1. East African Community: Trade Openness

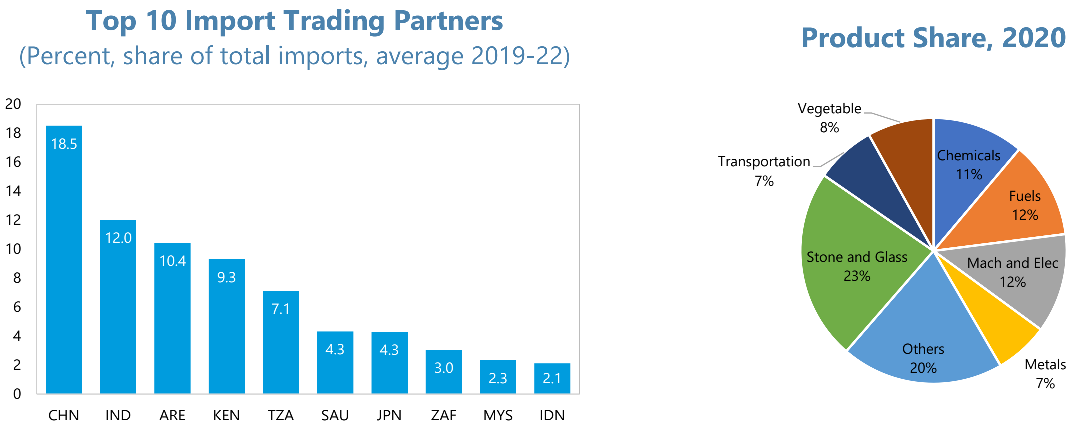
(Exports plus imports, percent of GDP)



Source: World Bank and IMF staff calculations
Note: South Sudan is not shown due to data unavailability.

2. **Uganda's imports mainly come from Asia, Middle East, and East Africa, with stones and glass, and machines being the leading imports.** Uganda's key imports partners include China, India, the United Arab Emirates, Kenya, Tanzania, and Saudi Arabia. These countries contributed a combined 62 percent Uganda's total imports between 2019 and 2022. China was the largest source, providing 18.5 percent of imports, followed by India at 12 percent and the United Arab Emirates at

Text Figure 2. Imports: Trading Partners and Product Share



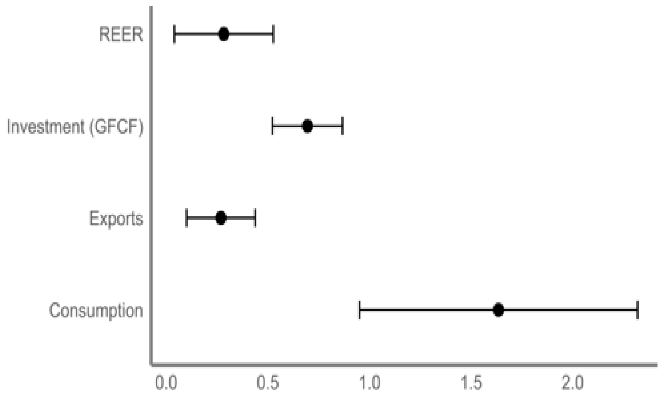
Source: WITS, IMF staff calculations

Source: IMF, Directions of Trade Statistics

10.4 percent (Text Fig. 2). The largest share of imports are intermediate goods (44.3 percent), followed by consumer goods (34.3 percent), capital goods (16.7 percent) and raw materials (4.3 percent). The top five imported products were stones and glass, machines and electronics, fuels, chemicals, and vegetables. (Text Fig. 2).

3. Imports growth is closely linked to domestic demand, exports, and exchange rate movements. Empirical analysis of Uganda's import demand determinants highlights the significance of consumption, investment, exports, and exchange rate (Text Fig. 3). Specifically, a one percent increase in consumption is associated with a 1.6 percent increase in imports, reflecting the high proportion of consumer products in imports, while a one percent increase in investment boosts imports growth by 0.6 percent. In addition, a one percent increase in exports is associated with a 0.3 percent increase in imports, reflecting the imported components of exports, especially for gold trade. Finally, exchange rate movements also play an important role in determining imports, with a one percent depreciation of REER reducing imports growth by 0.3 percent. The analysis indicates that exchange rate adjustment and policy tightening to reduce domestic demand are key to contain imports growth and restore external balance in Uganda.

Text Figure 3. Determinants of Import Demand



Source: IMF staff calculations

Note: The figure shows point estimates and 95 percent confidence intervals for coefficients of an OLS regression of change in imports over 1990-2022 on a set of explanatory variables (showing only the statistically significant coefficients). The results are robust to using the pre-COVID sample.

Appendix I. Letter of Intent

Kampala, June 6, 2023

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

Dear Ms. Georgieva:

Uganda is recovering from recent external shocks that have presented an economic challenge. As global commodity price inflation has abated, domestic droughts have eased, and thanks to the prompt and active policy response of the Bank of Uganda (BoU), inflation has begun to decelerate, and is now on a downward path. Our strong public health response has contained the Ebola outbreak in the beginning of the year, and tourism is returning to the country. Recent high frequency indicators point to accelerating growth, and robust industrial and services activity is expected to solidify the recovery going forward.

We continue implementing reforms outlined in the Third National Development Plan which was reprioritized to cater for higher social spending and continued support to households and businesses. These priorities are reflected in our FY2023/24 budget. In line with our commitments under the ECF program, we are persevering on the fiscal consolidation path and taking care to contain the fiscal deficit by eliminating non-priority and unproductive spending and increasing revenue. Implementation of the Domestic Revenue Mobilization Strategy will yield additional revenues of 0.6 percent of GDP next year and ½ percent of GDP per year thereafter.

Near-term policies continue to rely on fiscal policy to deliver sustainable fiscal consolidation that protects livelihoods and supports development. At the same time, monetary policy has been tightened to ensure a return of core inflation to its target, safeguarding price stability. A tighter fiscal policy, and continued exchange rate flexibility, will also help strengthen our international reserves. We are also implementing several programs, including the Parish Development Model, to create wealth and support incomes for the poorest and hardest hit by the crisis. 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; (iii) boosting social and development spending; (iv) strengthening reserve buffers; (v) improving the BoU's inflation targeting framework; and (vi) supporting financial sector stability. To generate more inclusive growth, we will work on strengthening governance, expanding the existing social safety net, implementing structural reforms to boost human capital and private sector development, and enhancing resilience to domestic and external shocks including those arising from climate change.

We remain firmly committed to the implementation of our ECF-supported program. We met all but one end-March QPCs and all but two indicative targets despite the challenging environment. We request a waiver for nonobservance of the QPC on net credit to government that was missed by a small margin (1 percent). We did not meet the ITs on tax revenues and social spending also marginally (5 percent). We also request modifications to the following quantitative targets: floors on primary budget balance of the central government (June IT), and tax revenues (June IT); ceiling on PV of newly contracted external public and publicly guaranteed debt (June IT, September QPC, December IT). We are implementing our structural reform agenda with determination, focusing on revenue mobilization, financial stability and inclusion, public sector efficiency, and human capital development.

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. To mitigate implementation risks, we have consulted all stakeholders, including the Attorney General, on the feasibility of the measures and policies outlined in the MEFP. The government will take any additional measures that may become appropriate for the purpose of achieving the program goals. We will consult with the IMF 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 fourth 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/ Hon. Matia Kasaija Minister of Finance, Planning and Economic Development	/s/ Adam Mugume Executive Director Research For Deputy Governor of the Bank of Uganda Michael Atingi-Ego

Attachments:

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

Attachment I. Memorandum of Economic and Financial Policies

A. Introduction

1. **Despite the challenging environment, Uganda's recovery momentum is strong.** Economic activity has been robust on the back of strong industrial activity and services despite the less supportive external environment. Agricultural production was also affected by a drought in some regions. Spillovers from the war in Ukraine led to higher food and fuel prices that broadened across other goods and services, contributing to a temporary surge in inflation in mid-2022. Over the past few months both headline and core inflation have decelerated. Following a stronger-than-anticipated outturn for GDP growth in the first half of FY2022/23, we have raised our growth forecast for the fiscal year to 5.5 percent (from 5.3 percent at the time of the ECF combined 2nd and 3rd reviews) while keeping the growth projection for FY 2023/24 unchanged at 6 percent. Over the medium term, investment in oil-related infrastructure, the energy sector and transport, coupled with a recovery in manufacturing and construction, stronger external demand and reform implementation will lift annual growth above 6 percent.

2. **The balance of risks to the outlook is to the downside.** Uncertainty around the duration and impact of the war in Ukraine on oil prices, global growth, and global financial conditions could weigh on our recovery in the near term with negative repercussions on poverty. There is uncertainty related to the pace of monetary tightening globally and financial conditions (including movements in risk premia and the exchange rate) that could push debt servicing costs further up, lower our capacity to borrow, and weaken foreign investor inflows into the local bond market. Finally, an increased frequency and intensity of climate shocks, including droughts and floods, could undermine agricultural activity and increase food insecurity in rural areas. On the upside, growth could be higher, supported by a positive impact on spending and growth from the Parish Development Model (PDM). Faster trade integration within the region could also impact medium-term growth potential positively and lift near-term prospects through higher investment.

3. **The updated economic program presented in this Memorandum of Economic and Financial Policies (MEFP) supports our Third National Development Plan (NDPIII) and ensures priorities remain aligned to support the recovery**. NDPIII implementation remains 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 2023-24 under the three-year ECF arrangement. We will continue to collaborate with development partners in implementing the policy framework outlined in this MEFP.

B. Economic Developments

4. **Our post-pandemic recovery is gaining strength despite external challenges.** Economic activity was strong in the first 6 months of FY 22/23—reflecting robust industrial activity and services, while unfavorable weather weighed down on the agricultural sector. Our

strong public health effort rapidly contained the Ebola outbreak which has positively impacted economic growth; high frequency indicators are pointing to continued steady growth in recent months, lifted by robust new orders and rising employment. The Purchasing Manager's Index was at 55.4 in April 2023 (against the breakeven value of 50) and the Composite Index of Economic Activity increased by 5.9 percent growth y-o-y in March 2023. The difficult external environment is however affecting the economy through the high price of imported fuel while higher policy rates abroad are contributing to rising financing costs.

5. **Inflation is finally receding from a peak in October and is projected to continue falling.** Headline inflation was 6.2 percent and core 5.6 percent in May. While food inflation remains elevated, albeit sharpy decelerating, fuel and non-food core inflation are in the range of 3-5 percent. Core inflation is projected to return to mid-point target of 5 percent by end-2023 on account of monetary and fiscal policy tightening. In addition, improved domestic harvests, and continued easing of global goods demand-supply imbalances are expected to contribute to disinflation of processed food and imported goods prices.

6. **The current account deficit remains high**. The current account deteriorated in the second half of 2022 reflecting both a decline in tourism receipts and an increase in imports, in part FDI-related imports financed through the financial account of the Balance of Payments, partly offset by the recovery of goods exports. The terms of trade improvement following the softening of global oil and metals prices helped narrow the deficit somewhat in 2022Q4, and recent data shows continued pickup in exports. Foreign Direct Investments (FDI) and other investment inflows picked up, but portfolio outflows continued. Reserves remained stable at US$ 3.6 billion since October 2022 despite a boost from the IMF disbursement in January 2023 following the completion of the combined 2nd and 3rd reviews and our foreign exchange (FX) purchases in the market, mainly because of FX demand to finance government imports and debt service.

7. **The BOU continues to balance support to economic activity and curbing inflation pressures.** The BOU increased the policy rate by a cumulative 350 bps to 10 percent in October 2022, in response to rising inflation. Reserve requirements were also tightened resulting in an interbank rate 200bps above the policy rate. The BoU has since paused its tightening cycle and the monetary policy stance is appropriate. The 7-day interbank rate has eased to 11.7 percent in April 2023, from a peak of 12.1 percent in February 2023. Private sector credit grew by 10.7 percent in April 2023 (y-o-y), below the average of 12.0 percent in the two years prior to the pandemic and only 2.7 percent in real terms, due to economic uncertainty, banks' risk aversion, and the crowding out effect of government borrowing.

8. **We expect that the FY22/23 budget execution will remain within the target agreed at 2nd and 3rd review.** In the first three quarters of FY22/23 the fiscal deficit was 72 percent of the amount projected for the whole fiscal year (5.1 percent of GDP), with domestic revenues and spending at about 70 percent of the yearly target and grants at 45 percent. Public debt (inclusive of outstanding BOU advances) was 50.6 percent of GDP at end-FY21/22.

9. The banking sector is profitable and well-capitalized, though systemic risks remain elevated. This reflects tight financial conditions, and slower global and domestic economic growth. Capital buffers are sufficient and the ratio of regulatory capital to risk-weighted assets —at 24.2 percent in March 2023 —is well above the minimum prudential requirements of 10 percent. The liquidity coverage ratio has increased to 283.8 percent in March 2023 from184.5 percent in June 2022. Supervised Financial Institutions (SFIs) continued provisioning for Non-Performing Loans (NPLs) proactively, reflecting commercial banks' risk aversion, forward-looking provisioning to meet IFRS 9 requirements, and preparation for the write-off of bad loans following the end of the COVID-19 credit relief measures in September 2022. The Domestic Systemically-Important Banks (DSIBs)' and primary dealers' portfolios of available-for-trading government treasury securities expressed as a proportion of their total assets, and marked-to-market, range from 8.4 percent to 24.6 percent as at end March 2023. We will closely monitor risks to macro-financial stability that could arise from a deeper sovereign-bank nexus.

C. Program Performance

10. We met all end-December indicative targets except one. We met the floors on the primary balance and net international reserves, the ceilings on BOU net credit to government and on the PV of newly contracted external public and publicly guaranteed debt. We did not accumulate external arrears. We also met the ITs on inflation, repayment of domestic arrears, social spending and support to vulnerable households. We missed the IT on tax revenues by a small margin, mainly reflecting lower-than-anticipated collection of corporate taxes, affected also by the decline of tourism amid the Ebola outbreak.

11. We met all but one end-March QPCs and all but two indicative targets (IT, Table 1). We met the ceiling on the present value of newly contracted external public and publicly guaranteed debt and the floors on the primary balance and net international reserves, and there was no accumulation of external arrears. We did not repay BOU advances in line with the program because of a delay in approving use of SDRs for this purpose and uncertainty on the timing of external commercial borrowing. This resulted in a missed performance criterion on BOU net credit to government, with the outturn marginally higher than the program ceiling by 1 percent. We also met the ITs on the repayment of domestic arrears and support to vulnerable households. However, we missed the IT on tax revenues (on account of lower than anticipated corporate tax collections) and the IT on social spending (because of capacity constraints in line ministries and agencies to deploy the released funds), both by small margins of around 5 percent.

12. Our structural reform agenda is progressing (Table 2). We have implemented all the structural benchmarks (SBs) with deadlines between the last review in January 2023 and June 2023.

- The Companies' Act was amended in August 2022 to establish a definition of beneficial ownership consistent with FATF standards, requiring companies to maintain the register of beneficial owners and provide power to the Registrar to maintain a register of beneficial owners. Subsequently, the Beneficial Owners Regulations have been gazetted in January 2023 (SB, reprogrammed to end-March 2023) which provide for **timely access to the beneficial ownership information** by competent authorities, enabling this SB to be implemented ahead of the reprogrammed deadline.

- The Auditor General's report on the FY 20/21 COVID-19 spending published in February 2022 was approved by Parliament in February 2023. We have issued **treasury memoranda** that explain how weaknesses raised by the FY 20/21 audit will be addressed (SB, end-May 2023).

- **We have developed and implemented the tools for risk-based AML/CFT supervision of the financial sector** (SB, end-May 2023). The updated tools for the banking sector were rolled out in 2022, while the tools for the foreign exchange bureaus, and money remitters were rolled out in May 2023 with the technical support of the IMF.

- We have completed a **medium-term ICT strategy** supported by a plan for the procurement of a new Integrated Tax Administration System (ITAS) (SB, end-May 2023). Over the next months, URA will work with IMF staff to refine the TORs and launch the procurement process.

- **We** have published on the Ministry of Finance, Planning and Economic Development (MOFPED) website decisions arising from investigations that led to sanctions for the period starting from FY 2020/21 onwards, with clear personal penalties for officers responsible for unauthorized spending commitments and actions taken to enforce compliance (SB, end-June 2023).

- Our Parish Development Management information system (PDMIS) tracking access to revolving funds by targeted vulnerable households is being rolled out to parishes and a report on the drawdown of the funds by vulnerable households is available (SB, end-June 2023).

D. Economic Policies

13. Due to challenges in the post-COVID-19 recovery, we re-prioritized the implementation of the NDPIII, centering it more narrowly on the near-term support to economic recovery. We remain focused on macroeconomic stability and structural reforms that ease bottlenecks, including governance and fostering public sector efficiency. Areas of refocus reflect current priorities and strategies: (i) supporting business activity and financial inclusion, through interventions including increasing the uptake of the Small Business Recovery Fund, better use of developmental finance through Uganda Development Bank, injecting capital for the Agricultural Credit Facility, and strengthening digitalization of financial sector; (ii) restoring the well-being of the population through vaccination and scaled up financing for education; (iii) maintaining 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; and (vi) implementing the PDM.

14. The PDM is our strategy for organizing and delivering public and private sector interventions to boost income and employment at the level of the parish. Out of the 10,587 established cooperatives (SACCOs) 10,102 (95 percent) have already received the first installment (25 million per SACCO) dedicated revolving funds -while 9,917 have received also the second installment as of 26th May 2023. Local governments are submitting the Parish Revolving Fund utilization schedules. Arrangements to provide the balance for each of the PDM SACCOs (to make 100m per SACCO) before the end of the FY23 have been finalized. Despite the best efforts, training of SACCO leaders and enterprise group members is slower than expected and by March only about 3,000 households had accessed PDM loans. Training is critical for the effective utilization of funds.

Fiscal Policy and Debt Management

15. The deficit target in FY23/24 will be lower than envisaged under the 2nd and 3rd reviews. The 5.1 percent headline deficit target for FY22/23 agreed at the combined 2nd and 3rd reviews strikes the right balance between providing near-term support to the economy and ensuring that debt remains on a sustainable path over the medium term. To maintain the headline deficit, we are compensating for the under-performance of tax revenues and the higher domestic arrears clearance by curbing non-priority capital expenditures while maintaining the share of social spending at 22 percent of total spending by end-FY22/23. In the context of high interest rates and low reserve buffers, in FY23/24 the fiscal deficit will shrink more than envisaged during the 2nd and 3rd reviews, by 0.1 percent of GDP. The budget will target a deficit of 3.4 percent. To achieve this goal, revenue measures, including tax exemptions rationalization and administrative measures, will ensure that tax revenue/GDP ratio increases by at least 0.6 percentage points relative to FY22/23 to partially offset the revenue underperformance in FY22/23. In case of underperformance in the first half of the year, we will implement additional revenue measures accompanied by cuts to non-priority spending.

16. We remain committed to fiscal consolidation, which is necessary to keep debt sustainable and avoid a deterioration in the risk of distress. Implementation of the Domestic Revenue Mobilization Strategy (DRMS), expenditure prioritization and improvement in spending efficiency will reduce the deficit below the target of 3.5 percent of GDP set in the Charter of Fiscal Responsibility Law over the medium term. The debt-to GDP ratio will fall to 47.8 percent of GDP (including the stock of BOU advances) in FY23/24 and will continue declining over the medium term.

17. We have made progress on the implementation of the DRMS. Our medium-term revenue strategy, which is being updated continuously and costed to reflect changes in policies and the economic environment, will enhance the income tax system, improve the excise duty regime, and strengthen VAT productivity, including by reviewing the VAT registration threshold. Increasing taxpayer registrations, enhancing voluntary compliance, and improving arrears management remain our main areas of focus in tax administration. We will formulate a compliance improvement plan for the large taxpayers' office with a focus on specialized sectors and taxation of multinational enterprises (proposed SB, end-March 2024). Streamlining tax expenditures with the help of the newly adopted tax expenditure rationalization framework remains a key priority. We are implementing the recommendations of the technical assistance (TA) on tax expenditure rationalization on four fronts: (i) putting in place the institutional arrangements and capacity to assess and evaluate tax expenditures, including a new fiscal governance framework for tax expenditures; (ii) reviewing and rationalizing tax expenditures on direct income, including the personal and corporate income taxes; (iii) ceasing granting discretionary provisions under the tax procedures code; and, (iv) rationalizing the costliest and most inefficient tax expenditures under the VAT and excise taxes. We have announced sunset clauses on some tax expenditures and will accompany this work with a cost-benefit analysis to assess the tax expenditures' impact on growth, exports and the support to our import-substitution strategy. This will provide us with criteria for eliminating ineffective tax expenditures, and a basis for refraining from granting new tax exemptions.

18. The program targets a continuous increase in priority social spending. While the scope for further increases in social spending is limited by the debt outlook that has been significantly affected by the pandemic-induced hit to GDP growth, the fiscal response to health emergencies, and higher interest rates, the targeted increase in social spending aims at reversing the decline in public education and health spending and addressing student's learning gaps. Due to absorptive capacity constraints at line ministries and agencies, released funds for social spending have not been deployed in a timely manner, leading to the missed IT in September 2022 and March 2023. This fiscal year, the share of social spending will be 22 percent of the total domestically-financed spending, below the 23.1 percent agreed at the time of the 2nd and 3rd reviews of the ECF program. We are committed to increasing the share of social spending to around 22.5 percent in FY 23/24 and further to around 26 percent in FY 24/25. To address the absorptive capacity constraints in social sectors (education, health, social development) we will seek IMF TA to help improve capacity – for example, in the areas of fiscal federalism/devolution to improve sub-national governments' ability to use appropriated funds. We are registering all primary and secondary schools' learners' data into the Education Management Information System (EMIS) and are on track to publish diagnostics by local governments to inform decisions on funding needs for the educational system (SB, end-December 2023). Learners' data for all government schools has already been validated (about 10 million students). In the next stage, we will collaborate with local governments to validate the existence and continuity of operation of many private schools (about 40,000) that have not yet uploaded learners' data into the system. We will expand coverage of the EMIS to include teachers in public schools countrywide and issue a report showing pupil-teacher ratios by district (proposed SB, end-April 2024).

19. 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 this end, we will identify cost-saving measures by asking Ministries to ensure that the spending priorities are aligned with NDPIII at the planning stage. To help us in this regard, we will also consider implementing a temporary freeze on new non-concessional project commitments and delaying projects that have not started or have yet to receive financing. In addition, a midterm review of the DRMS will be conducted to establish the implementation status of the DRMS and define a new trajectory for the remaining period of the DRMS and the medium term.

20. We will continue boosting social assistance programs to strengthen the social safety net. To support targeting of beneficiaries, we are expanding our national identification database and the unified national registry of all social assistance programs. The fourth Northern Uganda Social Action Fund (NUSAF), awaiting Cabinet approval in June, will enhance poor and vulnerable households' resilience to economic shocks, and establish adaptative social protection service delivery systems. About 3.1 million people (667,000 households) in areas with high poverty will benefit from the program and about 1.4 million people will access temporary employment in public works, earn income and acquire productive assets. The total budget for this project is $280 million and we shall approach the World Bank for grant financing for it. Under the Social Assistance Grant for Empowerment (SAGE) program, we shall avoid the accumulation of new arrears by releasing adequate funding for Senior Citizens Grants in a timely fashion. We shall continue discussions on lowering the age threshold for eligibility (currently 80+ years) and adjusting the individual benefit to the higher cost of living.

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

- **Improving the budget preparation process**. We will continue to ensure that ministries submit all foreseeable expenditures for the budget, and work to avoid the issuance of supplementary budgets, including by ensuring these are limited to unforeseeable shocks. In the exceptional case where a supplementary budget is necessary, we will, in consultation with IMF staff, ensure that requests are costed, financing sources are identified, and the debt impact is assessed. To improve the budget preparation process, the Auditor General is conducting a special audit to remove ghost employees from the payroll and identify areas of indiscipline by Accounting Officers that have led to the need for supplementary budgets.

- **Reducing the outstanding stock of domestic arrears and preventing new accumulation.** The stock of arrears has continued to grow, and the plan to repay all arrears in three years has not been implemented. We will continue to make provisions for the clearance of domestic arrears in FY23/24 and subsequent FY to ensure that all arrears are cleared by the end of FY25/26. We have also put in place measures to prevent further arrears accumulation in line with the priorities identified by our domestic arrears strategy published in June 2021. This strategy includes:

    - Establishment of an oversight team to reconcile the claims made against the money provided for payment;

    - Ensure that the baseline of valid domestic arrears is established, and the stock of arrears is updated regularly;

    - Improve organizational budget planning by ensuring that Accounting Officers submit realistic budget projections;

  - Strengthening internal control systems to identify weaknesses and close the gaps of the commitment control systems;

  - Ensuring that an appropriate payment plan is put in place and is adhered to. The plan should among other things prioritize clearance of all arrears based on age (first in, first out philosophy will be used to make payment in each category of the arrears). However, within each category, small businesses and suppliers and high interest earning arrears will be given priority;

  - Alternative strategies to clear the outstanding stock will be explored; and

  - Any Accounting Officer(s) who accumulate further arrears will not be re-appointed and appropriate sanctions will be applied.

- As of 31st March 2023, the total validated arrears stood at 2.7 trillion (1.5 percent of GDP), largely from purchase of goods and services, court awards and compensations and taxes and other deductions. The automatic registration of invoices and funds availability is now captured on IFMS and available to all government budget entities, and support is being provided to complete the recording of historical arrears data on IFMS. MOFPED is also publishing quarterly reports of unpaid invoices to facilitate monitoring the execution of arrears clearance.

- **Strengthening cash management.** We have sought IMF TA to support cash management reforms and help us operationalize monthly cash flowforecasts. Further reform plans include: (i) the extension of the Treasury Single Account (TSA) to all remaining extra budgetary units and agencies; (ii) the operationalization of an online module to all ministries, departments, and agencies for reporting of spending projections by FY22/23; and (iii) the preparation of an aggregate borrowing plan that considers the government's consolidated cash position within and outside the TSA by FY23/24. An online module available to all ministries, departments, and agencies for reporting of spending projections has been developed and training is ongoing; the module will be revised to consider user experience and is expected to be rolled out by the end of FY2022/23. The draft aggregate borrowing plan consolidating government's cash position within and outside the TSA for FY2023/24 was prepared and the final plan will be produced after the Parliamentary appropriation for FY2023/24.

- **Strengthening performance, accounting, and utilization of fixed and financial assets.** We are stepping up the transition from modified accrual to accrual accounting. To this end, a pre-feasibility study was conducted that suggests funding must be secured for the project on Accrual Accounting and Asset Management, under the adoption of International Public Sector Accounting Standards, to stretch uninterrupted for the next 5 years. The main interventions will include: (i) development and deployment of a robust Integrated Government Assets Management Information System; (ii) enhancement of IFMIS and ICT infrastructure requirements to support migration to accrual IPSAS basis of accounting in all ministries; (iii) enhancement of institutional capacity in asset and liability management; and (iv) training of staff.

- **Improving public investment management.** The recent Public Investment Management Assessment (PIMA) completed in June 2022 and published in December 2022 has highlighted some reform priorities that we intend to pursue to improve the public investment process. Among the most important are: i) integrating the multi-year commitment process into the mainstream budget review process and expediting improvement of the interface of different IT systems to improve the accuracy and recording of multi-year commitments; ii) ensuring predictable budget releases for investment projects, by enhancing the realism of the annual Budget and MTEF and instituting active cash management arrangements; iii) strengthening investment portfolio monitoring to become more forward-looking and based on explicit project baselines, clearly identifying projects at risk and which actions will be required to resolve the risk, and focusing this monitoring on major projects; and iv) strengthening the policy framework for effective public investment management, including a new Public Investment Policy which was approved by MoFPED.

- **Implementing our new public investment financing strategy.** Our debt management framework remains appropriate. Debt is projected to remain sustainable and is currently at a moderate risk of debt distress. We are making efforts to broaden the scope of potential creditors and financing sources, in particular for concessional funding. We are introducing a Public Investment Finance Strategy that will support our commitment to seek additional donor financing during the remainder of the program under the ECF. The key elements for the effective and successful implementation of this strategy will include the establishment of the Project Preparation Fund financed by Government resources and allocation of institutional responsibilities. Over the medium term, large infrastructure projects (e.g., railways) will lead to a slight shift in the composition of financing towards non-concessional loans. However, we plan to closely follow the goals laid out in our Medium-Term Debt Management Strategy, including increasing the maturity of domestic debt.

Monetary and Exchange Rate Policies

22. The BOU remains committed to achieving the inflation target over the medium term,through:

- **Monitoring inflation developments closely** and standing ready to adjust the policy rate as needed: Inflation peaked in October 2022 and core inflation is expected to return to the 5 percent target by end-2023. The Monetary Policy Consultation Clause will remain a key pillar of the program.

- **Building our forecasting and policy analysis system's** capacity to support monetary policy formulation under the price-based framework. We have developed a suite of models that are used to guide monetary policy formulation. These models are reviewed periodically with assistance of the IMF TA to improve forecast performance. We are also strengthening our external communication, including through IMF TA.

- **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, BoU bills, Special Deposit Facility (S-DAF) and sale of recapitalization securities are the main instruments for managing liquidity at different maturities. The use of liquidity forecast errors and other verifiable implementation indicators can also help gauge success in the implementation of liquidity forecasting improvements.

23. To strengthen BOU independence, principles underpinning the amendments to the BOU Act (SB, end-October 2023) are being drawn up to reflect discussion with IMF staff. The principles have been submitted to the Attorney General for legal opinion and will be shared with IMF staff by end-June 2023. Once IMF staff have reviewed the revised principles and have recommended changes to ensure they are consistent with the recommendations of the IMF's Safeguards Assessment, the principles will be re-submitted to Cabinet and the draft Amendment Bill will be submitted to Parliament.

24. We are committed to maintaining our reserve cover at an adequate level and strengthening it over time. Amid the tight and uncertain global financial conditions, we believe that maintaining a robust reserve cover is essential to anchor investor confidence, and we remains committed to the goal of reaching 4 months of reserve coverage (defined as months of next year's imports of goods and services excluding oil project financing and investment related imports) by the end of program (FY23/24) through continued fiscal consolidation and exchange rate flexibility. In the medium-term, we aim to strengthen the reserve coverage to the East Africa Community target of 4.5 months once oil production starts in 2024/25.

25. We will ensure continued exchange rate flexibility. As noted in a recent TA by the IMF's Monetary and Capital Markets department, the number of our FX interventions has declined over time, and the past interventions were intended to smooth out excess volatility. The last instance of such intervention was in May 2022. We will continue to allow exchange rate flexibility by limiting FX interventions and reducing government imports financed by FX reserves. Exchange rate adjustment will contribute to the correction of external imbalances and facilitate adjustment to shocks.

Financial Sector Policies

26. Strengthening macroprudential regulation remains a key priority. BoU has fully implemented BASEL II principles and several aspects of BASEL III as the banking sector evolves. The implementation of a systemic risk buffer for domestic systemically important banks, capital conservation buffer, countercyclical capital buffer, and leverage ratio, have been a regulatory requirement since January 1, 2022. Other aspects of BASEL III, such as the liquidity coverage ratio and net stable funding ratio (NSFR) were included in the draft Financial Institutions (Liquidity) Regulations 2023, for which BoU finalized with the First Parliamentary Counsel in the first quarter of 2023 and is following up on the gazzetting. The statutory instrument requiring an increase in the minimum paid-up capital for SFIs is already in effect and the capital restoration plans for those institutions that are not yet compliant will be ready by end-June 2023. The BOU has issued guidelines on the supervisory review process and the minimum disclosure requirements under Pillar 3.

27. We continue to advance our supervisory and governance reforms. Priorities include:

- **Adopting amendments to the Financial Institutions (Corporate Governance) Regulations**, in line with the principles provided in the Basel Committee on Banking Supervision's guidelines on corporate governance (SB, end-December 2023). The Legal Department of the BOU is already in the process of drafting the regulations reflecting guidelines.

- **Moving towards continuous risk-based supervision (RBS).** With the new RBS manual and risk matrix developed, BOU is running a pilot for supervising institutions based on the new RBS manual and is working towards aligning its prudential and supervisory framework with international standards and best practices. We will continue to perform regular solvency stress tests and monitor banks' loan classification processes to ensure alignment with IFRS 9.

- **Enhancing AML/CFT risk-based supervision.** With the updated risk-based tools for banks successfully rolled out in 2022, similar tools for the forex bureaus and money remitters were rolled out in May 2023. Supervisory outreach activities with the sectors were also conducted prior to the rolling out. We will utilize the results and findings of the risk-based tools developed to inform our supervisory strategies. This will guide our AML/CFT onsite inspections on banks, forex bureaus and money remitters on a risk-based approach. To date, we have conducted 7 onsite inspections on higher risk banks. To increase risk awareness and improve compliance of financial institutions, BOU published four guidance notes in 2022 on customer due diligence, suspicious transactions reporting, targeted financial sanctions and ML/TF risk assessment. With the assistance of the IMF, BOU will develop policies and procedures to guide implementation of the supervisory enforcement power for non-compliances provided through the recently adopted AML (Amendment) Regulations 2023 (proposed SB, end-April 2024). This will ensure supervisory actions and sanctions undertaken are effective, proportionate and persuasive.

- **Strengthening banks resilience**. Through the draft Financial Institutions (Liquidity) Regulations 2023, BoU has duly updated the list of eligible liquid assets cognizant of the developments in the financial system. Furthermore, following the gazetting of the Regulations, BoU shall require banks to comply with the liquidity coverage ratio and NSFR requirements. We are further strengthening banking system resilience by:

  - **Maintaining the Emergency Liquidity Assistance facility** at the BoU as the Lender of Last Resort window for SFIs. The Emergency Liquidity Assistance facility, established in May 2022, will provide funds to solvent Supervised Financial Institutions that are facing idiosyncratic liquidity stress when there is a considerable risk for a systemic crisis to mitigate systemic liquidity and market shocks.

- **Continuing to strengthen our stress testing capabilities**, with inaugural bottom-up stress testing involving domestic systemically important banks completed in May 2022. BOU will continue to implement the IMF TA recommendations to enhance internal capacity and thoroughness of the banks' bottom-up stress testing process and output. With IMF TA, the BOU developed in May 2022 an FX liquidity stress testing model focused on liquidity linkages across sectors and the resilience of each sector to liquidity stress.

- **Closely scrutinizing sovereign-bank nexus as well as corporate and households' balance sheets** to gauge the extent of credit and concentration risks faced by the financial system and evaluate new risks arising from tightening global financial condition and higher energy and commodity prices. Goingforward, BOU will review and strengthen the systemic risk surveillance framework by utilizing dashboard indicators that cover financial markets, financial institutions, payment systems and the real economy, and by building various indices including the banking pressure index, the stress index, and the vulnerability index.

E. Structural Reforms

28. Our structural reform agenda continues to focus 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 underthe NDPIII. The objectives of the NDPIII have not changed, but its implementation has been delayed due to the COVID-19 crisis and global disruptions. Hence, we have focused on the implementation of reforms in the health and education sectors. Nevertheless, 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 and Anti-Corruption Policies

29. We are further building public trust in the asset declaration regime by enhancing transparency in its implementation. We will continue publishing compliance statistics and applications to access the declarations on the Inspectorate of government's website annually. We have been publishing information on individual sanctions imposed when adjudication decisions are made by the Leadership Code Tribunal (LCT) semi-annually. We have also published two annual reports, for 2020/21 and 2021/22, on the LCT web site. Proportionate and dissuasive sanctions will be imposed on public leaders for non-compliance with the requirements of the Leadership Code Act and regulations.

30. We will step-up efforts to improve governance and tackle corruption, in line with the strategic objectives provided under the National Anti-Corruption Strategy (NACS 2019-2024). In this respect, we will:

- Publish (i) an assessment report against the agreed indicators and targets, and (ii) the annual report for fiscal year 2022/2023 on the prevalence of corruption and anticorruption efforts, as guided by the NACS' monitoring and evaluation framework (SB, end-November 2023). The

Terms of Reference for the consultancy were finalized, and the procurement process is underway with the countrywide assessment process to commence by June.

- Leverage the role of civil society actors and citizens to identify and report potential corruption.
- Conduct a governance diagnostic assessment on corruption vulnerabilities and key state functions in collaboration with IMF staff by end-March 2024, and develop prioritized actions based on the findings and recommendations of the diagnostic. Consistent with our strategies to promote transparency and accountability, we will publish the governance diagnostic report with due consideration to sensitive information.
- Roll out the Prosecution Case Management Information System countrywide to extend it to prosecutors, prisons, and police, among others, so that cases can be filed digitally at the source.

31. We are implementing commitments under the Extractive Industries Transparency Initiative (EITI) that we joined in August 2020. We are preparing to disclose contracts and licenses for oil and gas production signed from 2021 onwards and beneficial owners of corporate entities involved in projects in the mineral sector. The first EITI report (2020/21) was published with delay in May 2022, on account of difficulties with procurement, and the first EITI assessment is due this year. We are also stepping up coordination between the EITI office placed at MOFPED and sector ministries to improve information sharing.

Financial Integrity Measures

32. We are intensifying efforts to complete all the actions as agreed under the FATF's International Cooperation Review Group (ICRG) action plan, to ensure Uganda's exit out of FATF's 'grey list'. In this regard, we have continued to build capacity of our AML/CFT supervisors and law enforcement agencies through relevant training, conduct outreach activities to reporting institutions to increase awareness of AML/CFT obligations and risks including on suspicious transaction reporting, strengthened the institutional framework for mutual legal assistance, as well as completing the terrorism financing risk assessment for non-profit organizations. In the coming months, we will focus our efforts on the outstanding action items under the FATF's ICRG action plan in the following areas:

- **Ensuring sustained implementation of AML/CFT risk-based supervision on banks, forex bureaus, money remitters and other higher risk sectors.** Data and information obtained from the issuance of the offsite AML/CFT supervision tools will inform our supervisory strategies and activities on a risk-based approach. In 2022, we conducted onsite supervision for higher risk banks based on the findings of the risk-based tools. Supervisory actions have been taken where non-compliances or supervisory issues have been identified. We are currently conducting onsite supervision on ten large forex bureaus and money remitters that we target to complete by June 2023.

- **Ensuring timely access by competent authorities to beneficial ownership information.** Following amendments to the Companies Act and issuance of the beneficial ownership regulations that provide for creation of centralized beneficial ownership registry, Uganda Registration Services Bureau (URSB) has issued a notice in January 2023 to all companies to submit beneficial ownership information to the registrar. To improve compliance, URSB has restricted the use of its services for companies that are compliant. To enhance efficiency, URSB has deployed a new electronic registration system in April 2023 which would allow a more streamlined, convenient and speedy process. We plan to leverage the system to enable real-time access by competent authorities to the beneficial ownership registry through an application programming interface by July 2023. We expect full compliance by companies by December 2023.

- **Strengthening the legal and institutional framework for targeted financial sanctions for proliferation financing.** The amendments to the Anti-Terrorism Regulations, issued in January 2023, have enabled creation of mechanisms for targeted financial sanctions (TFS) on proliferation financing. To increase awareness of this risk and of TFS obligations, we issued guidance notes on TFS for reporting entities and conducted workshops on TFS for competent authorities and financial institutions. Before end-2023, we plan to conduct additional training for financial institutions and designated non-financial businesses and professions.

Reducing the Cost of Doing Business

33. We will accelerate efforts to reduce legal and administrative impediments to doing business. We have recently adopted our second National Strategy for Private Sector Development (NSPSDII) which aims at boosting investor confidence, accelerating industrialization and increasing profitability, competitiveness, and growth of enterprises. We have united all permits and registration requirements for new businesses in a one-stop shop, which can be accessed physically and online. Under the NSPSDII, we plan to scale up business support services by opening one-stop business centers in all districts which should reduce informality. We will lower the cost of doing business by investing in power connectivity and energy distribution, and by improving transport linkages including by promoting PPPs. We are facilitating the establishment of 15 subregional business and technology incubation centers and technology transfer centers by 2025. We are also working with the World Bank to secure subsidized financing for microfinance institutions and banks to support business creation in the southwest of Uganda; financing for the establishment and operation of industrial parks and special economic zones; and TA to agencies for the development of private sector regulation and mechanisms for export promotion.

34. 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 (StandardGauge Railway and roads) to support trade links with neighboring countries. The implementation ofUganda'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 countriesand harmonizing standards with our trading partners. Discussions are ongoing about reducing trade barriers for a wide range of goods and lowering trade costs for services. We will update our national export strategy and promote a trade regime that supports dynamic and inclusive growth consistent with the WTO, EAC, COMESA, and AfCFTA provisions for international trade. With the pandemic largely behind us, we will ramp up efforts to promote Uganda as a tourist destination in a sustainable manner, which will help boost foreign exchange earnings, create jobs and reduce poverty.

Fostering Financial Inclusion

35. We are leading discussions of the National Financial Inclusion Strategy II. The current national financial inclusion strategy expired in 2022, and we are developing a new strategy that will be in place by end-June 2023. A draft, which introduces two new pillars on developing an inclusive green finance market and promoting gender inclusive finance, has been already sent to stakeholders for consultation. In addition to promoting digital financial literacy and improving internet connectivity in the countryside, key priorities under our strategy include:

- **Increasing uptake of formal credit among women, MSMEs, and small-scale farmers.** We are strengthening credit funds that were established to support the underserved segments, such as Agriculture Credit Facility (ACF), EMYOOGA, Small Businesses Recovery Fund (SBRF), and Uganda Women Entrepreneurship Program. We are computerizing our land registry and extending the coverage of the immovable property registry which should both facilitate borrowing by SMEs. The BOU's implementation of a legal and regulatory framework for payments and settlements will also promote financial inclusion. To encourage more financial institutions to extend affordable credit to the SMEs, which plays a pivotal role in creating jobs, supporting industrialization strategy and increasing exports, we have allowed Tier 3 financial institutions, which provide the micro finance services to small or low-income entrepreneurs, to participate in the government-run specialized funds through the amendment of the Microfinance Deposit Taking Institutions (Amendment) Bill.

- **Modernizing the financial infrastructure** by improving financial institutions' data sharing infrastructure for credit and by allowing financial institutions to accept movable collateral for lending. With regulations finalized and a website open for the registry of movable assets the Uganda Registration Services Bureau recorded 13,533 security interest notices by July 31, 2022, an increase from 7,625 a year before. We will implement a deep dive assessment of the movable asset-based lending market with a special focus on women, youth, and farmers to uncover supply-side and demand-side challenges limiting usage. With the Amendments to the Credit Reference Bureau (CRB) gazetted in October 2022, the CRB can gather information from all credit providers on borrowers. We will define the ownership structure of data collected by Central Data Hub to which the CRBs will submit the credit information (SB, end-October 2023).

- **Promoting digital finance** through spurring digital transformation of government-to-person payments, strengthening consumer empowerment and confidence in digital financial services, and launching a national payment switch (tendering process to be completed before 30th June 2023) which is expected to support P2P, P2M/B, W2B, B2W, P2G, B2G, and other digital payments. The switch, which provide a centralized interface with mobile money systems, and

Quick Response Solutions, Mobile Banking, Point of Sale Systems, Automated Teller Machines, card payment schemes, and internet-based e-commerce portals, will centrally process all electronic transactions and intelligently channel them to one or more payment processors/sponsors for authorization through the Real Time Gross Settlement System. To mobilize savings and promote financial inclusion, we will operationalize a BOU platform, with requisite safeguards, enabling purchase of government securities with mobile money using a unitized treasury-linked fund model (proposed SB, end-April 2024). This model has the unique ability to distribute income daily, allowing investors to pull out their investment at any time.

- **Strengthening consumer protection** remains important now that Uganda is moving ahead with digitalization of its economy and greater use of e-financial services. We will continue to implement and improve the NPS Consumer Protection Regulation with new interventions targeting digital financial service providers, lowering the cost of digital financial services, and enhancing consumer awareness through financial education. We will continue to monitor the implementation of the cybersecurity guidelines issues to PSPs and OPs which outline the minimum requirements that SFIs shall benchmark against in the development of their own customized cyber risk management frameworks (proposed SB, end-April 2024). A common template was adopted at the EAC meeting at end-March 2023 and is currently being customized to countries' specific financial sector needs.

Climate Policies

36. We are committed to enhancing the economy's resilience to climate change. Uganda isprone to natural disasters that climate change is making more frequent and impactful. Research shows that the key sectors likely to be most affected include agriculture, water, infrastructure, and energy. Our updated Nationally Determined Contributions have expanded their adaptation component, and we are committed to the implementation of the Disaster Risk Management plan which was approved by Cabinet. The latter includes actions for immediate implementation to avert the negative impacts of predictable disasters and, to this end, we intend to use the proposed Presidential allocation of US$50million as seed funds for disaster risk management in the next three financial years. In addition, we completed the accreditation to the Green Climate Fund and the Adaptation Fund, and we are now working with development partners to scale-up capacity to leverage these accreditations to access financing. Our main priority areas include:

- **Strengthening our water catchment ability**. While climate finance, including donor grants, is available 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 TA from multilateral organizations to increase our capacity in this area.

- **Increasing forest coverage from 14 percent to 21 percent by 2030**. The COVID-19 pandemic and Ebola outbreak diverted resources to tackle the health emergency and hence reduced resources available for other institutions including the Ministry of Water and Environment. This has affected ability to enforce regulations and maintain the envisaged tree planting projects. Despite the challenges, we recently managed to reverse the deforestation trend. Going forward, as the economy recovers, we are committed to allocating adequate resources to combat deforestation.

37. Climate change risk is one of the strategic focus areas of the BOU's Strategic Plan 2022-2027. To tackle financial stability risks, we will: (i) integrate climate-related risks in the stress testing frameworks and domestic systemically important banks analytical frameworks; (ii) mandate disclosure of how climate change-related risks are provided for within the Internal Capital Adequacy Assessment Process as a central component of RBS; and (iii) develop a criterion for assessing sensitivity of banks' balance sheets to climate-related issues and their impact on banks' balance sheets;. In the context of monetary policy formulation, we will develop climate scenarios as a basis for economic forecasts and define climate-related shocks for use in FPAS and DSGE models. We are reviewing the World Bank's UGAMOD to that end. BOU operations will review pricing of central bank lending facilities to reflect counterparties' climate-related lending and use climate-related preparedness to adjust counterparties' eligibility for central bank lending facilities and purchase assets according to climate change-related risks.

38. The BOU Strategic Plan 2022-2027 will institutionalize an Environmental, Social, and Governance Sustainability (ESGS) Framework. We have started work on this initiative by raising awareness in the financial sector on ESGS issues. We have also conducted a situational analysis of the various ESGS initiatives in supervised financial institutions to form sustainability principles for the sector t and are working on guidelines for the financial institutions. Internally, BOU is pursuing institutional sustainability; it applied to the European Organization for Sustainable Development and was admitted to participate in the Sustainability Standards Certification Initiative effective July 1, 2023. Other measures include adopting a paperless office environment and working with other government agencies to address data gaps on climate issues. We will also undertake capacity development for our staff, and we have already joined the Network of Central Banks and Supervisors for Greening the Financial System to draw lessons from other central banks on managing risks and mobilizing capital for green and low-carbon investments. In the domestic money markets, we will develop a governance framework for the issuance of bonds which will, among others, provide for mechanisms for the issuance of green bonds.

F. Other Program Modalities

39. We are implementing recommendations from the 2021 IMF's safeguards assessment. The revised Principles amending the BOU Act will fully address the safeguards recommendations and subject all temporary advances to the Government to the limit of 10 percent of current-year revenues established in the PFM Act. Appropriate limits and criteria on guaranties to the Government will be introduced. Given high currency printing costs, we have conducted a market study to compare printing costs, and a cost-benefit analysis of replacing low denomination banknotes with coins. In line with the recommendations of the safeguards assessment, we will request TA to review and revise the mechanism for distinguishing realized and unrealized gains/losses. We will step up implementation of internal audit recommendations ensuring effectiveness of the related follow up mechanism. The Board resolved on 9th May 2022, that the Audit and Governance Committee (AGCC) will be comprised only of independent Board members. This resolution is currently being implemented alongside the existing Board Charter. The revised Board Charter will be reviewed and approved by the incoming Board by July 2023. The first half-year currency operations report was finalized and presented to the EXCOM in April and discussed at the Board at end-2022 together with the Foreign Exchange Reserves Management Policy review. The Internal Audit department continues to conduct periodic reviews of program monetary data submitted to the IMF in accordance with definitions in the Technical Memorandum of Understanding.

40. 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, we will continue improving timeliness and accuracy of national accounts and government finance statistics and developing institutional sector accounts as well as higher frequency GDP indicators. In preparation for the next population census that will take place on August 23-24, 2023, we are conducting the mapping exercise to update boundaries, facilities, features, and households to establishing enumeration areas, with the help of community leaders. The digital data collection tool will capture socio-economic and education variables that will be published on the web site.

41. The program's semi-annual quantitative performance criteria and SBs are listed in Tables 1 and 2. Definitions of key concepts and indicators, as well as reporting requirements, are set out in the accompanying Technical Memorandum of Understanding. The fifth review and sixth review are scheduled to be completed on or after December 1, 2023 and June 1, 2024, respectively based on test dates for periodic performance criteria ofend-September 2023 and end-March 2024, respectively.

Text Table 1. Uganda: Quantitative Performance Criteria

	2022				2023										2024	
	End-Dec IT				End-Mar QPC				End-Jun IT		End-Sept QPC		End-Dec IT		End-Mar QPC	End-Jun IT
	Target	Adjusted target	Actual	Status	Target	Adjusted target	Actual	Status	Target	Revised target	Target	Revised target	Target	Revised target		
Quantitative performance criteria																
Fiscal targets																
Primary budget balance of the central government (- = deficit; floor, in billions of USh) 1/	-1,624	-1,433	-1,028	Met	-2,746	-1,600	-1,568	Met	-3,320	-3,435	-2,067	-2,067	-2,740	-2,740	-1,913	-1,035
Monetary targets																
Net claims on the government by the central bank (ceiling) 1/	1,598		1,475	Met	799		809	Not met	-1,185	-1,185	2,815	2,815	1,877	1,877	806	-1,286
Target for international reserves																
Stock of net international reserves (floor, in millions of US$) 2/	2,571	2,515	2,720	Met	2,574	2,492	2,537	Met	2,503	2,503	2,687	2,687	2,794	2,794	2,844	2,872
Continuous PCs																
Stock of external payment arrears incurred or guaranteed by the public sector (ceiling)	0		0	Met	0		0	Met	0	0	0	0	0	0	0	0
PV of newly contracted external public and publicly guaranteed debt (ceiling, millions of US$) 1/	2,748		237	Met	2,748		668	Met	2,748	2,319	4,042	3,522	4,042	3,522	3,522	3,522
Monetary policy consultation clause																
Outer band (upper limit)	8				8				8	8	8	8	8	8	8	8
Inner band (upper limit)	7				7				7	7	7	7	7	7	7	7
Core inflation target 3/	5		6.0	Met	5		7.3	Met	5	5	5	5	5	5	5	5
Inner band (lower limit)	3				3				3	3	3	3	3	3	3	3
Outer band (lower limit)	2				2				2	2	2	2	2	2	2	2
Indicative targets																
Support to vulnerable households (floor, billions of USh) 1/	148		161	Met	187		191	Met	226	226	81	81	163	163	191	221
Social spending (floor, billions of USh) 1/ 4/	2,684		2,993	Met	4,766		4,537	Not met	6,847	6,847	1,849	1,849	3,698	3,698	5,376	7,054
Tax revenues (floor, in billions of USh) 1/	11,439		10,948	Not met	17,349		16,434	Not met	23,965	23,458	6,149	6,149	13,288	13,288	19,949	27,424
Repayment of outstanding domestic arrears (floor, in billions of USh) 1/	571		665	Met	662		712	Met	662	662	100	100	200	200	206	206

Note: The March 2023, September 2023 and March 2024 PCs are for the fourth, fifth and sixth review, respectively.

In addition to QPCs enumerated in this table, the Standard Continuous Performance Criteria will also apply: (i) not to impose or intensify restrictions on the making of payments and transfers for current international transactions, (ii) not to introduce or modify multiple currency practices, (iii) not to conclude bilateral payments agreements that are inconsistent with Article VIII, (iv) not to impose or intensify import restrictions for balance of payments reasons.

1/ PCs are cumulative flows (i) from July 1, 2022 to end-December 2022, end-March 2023 and end-June 2023; and (iii) from July 1, 2023 to end-September 2023, end-December 2023, end-March 2024 and end-June 2024.

2/ The NIR excludes IMF disbursements under the program, 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/ Core inflation excludes energy, fuel, and utilities and food crops. Annual percentage change, twelve-month period average core inflation.

4/ Social spending includes spending on education, health, social development (excluding external financing).

Text Table 2a. Uganda: Structural Benchmarks between January and December 2023

Measures	Rationale	Deadline	Status	Comments
Establishment of legal and regulatory mechanisms for timely access to accurate basic and beneficial ownership information for legal entities. Reprogrammed from June 2022.	Strengthen governance and reduce vulnerability to corruption	End-March 2023	Met	The Companies Amendment Act 2022 was passed in September 2022, and the Companies (Beneficial Owners) Regulations were published in January 2023.
Issue treasury memoranda that explain how weaknesses raised by the FY 20/21 audit will be addressed. Reprogrammed from June 2022.	Strengthen fiscal transparency	End-May 2023	Met	The three volumes of Treasury memoranda (TM) were approved and issued in May 2023 for the central government, the local governments and COSASE.
Development and implementation of tools for risk-based AML/CFT supervision of the financial sector. Reprogrammed from October 2022.	Strengthen governance and financial sector stability	End-May 2023	Met	The AML/CFT Risk-based Supervision Manual and ML/TF Risk Assessment Methodology were developed. The tools were earlier rolled out to banks and non-banks.
Design a medium-term ICT strategy supported by a plan for the procurement of a new Integrated Tax Administration System (ITAS).	Improve domestic revenue mobilization	End-May 2023	Met	Draft strategy and procurement plan were shared with staff. In the coming months URA will work with IMF staff to refine the procurement plan.
Develop a financial inclusion module in the Parish Development Management information system (PDMIS) to track access to revolving funds by targeted vulnerable households (the last mile beneficiary/subsistence household) and report on the drawdown of the funds by vulnerable households including by demographic categories such as gender.	Strengthen social assistance programs	End-June 2023	Met	The module has been developed and is being piloted in various districts. System pending linkage with NIRA, Telecom, and bank systems. The report is under preparation and nearing completion.

Text Table 2a. Uganda: Structural Benchmarks between January and December 2023 (continued)

Measures	Rationale	Deadline	Status	Comments
Publish on the MOFPED website decisions arising from investigations that led to sanctions for the period starting from FY 2020/21 onwards, with clear personal penalties for officers responsible for unauthorized spending commitments, and actions taken to enforce compliance.	Strengthen governance and reduce vulnerability to corruption	End-June 2023	Met	Report on sanctions was posted to the MOFPED website.
Issue a resolution by the BOU Board Committee on the ownership structure for data collected by the Central Data Hub as a prerequisite for the use of Credit Registration Bureau data to compute credit scores for MSMEs and individuals and to generate indicators for macroprudential regulations	Strengthen financial stability	End-October 2023		The study and assessment for the most appropriate ownership and operational model for the Central Data Hub are being conducted with TA from the IFC.
Parliamentary adoption of the BoU Act amendments, in consultation with IMF staff, to strengthen governance and autonomy, including for the dynamic recapitalization of the BoU, enhancements of the ELA, and the resolution powers of the BoU. Reprogrammed from September 2022.[1]	Enhance BoU governance	End-October 2023		Cabinet memo withdrawn from cabinet. Revised principles are being drafted. We will consult closely with IMF staff.
In consultation with Fund staff, Directorate for Ethics and Integrity to publish, in relation to the strategic objectives of the National Anti-Corruption Strategy (NACS) 2019-2024, (i) an assessment	Strengthen governance and reduce vulnerability to corruption	End-November 2023		MOFPED provided resources and work has begun.

Text Table 2a. Uganda: Structural Benchmarks between January and December 2023 (concluded)

Measures	Rationale	Deadline	Status	Comments
report against the agreed indicators and targets, and (ii) the annual report for fiscal year 2022/23 on the prevalence of corruption and anti-corruption efforts, as guided by the NACS' monitoring and evaluation framework.	Strengthen governance and reduce vulnerability to corruption	End-November 2023		MOFPED provided resources and work has begun.
Adopt amendments to the Financial Institutions (Corporate Governance) Regulations, in line with the principles provided in the Basel Committee on Banking Supervision's guidelines on corporate governance.	Strengthen corporate governance and financial stability	End-December 2023		The Consolidated Corporate Governance Guidelines were issued to the sector for the implementation in January 2023. BOU extended the implementation timelines to December 2023 to allow for: • Onboarding of Independent Non-Executive Directors (INEDS) to ensure that all Board committees are chaired by INEDs. • Bringing back in house the Company Secretary role and function in Supervised Financial Institutions (especially for Tier I).
Finalize entries of learners' data into EMIS and publish diagnostics by local government informing the education sector funding needs.	Improve budgetary planning and funding of the education system	End-December 2023		To date, 9.8 million learners were uploaded on EMIS. The Ministry of Education is recruiting staff to provide support to local governments and schools in utilizing the system.

[1] The need for consultation with staff is an addition to the structural benchmark at 2nd and 3rd reviews

Text Table 2b. Uganda: Proposed Structural Benchmarks for the 5th and 6th Reviews

Measure	Rationale	Deadline
Formulate a compliance improvement plan for the large taxpayer office (LTO) with focus on specialized sectors and taxation of multinational enterprises (MNEs).	Improve domestic revenue mobilization	End- March 2024
In consultation with Fund staff, BoU to formulate policies and procedures to guide implementation of supervisory sanctioning power provided under the Anti-Money Laundering (Amendment) Regulations 2023 for non-compliance with AML/CFT requirements by banks.	Strengthen financial sector governance and financial stability	End-March 2024
Operationalize a BOU platform, with requisite safeguards, that enables the purchase of government securities using mobile money.	Promote financial inclusion and mobilize	End-April 2024
Develop and implement cybersecurity guidelines for financial services.	Strengthen financial stability	End-April 2024
Expand coverage of the EMIS to include teachers in public schools countrywide. Issue a report showing pupil-teacher ratios by district.	Ensure appropriately targeted and rightsized funding for education	End-April 2024

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-April 2023)[1]

US Dollar (US$)	1.00000
Australian Dollar/US$	1.51172
Canadian Dollar/US$	1.35520
Euro/US$	0.90752
British Pound/US$	0.79573
US$/Japanese Yen	0.00734
US$/Ugandan Shilling	0.00027
US$/SDR	1.34701

1/ For the currencies not listed in this table, the cross-exchange rates to the U.S. dollar at end-Apr 2023 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 government to nonresidents, excluding nonresidents' holdings of domestically-issued government securities (which are covered under net domestic financing).

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

i. 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.

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

ii. 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.

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

iv. 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).

v. 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 through the Debt Management and Financial Analysis System and Aid Management System.

3. The primary balance target will be a floor on the cumulative flows: (i) from July 1, 2021 to March 31, 2022 and June 30, 2022; (ii) from July 1, 2022 to September 30, 2022, December 31, 2022, March 31, 2023, and June 30, 2023; and (iii) from July 1, 2023 to September 30, 2023, December 31, 2023, March 31, 2024, and June 30, 2024. The floors on primary budget balance for end-March and end-September 2022, end-March and end-September 2023, and end-March 2024 will be quantitative performance criteria under the ECF program; while the floors for end-June and end-December 2022 and end-June and end-December 2023 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

4. 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.

5. The GoU has committed to repay the total outstanding advance by FY23/24 in line with the Service Level Agreement (SLA).

Purpose, Definition, and Measurement

6. 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.

7. 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).

8. 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 into 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").

9. **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

10. 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.

11. 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 September 2022, March 2023, September 2023 and March 2024 will be quantitative performance criteria under the ECF; floors for June 2022 and December 2022 and end-June and end-December 2023 will be indicative targets.

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

12. 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, and later amended by the Guidelines published on October 21, 2020). 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:

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

[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.

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.

14. 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.

15. 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 performance criterion, 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

16. 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.

17. 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

18. 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).

19. 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 1.56 percent and will remain fixed for the duration of the program. The spread of six-month Euro EURIBOR over six-month USD SOFR is -179 basis points. The spread of six-month JPY OIS over six-month USD SOFR is -159 basis points. The spread of six-month GBP SONIA over six-month USD SOFR is -12 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.

20. 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 performance criterion, 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

21. 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 September 2022, March 2023, September 2023 and March 2024 will be subject to the consultation mechanism, while the CCPI inflation for June 2022, December 2022 June 2023 and December 2023 will be indicative targets.

22. Should the observed average CCPI inflation for the test date linked to a ECF program review (i.e., March 2022, September 2022, March 2023, September 2023 and March 2024 for the second, third, fourth, fifth and sixth review, respectively) 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

[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).

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 in the QPC table.

H. Direct Support Programs to Vulnerable Households

23. 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.

I. Social Spending

24. 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

25. 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)

26. 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 (i) from July 1, 2021 to March 31, 2022 and June 30, 2022; (ii) from July 1, 2022 to September 30, 2022, December 31, 2022, March 31, 2023, and June 30, 2023; and (iii) from July 1, 2023 to September 30, 2023, December 31, 2023, and March 31, 2024.

27. 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

28. 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.

Adjustor Related to Budget Support

29. 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 (excluding IMF disbursements), grants and loans exceed (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 1. Uganda: Schedule A: Budget Support[1]
(Ush. billions)

	2022		2023								2024	
	End-Dec		End-Mar		End-Jun		End-Sep		End-Dec			
	2nd-3rd Review Target	Actual	2nd-3rd Review Target	Actual	2nd-3rd Review Target	Revised Target	2nd-3rd Review Target	Revised Target	2nd-3rd Review Target	Revised Target	End-Mar	End-Jun
Budget support grants	0	10	58	28	78	77	9	8	19	32	44	70
Budget support loans	2125	0	3,041	1,415	3,504	4,128	243	0	745	34	245	1,799

1/ Cumulative flows (i) from July 1, 2022 to end-December 2022, end-March 2023 and end-June 2023; and (ii) from July 1, 2023 to end-September 2023, end-December 2023, end-March 2024 and end-June 2024.

Text Table 2. Uganda: Schedule B: Recapitalization of the Bank of Uganda[1]
(Ush. billions)

	2022		2023								2024	
	End-Dec		End-Mar		End-Jun		End-Sep		End-Dec			
	2nd-3rd Review Target	Actual	2nd-3rd Review Target	Actual	2nd-3rd Review Target	Revised Target	2nd-3rd Review Target	Revised Target	2nd-3rd Review Target	Revised Target	End-Mar	End-Jun
Recapitalization of BoU	0	0	0	0	0	0	0	217	0	217	217	217

1/ Cumulative flows (i) from July 1, 2022 to end-December 2022, end-March 2023 and end-June 2023; and (ii) from July 1, 2023 to end-September 2023, end-December 2023, end-March 2024 and end-June 2024.

Adjustor Related to Recapitalization of the Bank of Uganda

30. 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.

Text Table 3. Uganda: Schedule C: External Financing Tied to Projects[1]

(Ush. billions)

	2022		2023								2024	
	End-Dec		End-Mar		End-Jun		End-Sep		End-Dec			
	2nd-3rd Review Target	Actual	2nd-3rd Review Target	Actual	2nd-3rd Review Target	Revised Target	2nd-3rd Review Target	Revised Target	2nd-3rd Review Target	Revised Target	End-Mar	End-Jun
Project loans	1,667	1,486	2,987	1,811	4,529	3,937	1,154	1,309	3075	3,488	4,385	5,196

1/ Cumulative flows (i) from July 1, 2022 to end-December 2022, end-March 2023 and end-June 2023; and (ii) from July 1, 2023 to end-September 2023, end-December 2023, end-March 2024 and end-June 2024.

Adjustor Related to Externally Financed Projects

31. 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 Direct Support Programs to Vulnerable Households

32. 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 4. Uganda: Schedule E: Direct Support to Vulnerable Households Under SAGE and Emyooga[1]

(Ush. billions)

	2022		2023								2024	
	End-Dec		End-Mar		End-Jun		End-Sep		End-Dec			
	2nd-3rd Review Target	Actual	2nd-3rd Review Target	Actual	2nd-3rd Review Target	Revised Target	2nd-3rd Review Target	Revised Target	2nd-3rd Review Target	Revised Target	End-Mar	End-Jun
Project grants	0	0	0	0	0	0	0	0	0	0	0	0

1/ Cumulative flows (i) from July 1, 2022 to end-December 2022, end-March 2023 and end-June 2023; and (ii) from July 1, 2023 to end-September 2023, end-December 2023, end-March 2024 and end-June 2024.

M. Monitoring and Reporting Requirements

33. 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.

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
	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
	Standard off-site bank supervision indicators for deposit money banks.	Quarterly	4 weeks

Table 1. Uganda: Summary of Reporting Requirements (continued)

Reporting Institution	Report/Table	Submissio n Frequency	Submission Lag
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
	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

Table 1. Uganda: Summary of Reporting Requirements (concluded)

Reporting Institution	Report/Table	Submission Frequency	Submission Lag
	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

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

N. Anti-Corruption

34. The Inspectorate of Governance will publish on its website freely and easily available to the public information on (i) public leaders who did not timely submit the asset declaration, no later than end-November of the year of the asset declaration submission, as provided for under the Leadership Code Act, and (ii) the semi-annual statistical data relating to application to access the content of the declarations, by end-November of each year, in the following format:

Table 2. Uganda: Number of Leaders who did not Timely submit Asset Declaration[1]

Declaration period	[*Reference Period*]	
	Number	Timely submission rate[1] (%)
Leaders[2] who did not promptly submit declaration		
Of which:		
1. Members of Cabinet[3]		
2. Members of Parliament[4]		
3. Judges of the Courts of Judicature		

Table 2. Uganda: Number of Leaders who did not Timely submit Asset Declaration (concluded)		
Declaration period	**[*Reference Period*]**	**Declaration period**
	Number	**Timely submission rate[1] (%)**
4. Directorate of Public Prosecutions (staff of or above the rank of State Attorney)		
5. Permanent Secretaries		
6. Heads of State-Owned Enterprises		

1/ Total number of leaders/category of leaders who did not promptly submit declaration against total number of leaders/category of leaders required to declare under the Leadership Code Act.
2/ As defined under Second Schedule of the Leadership Code Act that are required to make declaration
3/ All Cabinet Ministers and Ministers of State including President, Vice President, Prime Minister and Deputy Prime Ministers.
4/ Including Speaker and Deputy Speaker of Parliament

Table 3. Uganda: Number of Applications Received, approved, and rejected, to access the content of declarations			
Period	***[Reference Period]***		
	Application Received	**Application Approved**	**Application Rejected**
Total number of leaders			
Of which:			
1. Members of Cabinet			
2. Members of Parliament			
3. Judges of the Courts of Judicature			
4. Directorate of Public Prosecutions (staff of or above the rank of State Attorney)			
5. Permanent Secretaries			
6. Heads of State-Owned Enterprises			
Reasons for rejection of application (if applicable)			

35. The Leadership Court Tribunal will publish on its website freely and easily available to the public information on the sanctions imposed on leaders found to be in breach of the Leadership Code Act (LCA) and Regulations (LCR), as and when sanction decisions are made by the Tribunal, but no later than 30 days following the completion of the adjudication process. The publication shall have the following information: (i) the names of public leaders being sanctioned, (ii) the sanctioned leader's respective designation, title or office held, (iii) brief explanation of the nature of breaches against the provisions of the LCA and/or LCR, (iv) date of sanctioned imposed, and (v) the nature of sanction and/or penalty imposed.

INTERNATIONAL MONETARY FUND

UGANDA

June 6, 2023

FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUESTS FOR A WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION AND MODIFICATION OF A PERFORMANCE CRITERION—DEBT SUSTAINABILITY ANALYSIS

Approved By
Catherine Pattillo (IMF), Eugenio Cerutti (IMF), and Manuela Francisco, 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	Yes

The economy is recovering from external shocks induced by the war in Russia's invasion of Ukraine and higher inflation, and the outlook has improved. Given the implementation of fiscal consolidation, Uganda's public debt continues to be sustainable in the medium term. In line with the previous DSA prepared in March 2022, Uganda has a moderate risk of external and overall public debt distress, with limited space to absorb shocks. Except for a one-off breach of the external-debt-service-to-export ratio in FY22/23, which does not impact the overall debt sustainability assessment, 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. Specifically,

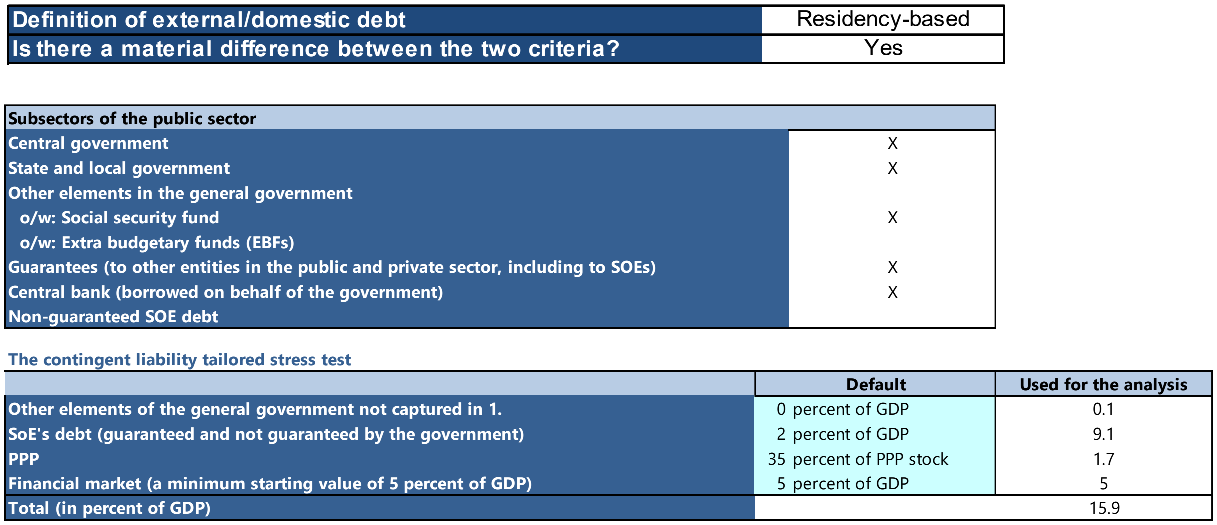
[1] Uganda's Composite Indicator, which is estimated at 2.91, signals a medium debt-carrying capacity based on the April 2023 WEO and CPIA 2021.

given that a median shock could lead to a breach for the external and total debt service indicators, Uganda has limited space to absorb shocks. Key risks include slower growth environmental shocks, further tightening of global financial conditions, delayed reform implementation, further delays in oil exports, possible spillovers to trade stemming from the conflict in Sudan and potential repercussions on donor financing and tourism deriving from the recent parliamentary approval of the 'Anti-Homosexuality Bill 2023'. 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 a residency-based definition of 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[2] 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),[3] 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] Extra-budgetary funds are funds that are not included in the national budget appropriated by parliament. These include: social security or pension schemes and revenues or user fees collected by government ministries, departments and agencies unreported or not included in government's general revenues (termed as "Appropriation in Aid - AIA).

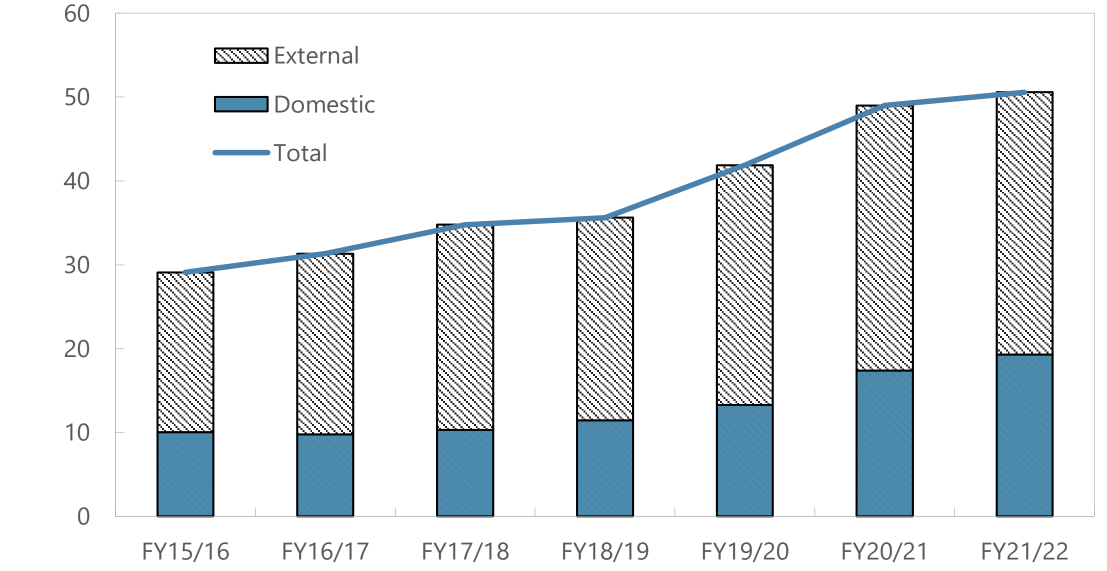
[3] The arrears to Tanzania date back to the Uganda-Tanzania War in 1978-79, with an alleged lack of documentation of the debt, therefore the validity of these arrears is disputed and not included in officially reported total external debt. In contrast, arrears to Iraq (US$1,581) and Nigeria (US$19.3 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 50.6 percent of GDP in nominal terms at the end of FY2021/22** (Text Figure 1 and Text Table 2). The increase of almost nine percentage points over the past two years was primarily driven by external borrowing, with almost two-thirds of outstanding public debt owed to external creditors (US$13.6 billion or 31.3 percent of GDP) on a residency basis (Text Table 2). Domestic debt amounts to about US$8.4 billion (19.3 percent of GDP). In present value terms, total public sector debt amounted to 41.7 percent of GDP at the end of FY2021/22. While debt increased substantially during the COVID-19 pandemic, it was already on an upward trend also previously, mainly driven by increased borrowing to finance the country's development needs.

Text Figure 1. 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 FY2021/22. In response to COVID-19, Uganda also resorted to commercial loans that constitute around 10 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 was 6 percent of external public debt.

Text Table 2. Uganda: Decomposition of Public Debt and Debt Service by Creditor, FY2021/22-FY2023/24[1/]

	Debt Stock (end of period)			Debt Service					
	FY2021/22			FY21/22	FY22/23	FY23/24	FY21/22	FY22/23	FY23/24
	(In millions of US$)	*(Percent total debt)*	*(Percent GDP)*	*(In millions of US$)*			*(Percent GDP)*		
Total	21,901.9	100.0	50.6	3263.5	4,569.8	2,817.4	7.5	9.2	5.2
External	13,542.9	61.8	31.3	667.3	1,159.0	1,039.2	1.5	2.3	1.9
Multilateral creditors[2,3]	7,908.0	36.1	18.3	160.1	250.6	251.8	0.4	0.5	0.5
IMF	842.0	3.8	1.9						
World Bank	4,418.6	20.2	10.2						
ADB/AfDB/IADB	667.3	3.0	1.5						
Other Multilaterals	1,980.1	9.0	4.6						
Bilateral Creditors[2]	3,574.1	16.3	8.3	309.5	398.1	395.8	0.7	0.8	0.7
Paris Club	824.7	3.8	1.9	45.3	65.6	69.4	0.1	0.1	0.1
Non-Paris Club	2,749.4	12.6	6.3	264.2	332.4	326.4	0.6	0.7	0.6
o/w: Eximbank of China	2,649.2	12.1	6.1						
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial creditors	1,331.7	6.1	3.1	47.2	257.7	246.7	0.1	0.5	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	700.2	3.2	1.6	150.4	252.7	145.0	0.3	0.5	0.3
Domestic	8,359.0	38.2	19.3	2,596.2	3,410.8	1,778.1	6.0	6.9	3.3
T-Bills	1,163.3	5.3	2.7	n/a	n/a	n/a	n/a	n/a	n/a
Bonds	6,298.4	28.8	14.5	n/a	n/a	n/a	n/a	n/a	n/a
BoU advances	897.3	4.1	2.1	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							45,557	49,472	54,555

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

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

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, FY2021/22

Creditor	Amount	Share
Total	**13,543**	**100.0%**
Bilateral	3,574	26.4%
ABU DHABI FUND	11	0.1%
AFD	245	1.8%
EXIM BANK OF CHINA	2,649	19.6%
EXIM BANK S KOREA	22	0.2%
GOVT OF NIGERIA	12	0.1%
IRAQ FUND	0	0.0%
JBIC	44	0.3%
JICA	193	1.4%
KFW	6	0.0%
KUWAIT FUND	34	0.3%
MIN FOR AFF AUSTRIA	1	0.0%
SAUDI ARABIA FUND	37	0.3%
SPAIN	9	0.1%
UKEF	310	2.3%
Commercial banks or other financial institutions	1,332	9.8%
AFREXIM	376	2.8%
AKA	10	0.1%
Bank Austria	3	0.0%
COMMERZBANK	12	0.1%
SBSA	315	2.3%
STANDARD CHARTERED	118	0.9%
TDB (PTA)	497	3.7%
Multilateral	7,908	58.4%
ADB	225	1.7%
ADF	1,458	10.8%
BADEA	67	0.5%
EIB	113	0.8%
IDA	4,419	32.6%
IDB	442	3.3%
IFAD	238	1.8%
IMF	842	6.2%
NDF	43	0.3%
OPEC FUND	61	0.4%
Publicly guaranteed external debt	29	0.2%
Local currency debt held by offshore investors	700	5.2%

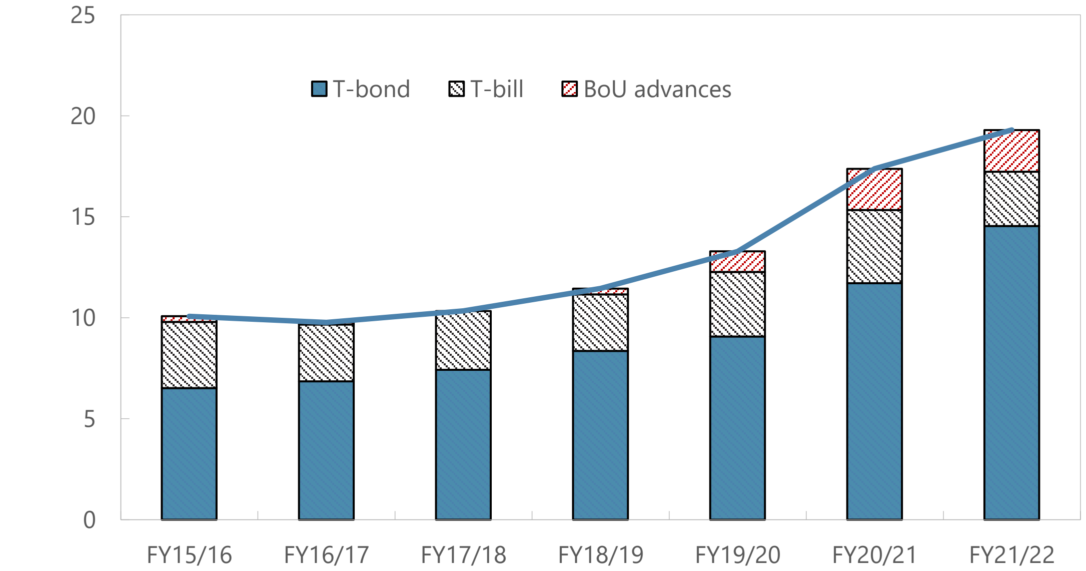
Source: Uganda authorities, IMF staff calculation.

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 FY2021/22 (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). Outstanding advances from the Bank of Uganda contributed 2.1 percent of GDP to domestic debt at the end of FY21/22 (Text Figure 2).

5. **Borrowing costs have recently increased.** Total interest payments increased from 2.7 percent of GDP in FY2020/21 to 3.1 percent of GDP in FY2021/22, largely due to the increased stock of domestic debt. While the terms of external loans became more costly, more than 90 percent of interest payments in FY2021/22 were on domestic debt, given that external borrowing was dominated by concessional debt.

Text Figure 2. Public Domestic Debt

(Cost Value, percent of GDP, as of end-FY2021/22)



Source: Uganda authorities; and IMF staff calculation.

MACRO FORECASTS

6. **The medium-and long-term macroeconomic framework underlying this DSA is consistent with the scenario presented in the Staff Report for the Fourth Review Under the Extended Credit Facility (Text Table 4).** The baseline scenario assumes the following:

- *Real GDP growth*. The economy is recovering from external shocks induced by Russia's invasion of Ukraine and higher inflation, and the outlook has improved. Robust industrial activity and services have supported growth while unfavorable weather conditions for agriculture have improved. Thanks to a strong public health effort to rapidly contain the Ebola outbreak, high frequency indicators pointed to continued steady growth in recent months, lifted by robust new orders and rising employment. The real GDP growth outlook for FY22/23 and FY23/24 is at 5.5 and 6 percent, respectively, a downward revision relative to the previous DSA (from 6 and 6.5 percent in FY22/23 and FY23/24, respectively).

- 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 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 (this is supported by reforms under the World Bank's investment for industrial transformation and employment (INVITE) and the climate smart agriculture and agribusiness development projects)[4], a recovery in tourism, and the developments in the oil sector that is attracting foreign and domestic private investment in related infrastructure ahead of the start of oil production in 2025 (some of these initiatives are directly supported by the ECF-supported program). The latter will be supported by the construction of the oil pipeline, a joint project of the French oil company Total Energies, the Chinese oil company CNOOC, and the governments of Uganda and Tanzania.

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)	
	Prev. DSA	Current	Prev. DSA	Current	Prev. DSA	Current	Prev. DSA	Current	Prev. DSA	Current
2020/21	3.4	3.5	2.5	2.5	-6.7	-6.7	-10.2	-9.5	2.1	2.3
2021/22	3.8	4.7	3.5	3.4	-4.4	-4.3	-8.0	-7.9	2.5	2.7
2022/23	6.0	5.5	4.6	9.2	-1.8	-1.9	-8.8	-8.6	5.0	5.0
2023/24	6.5	6.0	5.0	5.7	-0.7	-0.5	-9.9	-8.9	7.6	7.3
2024/25	6.7	6.6	5.0	5.0	-0.8	-0.6	-12.0	-11.1	9.5	9.2
2025/26	7.1	7.1	5.0	5.0	-0.3	-0.5	-11.9	-10.8	9.3	9.1
2026/27	7.0	7.0	5.0	5.0	1.0	0.1	-10.6	-9.7	8.0	7.9
Avg 2027/28-2040/41	6.0	6.2	5.0	5.0	-0.1	-1.2	-7.8	-6.0	6.7	6.4

Source: Uganda authorities, IMF staff projections.

- While negatively affected by climate shocks, especially in agriculture, long-term growth will be supported by several factors.[5] Specifically, infrastructure constraints are being addressed (e.g., there are currently major investments to improve transport connectivity, expand access to power, and enhance digital connectivity[6]), agricultural productivity is expected to improve, and agro-processing trade and industries are being 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

[4] The INVITE project provides subsidized financing for microfinance institutions and banks to support business creation, and provides technical assistance to agencies for the development of private sector regulation and mechanisms for export promotion.

[5] Uganda is prone to various types of natural disasters and limited adaptation infrastructure magnifies the socio-economic impacts of extreme events. In the past 20 years, droughts have been the type of hazards that have affected the largest number of people, undermining food security. Disruptive natural disasters, such as droughts and floods, impact the economy to a large extent. Going forward, climate change will likely exacerbate the frequency and severity of natural disasters and cause large economic damages. Scaling up adaptation and preparedness is essential to ensure resilience of the population and the economy to extreme weather events. However, climate adaptation measures pose planning, implementation, and financing challenges, and require international support. Model simulations show 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. For donors it may be cost-effective to help finance investment in adaptation because it would reduce post-disaster disbursements (see Selected Issues Paper, IMF Country Report No. 22/78 for more details).

[6] The World Bank digital acceleration project aims to (i) lower prices for international capacity and extend the geographic reach of broadband networks and (ii) improve the government's efficiency and transparency through e-Government applications.

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.* Driven by higher commodity prices, headline inflation is expected to peak at 9.2 percent in FY22/23, a higher level relative to the previous DSA. Core inflation is projected to decline to the 5-percent target by end-2023 thanks to the BOU's monetary policy tightening, improved domestic harvests, and softer global commodities prices. The correlation between the CPI and the GDP deflator is expected to decline due to oil-related investment and net exports increasing their weight in the GDP deflator at the expense of consumption starting in FY24/25.[7]

- *Oil revenue projections.* Budget revenues from oil, net of oil-related expenditures, are expected to start in FY2024/25 and peak at around 2.6 percent of GDP in FY2027/28 before gradually declining over the long term. Delays in reaching the Final Investment Decision (FID) have allowed the 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, including the Uganda Petroleum Fund, The Consolidated Fund, and the Petroleum Investment Fund to ensure fiscal sustainability over the longer run – these should help manage Dutch disease crowding out effects. Continued EITI reporting is expected to help enhance the transparency of the extractive sector. 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 FY2023/24 (Text Table 4)on the back of the implementation of the Domestic Revenue Mobilization Strategy (DRMS) (comprising reform of tax expenditures and efficiency improvements in tax administration, including the management of tax arrears and the use of new technologies for audits)[8] and a decline in unproductive expenditures.[9] As part of the IDA Sustainable Development Finance Policy (SDFP), the authorities are passing a VAT reform bill and a Public Investment Policy to

[7] Inflation projections for Uganda and IMF WEO inflation projections for advanced economies pin down nominal exchange rate projections under the assumption of a constant real effective exchange rate.

[8] 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. While tax revenue has underperformed, recent measures are expected to rectify this issue. A Tax Expenditure Framework – to streamline and eventually scale down revenue leakages from tax expenditures – has been 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. In FY23/24 tax administration measures are estimated at 0.4 percent of GDP and include electronic fiscal receipts and invoices, digital tax stamps and automation of tax audits, among other measures. Tax exemption rationalizations are estimated at 0.2 percent of GDP and include limits to losses that can be offset each year for income tax, restrictions on Section 40A of the TPC, and standard VAT rates on some goods categories.

[9] 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 ongoing World Bank projects) and bilateral partners.

advance the implementation of the DRMS and strengthen the institutions implementing projects. The overall deficit target of 3.4 percent of GDP in FY23/24, is slightly smaller than the previous DSA and the target at the time of the combined 2nd-3rd program reviews. Deficit enhancing factors (BOU recapitalization, hydro-power investment, and lower tax revenue) will be more than offset by higher grants, higher non-tax revenues, lower interest payments and lower government wages. The primary deficit is projected smaller than in the previous DSA, as deficit-enhancing factors are cumulatively smaller than deficit-reducing factors before interest payments. After FY23/24, the cyclical improvement and implementation of the DRMS, including tax exemption rationalizations, will lead to a further improvement in the primary balance. Moreover, spending rationalization and greater spending efficiency under the ECF-supported program are expected to allow for higher social spending (health and education) and clearance of arrears during the program, without undue pressures on the primary balance.

- *Current account deficit*. The current account deficit is expected to peak in FY2024/25, largely driven by capital imports for oil production, but will 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)[10].

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

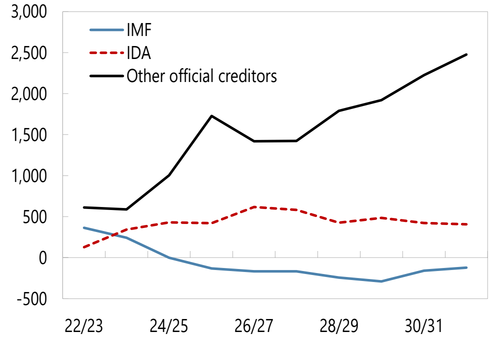
- *Gross official reserves*, excluding the impact of oil project financing and investment-related imports, are expected to gradually rise over the medium term, notwithstanding a temporary decline in FY2022/23, on the back of an increase in FDI and the start of oil exports.

- *Financing mix*. Advances from the Bank of Uganda are assumed to be fully repaid by FY2023/24 in line with the February 2022 Addendum to the Service Level Agreement between MOFPED and BOU. 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.

[10] Uganda has ratified the AfCFTA agreement, however the country needs to undertake policy reform to address constraints that may affect implementation of the agreement. These include reducing red tape and simplifying customs procedures, promoting the uptake of modern technology in the agriculture sector and improving quality and standards.

- IDA financing[11] is set to be largely delivered through project support over the medium term. The assumed average disbursement over the next five fiscal years is about US$ 496 million per year. Most 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 Figure 3).

Text Figure 3. Official External Financing, Net
(US$, millions)



Source: Uganda authorities, IMF, and World Bank estimates

7. 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 similar for the projection period. Unexpected changes in external debt are slightly above the median of the distribution across low-income countries, and marginally 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 amid 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 adjustment following the fiscal policy response to Covid-19 and the implementation of the DRMS. The growth outlook is also supported by 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.

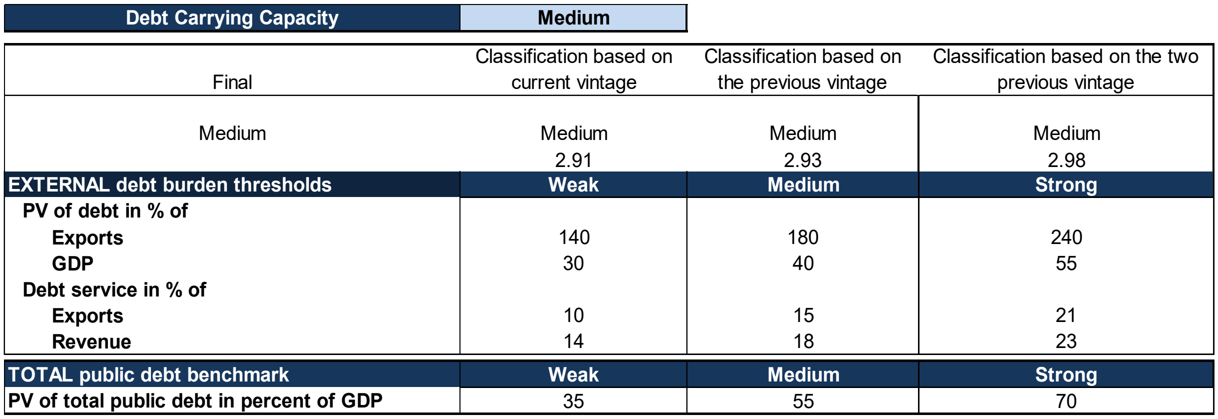
- Investment is expected to increase, with private investment offsetting a temporary decline in public investment.

[11] World Bank disbursement has been affected by the slow implementation of the portfolio in Uganda and the long period between approval and effectiveness. Most of the committed portfolio in Uganda are from IDA19 (38 years maturity, 6 years grace period and interest rate below 1 percent). Financing under IDA19 has a grant element of 77 percent. However, there are some pipeline projects with expected disbursement in FY2024 that will be under the IDA20 terms (50 years maturity, 10 years grace period, no interest, no commitment fees).

COUNTRY CLASSIFICATION

8. **Uganda's debt-carrying capacity is classified as medium, unchanged from the previous DSA.** Based on the April 2023 WEO (real GDP growth, import coverage of foreign exchange reserves, remittances, and growth of the world economy) and the World Bank's 2021 CPIA (3.55), Uganda's composite indicator (CI) score is 2.91. 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 score 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). The thresholds of the PV of external debt-to-exports ratio, the PV of external debt-to-GDP ratio, the debt service-to-exports ratio, and the debt service-to-revenue ratio are 180, 40, 15 and 18 percent, respectively. The benchmark of the PV of total public debt is 55 percent.

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



Debt Carrying Capacity	Medium		
Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintage
Medium	Medium 2.91	Medium 2.93	Medium 2.98
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

9. **The evolution of external government debt suggests a sustainable path under the baseline (Table 1).** Except for the debt service-to-exports ratio, which is projected above the threshold in FY22/23, both solvency and liquidity indicators remain below their indicative thresholds over the projection horizon (Figure 1 and Table 3). All the external debt sustainability indicators reach their peak in FY22/23. Specifically, the PV of PPG external debt-to-GDP ratio peaks at 22.3 percent (against the threshold of 40 percent), while the PV of debt-to-exports ratio reaches 162.8 percent before gradually declining below 140 percent over the medium term (against the threshold of 180 percent). The liquidity indicators show a similar path. The debt service-to-export ratio is projected at 17.1 percent in FY22/23, above the threshold of 15 percent, but is expected to decline to 14.3 percent in FY23/24 and to continue to decline gradually over the medium term, while the debt service-to-revenue ratio reaches 17.4 percent in FY22/23 against the indicative

threshold of 18 percent and then stays on a declining path.[12] The breach of the debt service to export ratio in FY22/23 is largely driven by gold exports. These usually account for 30-40 percent of total goods exports but collapsed to zero owing to a proposed export tax. This situation is expected to be resolved and exports are projected to catch up in the next fiscal year. Staff's judgement is that the one-off breach of the debt service-to-exports ratio does not impact the overall debt sustainability assessment of moderate risk of debt distress.

10. Stress tests and alternative scenarios indicate a moderate risk of debt distress rating. The PV of PPG external 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 external debt-to-exports ratio, the external debt service-to-revenue ratio, and the external debt service-to-exports ratio breach their respective thresholds under several stress tests (Figure 1 and Table 3). Specifically, for the PV of external debt-to-exports ratio and external debt service-to-exports ratio, the most extreme shock is a shock to exports, with long-lasting breaches of the thresholds. Both indicators breach their thresholds under the combined shock, and the combined contingent liability shock, and temporary breaches under the other shocks. The debt service-to-revenue ratio shows only one isolated breach under the depreciation shock.

11. The share of private debt on external debt under the baseline is on a declining path (Table 1). Private external debt peaks in FY2022/23 at 12 percent of GDP (or 28 percent of external debt), before declining toward 9.1 percent of GDP (or 22.7 percent of external debt) in FY32/33. Under the baseline, the path of private external debt does not elevate the risk of debt distress. However, the abovementioned breaches of certain indicators under the contingent liability shock suggest that possible spillovers from private sector debt may affect debt sustainability under adverse scenarios.

PUBLIC DEBT SUSTAINABILITY

12. 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 40 percent in FY2022/23, before declining towards 28.7 percent by FY2032/33 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.[13] Notwithstanding the recent increase in the nominal level of public debt-to-GDP to above 50 percent of GDP, 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 FY2024/25 onward.

13. 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 growth shock (Figure 2), under which the PV of total public debt-to-GDP ratio rises above the benchmark of 55 percent. The PV

[12] The decline in the liquidity indicators is mainly driven by the projected increase in exports and government revenue.

[13] The government's Charter of Fiscal Responsibility requires public debt to stay below 50 percent of GDP, 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.

of total public debt-to-revenue ratio rises to 324 percent under the most extreme scenario of the contingent liabilities shock and, in the long-run, it rises to 341 percent by FY2038/39 in response to a growth 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 63 percent in FY22/23.

CONCLUSIONS

14. **Uganda's risk of external and overall public debt distress is moderate, with limited space to absorb shocks.** Except for a one-off breach of the external debt service-to-exports ratio, which is projected above the threshold in FY22/23, 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. Staff's judgement is that the one-off breach of the debt service-to-exports ratio under the baseline scenario does not impact the overall debt sustainability assessment. The stress tests, however, indicate more breaches of the thresholds. Although the PV of external debt-to-GDP ratio indicates substantial space to absorb shocks without being downgraded to a high risk of debt distress, the PV of external debt-to-exports, the external debt service-to-revenues ratio, and the external debt service-to-exports ratios are close enough to their respective thresholds that a median shock would lead to a breach (Figure 5).

15. **Risks to the debt outlook are tilted to the downside.** Risks around growth are driven by the uncertainty around the external outlook, including possible spillovers to trade stemming from the conflict in Sudan, 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, 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. Moreover, the recent parliamentary adoption of the 'Anti-Homosexuality Bill 2023' could jeopardize the availability of grants and external loans from development partners and negatively impact FDI flows and tourism.

16. **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 and the combined second-third reviews 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 project selection criteria published in May 2021 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.

- *Implementing a set of particular reforms to improve fiscal and debt sustainability.* Given the moderate risk of debt distress, the government would need to implement a set of reforms –

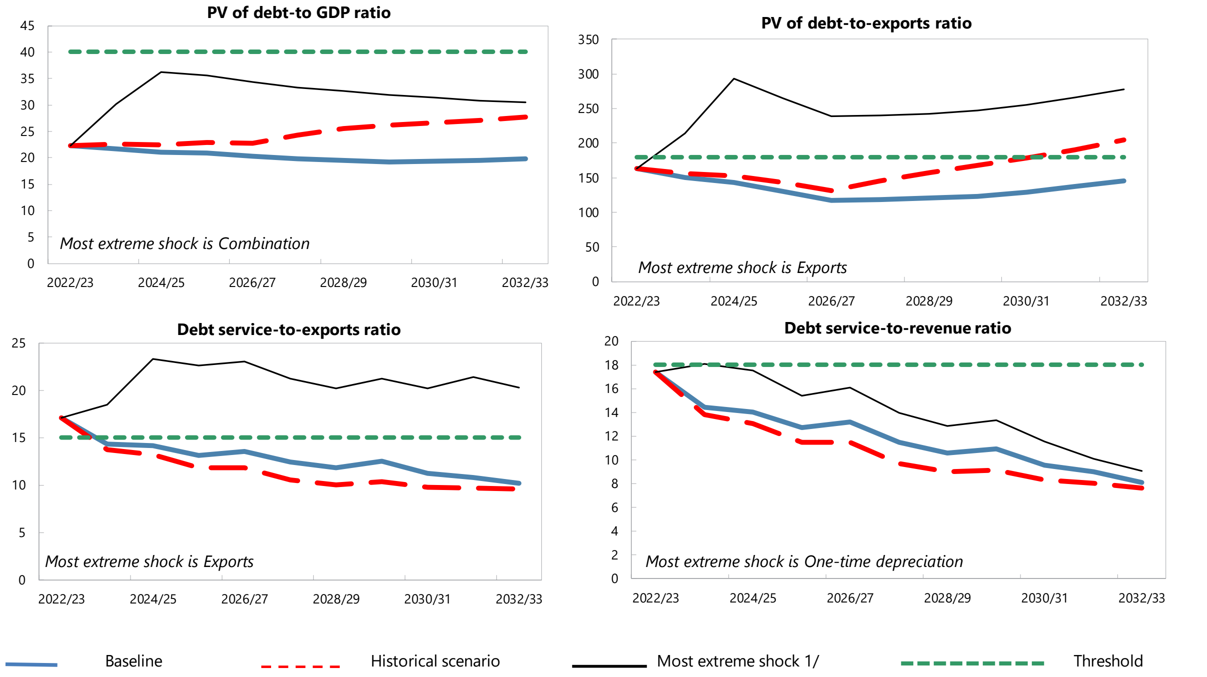
known as *Performance and Policy Actions* (PPAs) as per IDA's *Sustainable Development Finance Policy* (SDFP) – through actions in the areas of debt sustainability, debt management and fiscal sustainability. The purpose of this is to ultimately incentivize the government to reduce debt vulnerabilities.

- *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

17. The authorities agreed with the assessment of the risk of debt distress. They expressed concerns about the slight reduction in the composite index of debt carrying capacity, relative to the previous DSA. They also emphasized the importance of keeping debt below 50 percent of GDP (in nominal terms) over the medium term, and reducing the ratio of debt servicing costs to revenues, via the implementation of the DRMS.

Figure 1. Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, FY2022/23-2032/33[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	2.0%	2.0%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	25	25
Avg. grace period	6	6

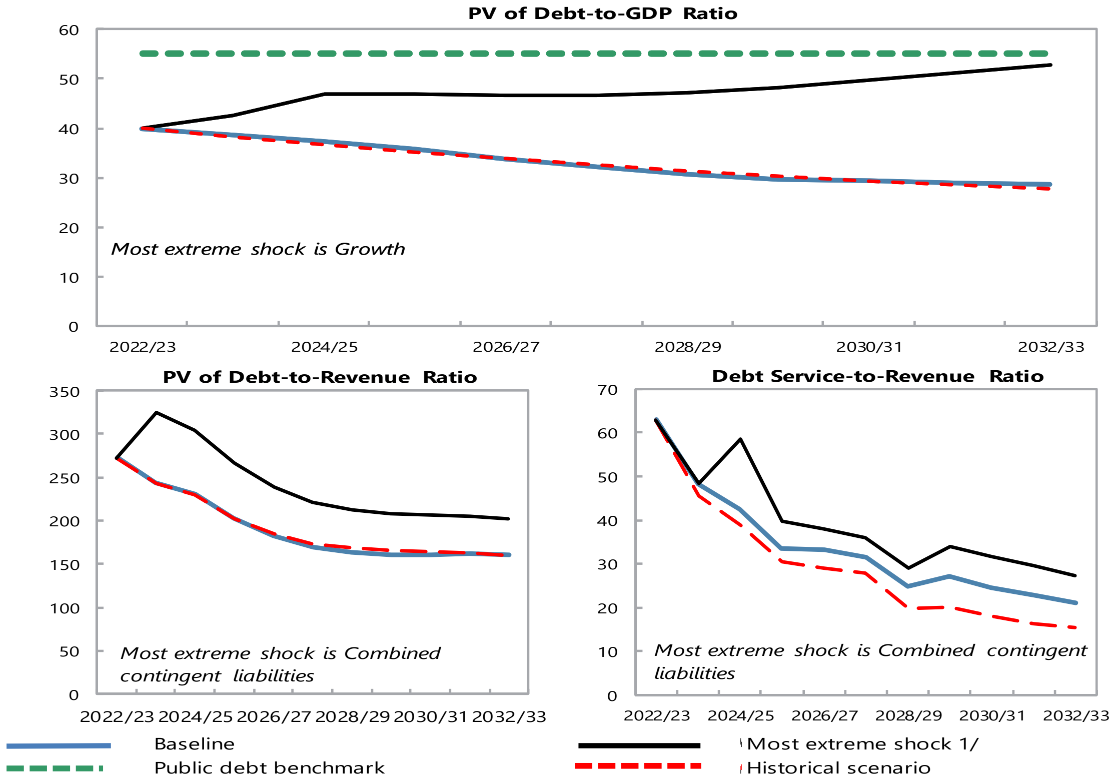
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2033. 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. Indicators of Public Debt Under Alternative Scenarios, FY2022/23-2032/33



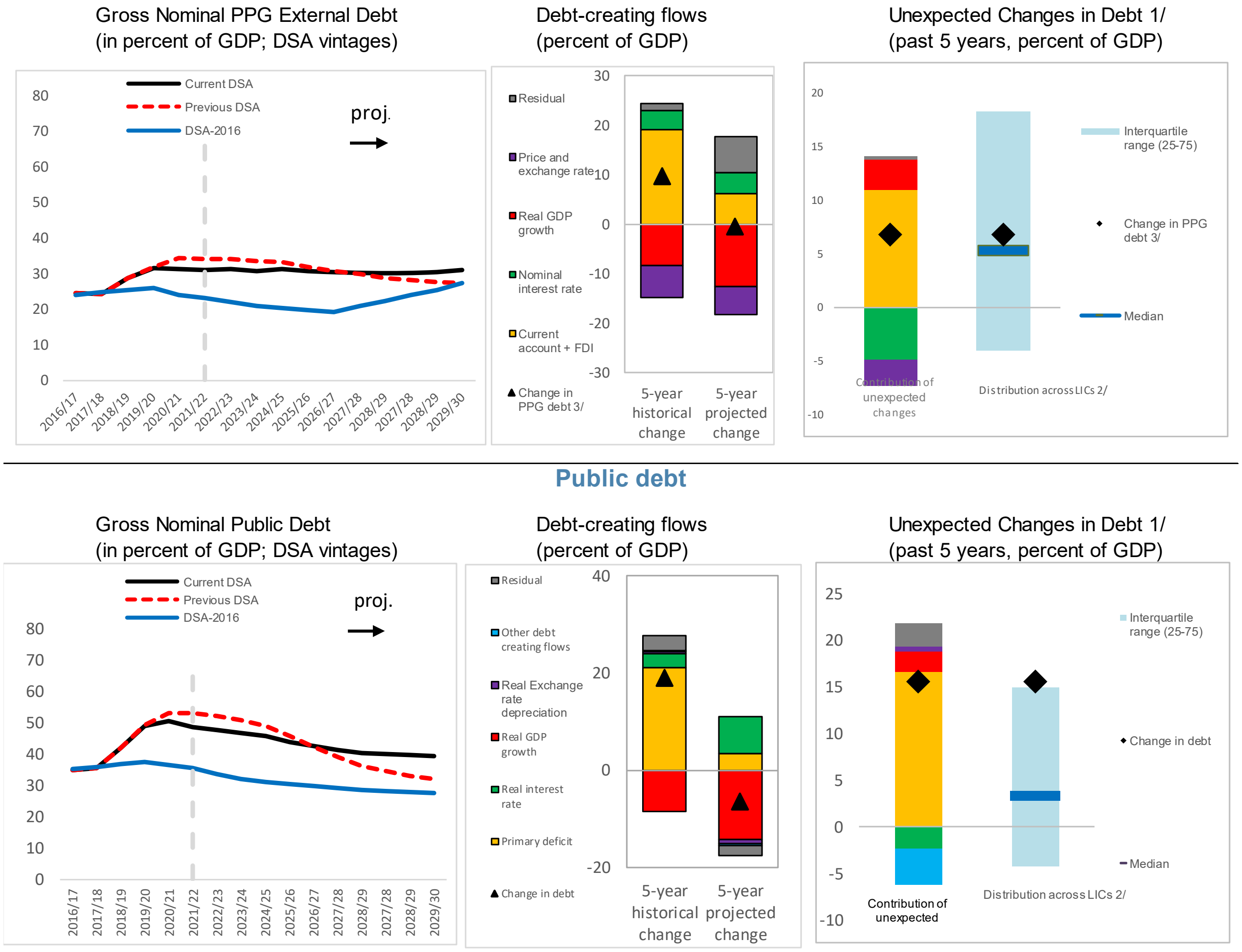
Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	63%	63%
Domestic medium and long-term	26%	26%
Domestic short-term	12%	12%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	2.0%	2.0%
Avg. maturity (incl. grace period)	25	25
Avg. grace period	6	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	10.5%	10.5%
Avg. maturity (incl. grace period)	9	9
Avg. grace period	5	5
Domestic short-term debt		
Avg. real interest rate	6.0%	6.0%

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

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2033. 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. Drivers of Debt Dynamics – Baseline Scenario



Gross Nominal PPG External Debt
(in percent of GDP; DSA vintages)

Debt-creating flows
(percent of GDP)

Unexpected Changes in Debt 1/
(past 5 years, percent of GDP)

Public debt

Gross Nominal Public Debt
(in percent of GDP; DSA vintages)

Debt-creating flows
(percent of GDP)

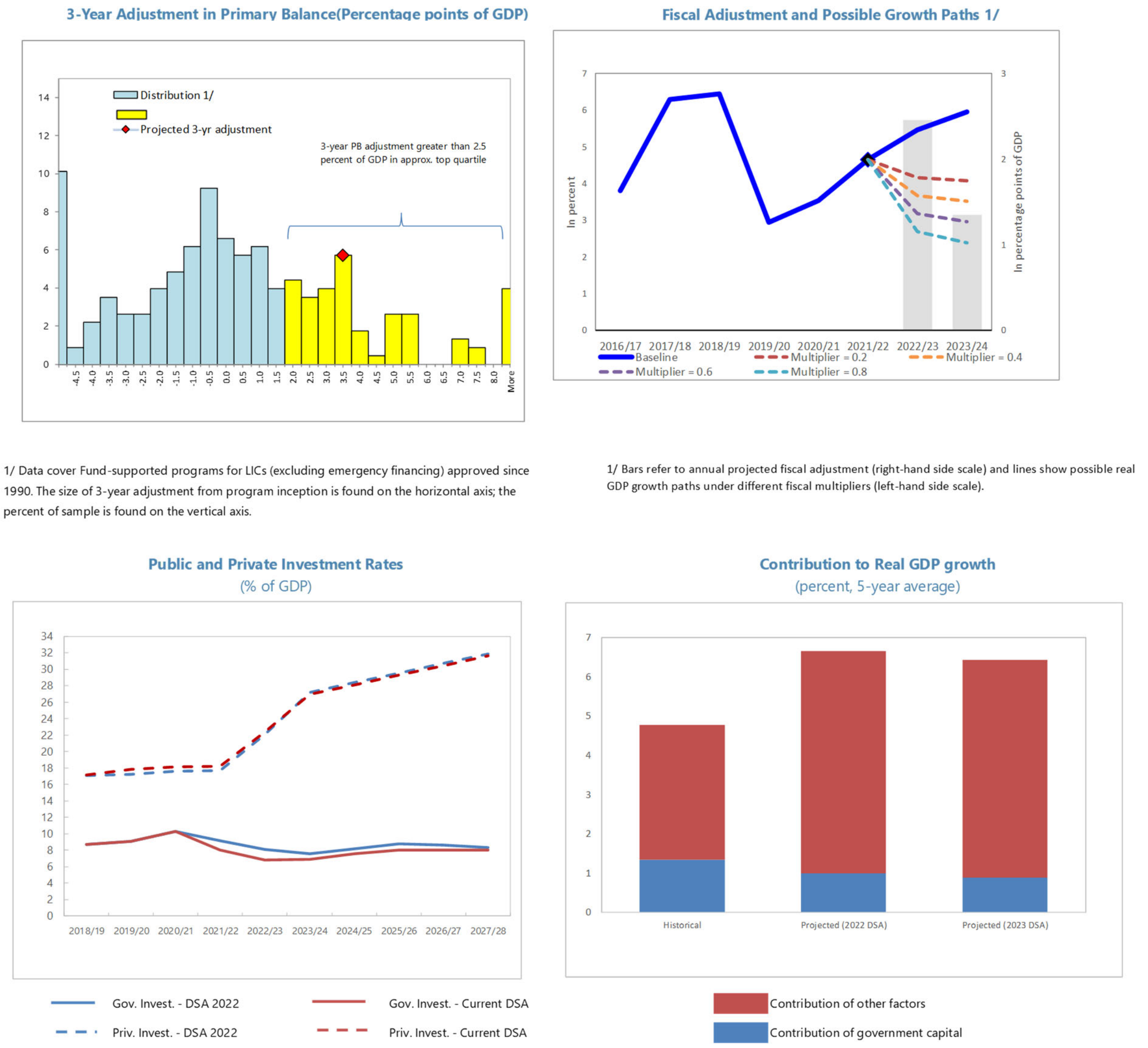
Unexpected Changes in Debt 1/
(past 5 years, percent of GDP)

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. Realism Tools



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

Fiscal Adjustment and Possible Growth Paths 1/

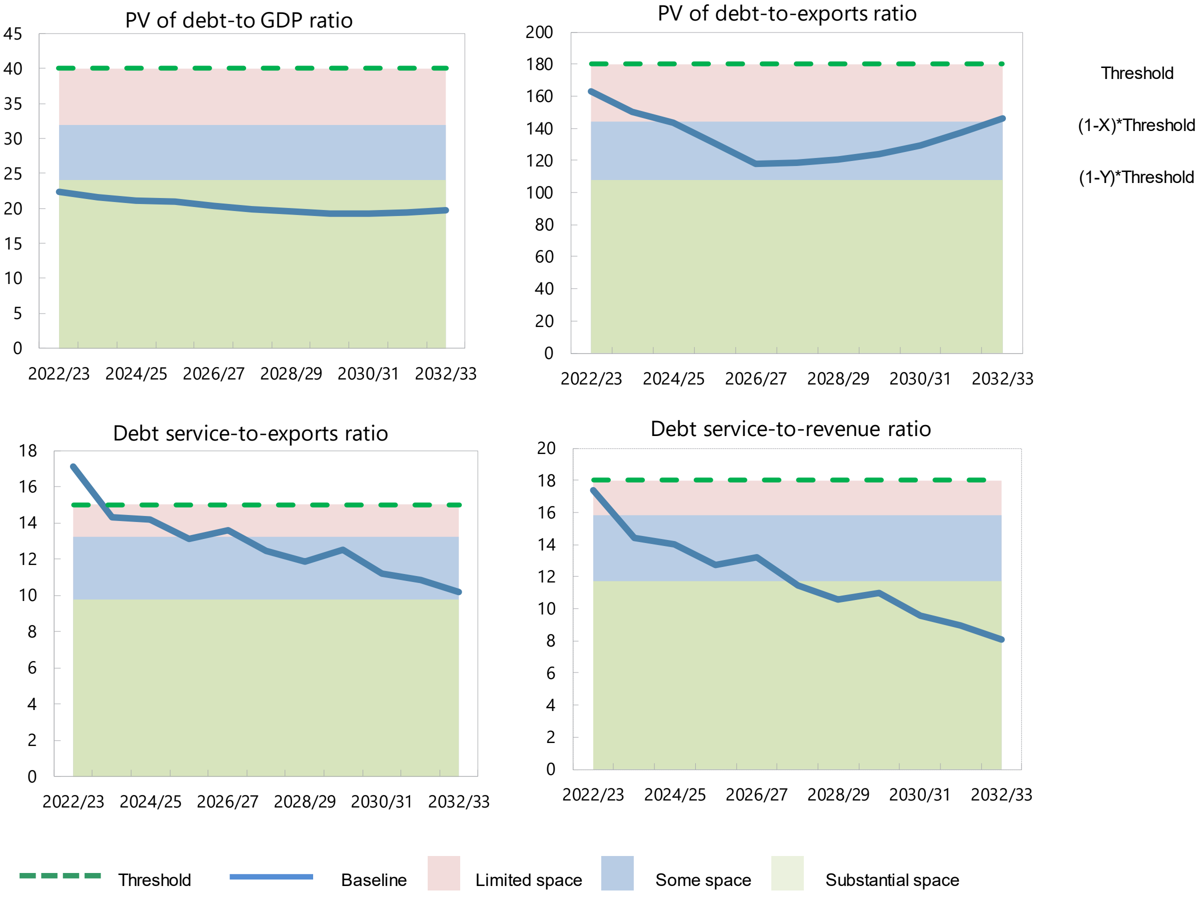
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

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. Qualification of the Moderate Category, 2022/23-2032/33 1/



Sources: Country authorities; and staff estimates and projections.

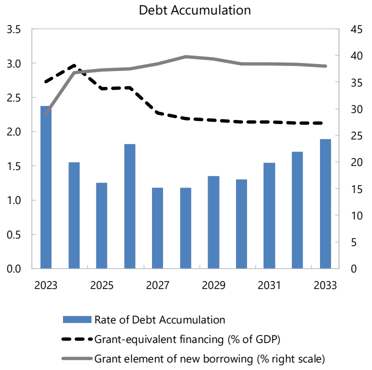
1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.

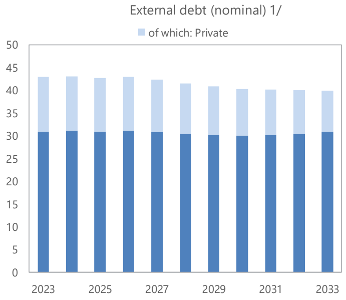
Table 1. Uganda: External Debt Sustainability Framework, Baseline Scenario, FY2019/20-2032/33

(In percent of GDP, unless otherwise indicated)

	Actual			Projections							Average 8/	
	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2032/33	Historical	Projections
External debt (nominal) 1/	**41.5**	**44.7**	**43.6**	**42.9**	**43.0**	**42.7**	**42.9**	**42.2**	**41.5**	**39.9**	**36.7**	**41.5**
of which: public and publicly guaranteed (PPG)	**28.6**	**31.6**	**31.3**	**30.9**	**31.2**	**30.8**	**31.1**	**30.8**	**30.4**	**30.8**	**22.7**	**30.6**
Change in external debt	4.4	3.2	-1.1	-0.7	0.1	-0.3	0.3	-0.7	-0.8	0.0		
Identified net debt-creating flows	**1.8**	**4.2**	**0.3**	**1.4**	**-0.7**	**-0.8**	**-1.1**	**-0.9**	**-3.3**	**-1.5**	**-0.3**	**-1.3**
Non-interest current account deficit	**6.0**	**8.5**	**7.0**	**7.5**	**8.0**	**10.2**	**10.0**	**9.0**	**5.9**	**6.8**	**6.4**	**7.8**
Deficit in balance of goods and services	2.3	4.0	3.4	4.4	5.1	6.8	4.7	2.4	-0.5	1.0	**1.3**	**2.5**
Exports	14.3	16.5	12.2	13.7	14.4	14.7	16.1	17.2	16.7	13.6		
Imports	16.5	20.5	15.7	18.1	19.5	21.5	20.8	19.6	16.2	14.5		
Net current transfers (negative = inflow)	-5.0	-4.4	-4.0	-4.0	-4.2	-4.6	-4.4	-4.2	-4.1	0.0	**-5.2**	**-3.3**
of which: official	-0.4	-0.5	-0.5	-0.5	-0.6	-0.5	-0.4	-0.4	-0.3	0.0		
Other current account flows (negative = net inflow)	8.7	8.9	7.5	7.2	7.1	8.0	9.6	10.8	10.6	5.9	**10.4**	**8.6**
Net FDI (negative = inflow)	**-2.7**	**-2.3**	**-2.7**	**-5.0**	**-7.3**	**-9.2**	**-9.1**	**-7.9**	**-7.3**	**-6.5**	**-3.2**	**-7.3**
Endogenous debt dynamics 2/	**-1.6**	**-2.0**	**-4.0**	**-1.1**	**-1.4**	**-1.8**	**-1.9**	**-2.1**	**-1.9**	**-1.8**		
Contribution from nominal interest rate	0.7	0.9	0.9	1.1	0.9	0.9	0.8	0.7	0.6	0.4		
Contribution from real GDP growth	-1.0	-1.4	-1.9	-2.2	-2.3	-2.6	-2.8	-2.8	-2.5	-2.2		
Contribution from price and exchange rate changes	-1.2	-1.6	-3.0	...	...	...	...	...	...	...		
Residual 3/	**2.7**	**-1.0**	**-1.4**	**-2.1**	**0.8**	**0.5**	**1.3**	**0.2**	**2.6**	**1.5**	**0.8**	**1.0**
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	**...**	**...**	**21.9**	**22.3**	**21.6**	**21.0**	**20.9**	**20.3**	**19.8**	**19.8**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**178.5**	**162.8**	**150.3**	**143.1**	**130.4**	**117.7**	**118.6**	**146.0**		
PPG debt service-to-exports ratio	**24.4**	**24.0**	**14.7**	**17.1**	**14.3**	**14.2**	**13.1**	**13.6**	**12.4**	**10.2**		
PPG debt service-to-revenue ratio	**28.1**	**29.7**	**13.4**	**17.4**	**14.4**	**14.0**	**12.7**	**13.2**	**11.5**	**8.1**		
Gross external financing need (Million of U.S. dollars)	3,109	4,827	4,855	4,230	3,391	3,545	3,839	4,303	2,349	3,534		
Key macroeconomic assumptions												
Real GDP growth (in percent)	3.0	3.5	4.7	5.5	6.0	6.6	7.1	7.0	6.5	6.1	**3.8**	**6.4**
GDP deflator in US dollar terms (change in percent)	3.5	4.1	7.4	3.0	4.1	2.0	2.0	1.9	1.9	1.7	**10.6**	**2.5**
Effective interest rate (percent) 4/	2.0	2.5	2.3	2.7	2.3	2.2	2.1	1.7	1.5	1.1	**2.0**	**2.1**
Growth of exports of G&S (US dollar terms, in percent)	-14.6	25.1	-16.7	21.6	15.8	11.1	19.2	17.0	5.1	3.0	**2.5**	**15.0**
Growth of imports of G&S (US dollar terms, in percent)	-9.1	34.1	-14.3	25.5	18.6	20.2	5.6	2.7	-10.5	3.6	**4.1**	**10.3**
Grant element of new public sector borrowing (in percent)	...	...	...	29.1	36.7	37.2	37.5	38.4	39.8	38.0	**...**	**36.5**
Government revenues (excluding grants, in percent of GDP)	12.4	13.4	13.4	13.5	14.3	14.9	16.6	17.7	18.1	17.0	**13.3**	**15.9**
Aid flows (in Million of US dollars) 5/	-1,580	-2,044	-1,685	1,463	1,737	1,485	1,484	1,493	1,625	2,184		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	2.7	3.0	2.6	2.6	2.3	2.2	2.1	**...**	**2.6**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	41.9	53.8	54.0	49.3	48.7	50.6	49.3	**...**	**49.7**
Nominal GDP (Million of US dollars)	37,593	40,530	45,557	49,472	54,555	59,359	64,790	70,628	76,620	112,638		
Nominal dollar GDP growth	6.5	7.8	12.4	8.6	10.3	8.8	9.2	9.0	8.5	7.9	**14.8**	**9.1**
Memorandum items:												
PV of external debt 7/	...	...	34.2	34.4	33.5	32.9	32.7	31.8	30.8	28.9		
In percent of exports	...	...	279.2	250.5	232.4	223.8	203.8	184.3	184.6	213.0		
Total external debt service-to-exports ratio	34.7	34.2	50.3	43.1	38.4	34.1	31.3	28.5	26.7	20.9		
PV of PPG external debt (in Million of US dollars)			9,959	11,041	11,809	12,494	13,571	14,334	15,168	22,292		
(PVt-PVt-1)/GDPt-1 (in percent)				2.4	1.6	1.3	1.8	1.2	1.2	1.9		
Non-interest current account deficit that stabilizes debt ratio	1.5	5.3	8.1	8.2	7.9	10.5	9.7	9.7	6.7	6.9		

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 $[r - g - \rho(1+g) + \varepsilon\alpha (1+r)]/(1+g+\rho+g\rho)$ 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.

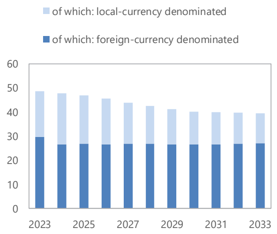
Table 2. Uganda: Public Sector Debt Sustainability Framework, Baseline Scenario, FY2019/10-2032/33

(In percent of GDP, unless otherwise indicated)

	Actual			Projections							Average 6/	
	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2032/33	Historical	Projections
Public sector debt 1/	**41.9**	**49.0**	**50.6**	**48.6**	**47.8**	**46.8**	**45.6**	**43.9**	**42.5**	**39.4**	**33.6**	**42.0**
of which: external debt	**28.6**	**31.6**	**31.3**	**30.9**	**31.2**	**30.8**	**31.1**	**30.8**	**30.4**	**30.8**	**22.7**	**30.9**
Change in public sector debt	6.3	7.1	1.6	-2.0	-0.8	-0.9	-1.2	-1.8	-1.4	-0.2		
Identified debt-creating flows	**5.1**	**4.8**	**3.5**	**-1.6**	**-0.7**	**-0.6**	**-0.7**	**-1.1**	**-0.7**	**0.1**	**1.8**	**-0.4**
Primary deficit	**5.0**	**6.7**	**4.3**	**1.9**	**0.5**	**0.6**	**0.5**	**-0.1**	**-0.5**	**1.2**	**3.4**	**0.9**
Revenue and grants	13.2	14.3	14.1	14.7	15.8	16.2	17.6	18.5	18.9	17.8	**14.4**	**17.6**
of which: grants	0.8	0.9	0.7	1.2	1.5	1.3	1.0	0.8	0.8	0.8		
Primary (noninterest) expenditure	18.2	21.0	18.4	16.5	16.3	16.7	18.1	18.4	18.4	19.0	**17.8**	**18.5**
Automatic debt dynamics	**0.0**	**-1.8**	**-0.8**	**-3.0**	**-1.2**	**-1.1**	**-1.1**	**-1.0**	**-0.1**	**-1.1**		
Contribution from interest rate/growth differential	0.1	-0.6	-2.8	-2.1	-1.4	-1.2	-1.1	-1.0	-0.1	-1.1		
of which: contribution from average real interest rate	1.2	0.8	-0.6	0.5	1.3	1.8	1.9	2.0	2.5	1.1		
of which: contribution from real GDP growth	-1.0	-1.4	-2.2	-2.6	-2.7	-3.0	-3.1	-3.0	-2.7	-2.3		
Contribution from real exchange rate depreciation	-0.1	-1.2	1.9	...	...	...	...	...	...	...		
Other identified debt-creating flows	**0.1**	**0.0**	**0.0**	**-0.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.1**	**0.0**
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.1	0.0	0.0	0.0	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	-0.5	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	**1.2**	**2.3**	**-1.9**	**-0.4**	**-0.1**	**-0.4**	**-0.5**	**-0.7**	**-0.7**	**-0.3**	**0.8**	**-0.4**
Sustainability indicators												
PV of public debt-to-GDP ratio 2/	**...**	**...**	**42.3**	**40.0**	**38.6**	**37.4**	**35.7**	**33.7**	**32.2**	**28.7**		
PV of public debt-to-revenue and grants ratio	**...**	**...**	**299.3**	**272.5**	**244.0**	**231.4**	**203.3**	**182.3**	**170.1**	**161.4**		
Debt service-to-revenue and grants ratio 3/	**48.9**	**42.4**	**42.3**	**63.0**	**48.4**	**42.4**	**33.5**	**33.1**	**31.5**	**21.2**		
Gross financing need 4/	9.7	10.9	10.5	10.6	8.1	7.4	6.4	6.1	5.4	5.0		
Key macroeconomic and fiscal assumptions												
Real GDP growth (in percent)	3.0	3.5	4.7	5.5	6.0	6.6	7.1	7.0	6.5	6.1	**3.8**	**6.3**
Average nominal interest rate on external debt (in percent)	1.7	2.1	1.7	3.0	2.6	2.4	2.4	2.3	2.2	1.6	**1.7**	**2.0**
Average real interest rate on domestic debt (in percent)	9.6	7.7	2.8	5.8	8.2	8.8	9.8	10.7	15.5	9.9	**1.0**	**9.8**
Real exchange rate depreciation (in percent, + indicates depreciation)	-0.6	-4.3	6.6	...	...	...	...	...	...	...	**-4.4**	**...**
Inflation rate (GDP deflator, in percent)	3.1	2.5	4.8	8.2	5.3	5.0	5.0	5.0	5.0	4.8	**14.8**	**5.1**
Growth of real primary spending (deflated by GDP deflator, in percent)	13.6	19.3	-8.1	-5.5	4.6	9.4	15.7	9.0	6.3	6.3	**2.3**	**6.8**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-1.2	-0.4	2.7	3.8	1.3	1.5	1.7	1.7	0.8	1.4	**0.4**	**1.6**
PV of contingent liabilities (not included in public sector debt)	0.2	0.5	1.5	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**

Public sector debt 1/



Sources: Country authorities; and staff estimates and projections.

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

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

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

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

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

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

Table 3. Uganda: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, FY2022/23-2032/33

(In percent)

	Projections										
	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33
PV of debt-to GDP ratio											
Baseline	**22.3**	**21.6**	**21.0**	**20.9**	**20.3**	**19.8**	**19.5**	**19.2**	**19.3**	**19.5**	**19.8**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 1/	22.3	22.6	22.4	22.9	22.7	24.2	25.5	26.2	26.6	27.1	27.7
B. Bound Tests											
B1. Real GDP growth	22.3	23.4	25.0	24.9	24.1	23.5	23.2	22.8	22.9	23.1	23.5
B2. Primary balance	22.3	23.6	25.2	25.3	24.6	24.1	23.7	23.5	23.6	23.8	24.1
B3. Exports	22.3	24.1	27.5	27.1	26.2	25.5	25.0	24.5	24.3	24.0	24.0
B4. Other flows 2/	22.3	26.4	31.6	31.0	29.9	29.0	28.3	27.8	27.3	26.7	26.4
B6. One-time 30 percent nominal depreciation	22.3	26.9	23.2	23.2	22.5	22.0	21.8	21.6	21.7	22.1	22.8
B6. Combination of B1-B5	22.3	30.2	36.2	35.6	34.3	33.3	32.6	31.9	31.3	30.8	30.4
C. Tailored Tests											
C1. Combined contingent liabilities	22.3	28.5	28.6	28.5	27.8	27.2	26.8	26.7	26.9	27.2	27.7
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	**162.8**	**150.3**	**143.1**	**130.4**	**117.7**	**118.6**	**120.8**	**123.7**	**129.4**	**137.1**	**146.0**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 1/	162.8	156.7	152.5	142.7	131.5	145.1	157.8	168.1	178.6	**190.7**	204.2
B. Bound Tests											
B1. Real GDP growth	150.3	143.1	130.4	117.7	118.6	120.8	123.7	129.4	137.1	146.0	154.6
B2. Primary balance	164.0	171.1	157.2	142.7	144.1	147.1	151.1	158.5	167.6	177.8	187.1
B3. Exports	**214.2**	**293.7**	**265.1**	**238.6**	**239.4**	**242.8**	**247.2**	**255.9**	**265.9**	**277.9**	289.0
B4. Other flows 2/	**183.0**	**214.8**	**192.9**	173.4	173.7	175.6	178.4	**183.3**	**188.5**	**194.8**	200.5
B6. One-time 30 percent nominal depreciation	149.1	125.9	115.4	104.4	105.3	107.7	110.6	116.3	124.5	134.1	143.4
B6. Combination of B1-B5	**229.3**	**208.8**	**261.8**	**235.3**	**235.8**	**238.5**	**242.4**	**248.8**	**256.3**	**265.4**	273.7
C. Tailored Tests											
C1. Combined contingent liabilities	**198.1**	**194.7**	177.5	161.1	162.9	166.3	171.7	**180.9**	**192.0**	**204.1**	214.3
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	**17.1**	**14.3**	**14.2**	**13.1**	**13.6**	**12.4**	**11.8**	**12.5**	**11.2**	**10.8**	**10.2**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 1/	**17.1**	13.8	13.2	11.9	11.8	10.6	10.0	10.4	9.7	9.7	9.6
B. Bound Tests											
B1. Real GDP growth	**17.1**	14.3	14.2	13.1	13.6	12.4	11.8	12.5	11.2	10.8	10.2
B2. Primary balance	**17.1**	14.3	14.5	13.8	14.2	13.1	12.5	13.2	12.5	12.8	12.3
B3. Exports	**17.1**	**18.5**	**23.3**	**22.6**	**23.1**	**21.3**	**20.2**	**21.3**	**20.2**	**21.4**	20.3
B4. Other flows 2/	**17.1**	14.3	**15.0**	14.9	**15.1**	13.9	13.3	13.9	14.0	**15.4**	14.6
B6. One-time 30 percent nominal depreciation	**17.1**	14.3	14.1	12.7	13.2	12.1	11.5	12.1	10.8	9.7	9.1
B6. Combination of B1-B5	**17.1**	**17.3**	**21.2**	**20.5**	**20.9**	**19.3**	**18.3**	**19.2**	**19.7**	**20.9**	19.8
C. Tailored Tests											
C1. Combined contingent liabilities	**17.1**	14.3	**15.4**	14.4	14.7	13.6	13.0	13.7	12.4	12.1	11.5
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	**17.4**	**14.4**	**14.0**	**12.7**	**13.2**	**11.5**	**10.6**	**10.9**	**9.6**	**9.0**	**8.1**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 1/	17.4	13.8	13.1	11.5	11.5	9.7	9.0	9.1	8.3	8.0	7.6
B. Bound Tests											
B1. Real GDP growth	17.4	15.6	16.6	15.1	15.6	13.6	12.6	13.0	11.4	10.6	9.6
B2. Primary balance	17.4	14.4	14.4	13.4	13.8	12.1	11.2	11.6	10.7	10.6	9.8
B3. Exports	17.4	14.6	14.7	13.9	14.3	12.5	11.6	11.9	11.0	11.3	10.3
B4. Other flows 2/	17.4	14.4	14.9	14.4	14.7	12.8	11.9	12.2	11.9	12.8	11.6
B6. One-time 30 percent nominal depreciation	17.4	**18.0**	17.5	15.4	16.1	13.9	12.9	13.3	11.6	10.1	9.1
B6. Combination of B1-B5	17.4	15.9	17.8	16.8	17.2	15.0	13.9	14.3	14.3	14.7	13.4
C. Tailored Tests											
C1. Combined contingent liabilities	17.4	14.4	15.3	13.9	14.3	12.5	11.6	12.0	10.6	10.1	9.2
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**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, FY2022/23-2032/33

	Projections												
	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2031/32	2032/33
PV of Debt-to-GDP Ratio													
Baseline	**40.0**	**38.6**	**37.4**	**35.7**	**33.7**	**32.2**	**30.8**	**29.7**	**29.3**	**29.0**	**28.7**	**29.0**	**28.7**
A. Alternative Scenarios													
A1. Key variables at their historical averages in 2022-2032 1/	40	38	37	35	34	33	31	30	29	29	28	29	28
B. Bound Tests													
B1. Real GDP growth	40	43	47	47	47	47	47	48	50	51	53	51	53
B2. Primary balance	40	42	44	42	39	37	35	34	33	33	32	33	32
B3. Exports	40	41	43	41	39	37	36	35	34	33	33	33	33
B4. Other flows 2/	40	43	48	46	43	42	40	38	37	36	35	36	35
B6. One-time 30 percent nominal depreciation	40	42	39	35	32	29	26	24	22	21	20	21	20
B6. Combination of B1-B5	40	42	42	37	35	33	31	30	30	29	29	29	29
C. Tailored Tests													
C1. Combined contingent liabilities	40	51	49	47	44	42	40	38	38	37	36	37	36
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.	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.	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.	n.a.	n.a.
Public debt benchmark	**55**	**55**	**55**	**55**	**55**	**55**	**55**	**55**	**55**	**55**	**55**	**55**	**55**
PV of Debt-to-Revenue Ratio													
Baseline	**272.5**	**244.0**	**231.4**	**203.3**	**182.3**	**170.1**	**163.8**	**160.4**	**161.2**	**161.9**	**161.4**	**161.9**	**161.4**
A. Alternative Scenarios													
A1. Key variables at their historical averages in 2022-2032 1/	272	243	229	202	184	174	169	165	164	163	160	163	160
B. Bound Tests													
B1. Real GDP growth	272	268	287	265	250	245	250	258	271	284	294	284	294
B2. Primary balance	272	267	273	238	212	196	189	184	184	183	180	183	180
B3. Exports	272	258	269	236	212	198	191	187	187	185	183	185	183
B4. Other flows 2/	272	274	298	261	235	219	212	207	206	203	199	203	199
B6. One-time 30 percent nominal depreciation	272	268	242	203	172	151	138	128	122	116	111	116	111
B6. Combination of B1-B5	272	266	258	209	186	173	166	163	164	164	163	164	163
C. Tailored Tests													
C1. Combined contingent liabilities	272	324	304	266	238	221	213	208	207	206	203	206	203
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. 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. 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. n.a.	n.a.	
Debt Service-to-Revenue Ratio													
Baseline	**63.0**	**48.4**	**42.4**	**33.5**	**33.1**	**31.5**	**24.8**	**27.1**	**24.4**	**22.8**	**21.2**	**22.8**	**21.2**
A. Alternative Scenarios													
A1. Key variables at their historical averages in 2022-2032 1/	63	46	39	30	29	28	20	20	18	16	15	16	15
B. Bound Tests													
B1. Real GDP growth	63	52	51	42	43	42	35	39	38	38	37	38	37
B2. Primary balance	63	48	47	40	36	34	27	30	29	28	26	28	26
B3. Exports	63	48	43	34	34	32	26	28	26	25	23	25	23
B4. Other flows 2/	63	48	43	35	35	33	26	28	27	26	25	26	25
B6. One-time 30 percent nominal depreciation	63	47	44	35	35	33	26	28	25	23	21	23	21
B6. Combination of B1-B5	63	48	44	35	35	33	26	29	26	25	23	25	23
C. Tailored Tests													
C1. Combined contingent liabilities	63	48	59	40	38	36	29	34	31	30	27	30	27
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.	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.	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.	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.

Statement by Mr. Nakunyada, Executive Director and Ms. Basutli, Advisor to the Executive Director, on Uganda Fourth Review Under the Extended Credit Facility Arrangement, Requests for a Waiver of Nonobservance of a Performance Criterion and Modification of a Performance Criterion

Executive Board Meeting

June 21, 2023

Introduction

1. On behalf of our Ugandan authorities, we thank staff for the constructive engagement during the mission on the fourth review under the Extended Credit Facility (ECF) arrangement. Our authorities broadly share staff's appraisal and policy recommendations.

2. The Ugandan economy has maintained a strong growth momentum and demonstrated resilience to headwinds from successive external and domestic shocks. Spillovers from the Russia-Ukraine war, drought in several parts of the country, and outbreak of the Ebola virus dampened growth and stoked inflationary pressures. More recently, conflict spillovers from Sudan pose renewed challenges. Nevertheless, the authorities' steadfast adherence to prudent policies under the ECF program is bearing fruit. Specifically, they reprioritized the key objectives of the Third National Development Plan (NDP III) 2020/21 - 2024/25 to achieve higher social spending and maintain support to vulnerable households and businesses. At the same time, the firm fiscal consolidation efforts geared to maintain debt sustainability, alongside a tight monetary policy, have decisively brought down inflation. Against this backdrop, the authorities' performance under the ECF program has remained broadly satisfactory. To consolidate the important progress achieved under the ECF program, the authorities seek to advance progress on the remaining structural benchmarks.

Program Performance

3. All Quantitative Performance Criteria (QPCs) and Indicative Targets (ITs) for end-December 2022 and end-March 2023 were met. Further, all QPCs were met, except the March QPC on Bank of Uganda (BoU) net credit to government, which was missed by a small margin due to delays associated with external commercial borrowing. Similarly, two ITs on tax revenues and the floor on social spending were marginally missed in March, reflecting lower-than-expected corporate tax collections, and lower absorptive capacity of some ministries and agencies.

4. All six Structural Benchmarks (SBs) falling due between March and June 2023 were met, two ahead of their end-June deadline. Considering the strong program performance, our authorities seek Executive Directors' support for the completion of the fourth review under the ECF arrangement. Relatedly, they request a waiver of non-observance of performance criterion and modification of a QPC and indicative targets. Specifically, the changing macroeconomic environment, revised financing plans and the authorities' FY22/23 tax revenue track record, warrant modifications to the floors on the primary budget balance and tax revenues. Further, the ceiling on the present value of newly contracted external public and publicly guaranteed debt, would need to be modified.

Recent Economic Developments and Outlook

5. Real GDP growth improved from 3.5 percent in FY2020/21 to 4.7 percent in FY2021/22, largely reflecting the robust performance in the wholesale and retail sectors, education, real estate, and mining,

benefitting from the post-pandemic reopening of the economy. Going forward, growth is expected to pick up to 5.5 percent in FY2022/23 and 6 percent in FY2023/24, spurred by improved near-term growth prospects. In the medium term, output is projected to return to its pre-pandemic trend of between 6 and 7 percent, as governance reforms boost confidence and private investment. Further growth impetus is expected from the development of the oil sector, increased regional trade and more efficient and productive government spending. Nonetheless, the growth outlook remains subject to downside risks, including from a protracted war in Ukraine.

6. Headline inflation declined from 10.2 percent in December 2022 to 6.2 percent in May 2023, mainly due to well-coordinated monetary and fiscal policies, and the moderation of commodity and food prices. The BoU forecasts inflation to return to the 5 percent target by year-end, as improved agricultural harvests and easing global demand-supply constraints contribute to lower prices. That said, the outlook remains challenged by volatile global commodity prices, as well as the pace of international and domestic policy tightening. Moreover, potential spillovers from the conflict in Sudan could affect domestic price developments.

7. Meanwhile, the current account deficit remains sizeable at 6.7 percent of GDP for FY2022/23, owing to high imports and lower tourism receipts. This notwithstanding, international reserves remained relatively stable at 3.8 months of imports in March 2023 (compared to 3.7 months at the second and third reviews). As such, external reserves fall below the program target of 4 months and the EAC target of 4.5 months of imports.

Fiscal Policy and Debt Management

8. Our authorities continue to decisively implement fiscal consolidation measures geared to maintain public finances on a sustainable footing, in line with program objectives. In this vein, they are making determined efforts to consolidate the gains made on their steep fiscal consolidation path. As a result, the fiscal balance narrowed from a deficit of 9.4 percent of GDP in FY2020/21 to 7.4 percent in FY2021/22 and further to 5.1 percent in FY2022/23. To reverse revenue underperformance, the authorities attach great prominence to revenue enhancing measures, including tax exemption rationalization, and strengthening tax administration to help achieve a lower deficit than previously envisaged. Importantly, they remain committed to the implementation of their Domestic Revenue Mobilization Strategy (DRMS), which they continue to adapt to changing policies and the macroeconomic environment. In the medium-term, the DRMS is expected to help enhance income tax productivity, improve the excise duty regime, and strengthen VAT productivity, including by reviewing the VAT registration threshold.

9. On the expenditure front, the authorities are committed to sustaining an increase in priority social spending. That said, challenges associated with the debt outlook and capacity constraints hamper the authorities' ability to increase social spending as initially envisaged. In that regard, the authorities seek Fund TA to improve social spending performance. They also plan to strengthen the social safety net by bolstering social assistance programs. As a contingency measure, they plan to cut non-priority spending to safeguard the fiscal goals of the program, if downside risks crystalize or the financing assurances do not materialize. In addition, the authorities will strengthen public investment management, and have identified key priority areas, including ensuring the predictability of budget releases for investment projects, among others.

10. Debt is projected to remain sustainable and is currently assessed at moderate risk of distress. Going forward, the authorities continue to pursue measures aimed at diversifying their potential creditor base, thereby maintaining debt sustainability. Their Public Investment Finance Strategy is designed to help

catalyze additional donor financing. Over the medium term, the authorities also project that large infrastructure projects will lead to a slight shift in the composition of financing towards non-concessional loans. That said, they are committed to implementing the objectives laid out in their Medium-Term Debt Management Strategy, including increasing the maturity of domestic debt.

Monetary, Exchange Rate and Financial Sector Policies

11. The Bank of Uganda's (BoU) monetary policy implementation continues to be guided by a strong drive to bring inflation back to the 5 percent target over the medium term. Accordingly, the central bank increased the policy rate by a cumulative 350 basis points between May and October 2022 and kept monetary policy tight. Going forward, the BoU stands ready to adjust the policy rate as needed, while adhering to the monetary policy consultation clause as an element of the ECF program. In addition, the authorities remain committed to exchange rate flexibility to absorb external shocks and will continue limiting interventions to address disorderly market conditions, while reducing FX reserves-financed government imports.

12. Furthermore, the authorities view central bank independence as paramount to ensure the effectiveness of its operations, and efforts are underway to strengthen its autonomy. Currently, they are working on the revised principles underpinning the amendments to the BoU Act, to be resubmitted to Cabinet once the relevant reviews have been completed. Thereafter, they intend to submit the draft Amendment Bill to Parliament.

13. Uganda's banking system remains resilient, profitable, adequately capitalized and liquid. However, the authorities will remain attentive to key financial sector risks (including those arising from the sovereign-bank nexus and corporate and household indebtedness). To this end, the central bank attaches a high premium on macroprudential regulation efforts. Accordingly, the BoU is building on its full implementation of Basel II principles and is implementing selected aspects of Basel III to suit the level of development of the banking sector. Relatedly, the authorities are making substantial progress on supervisory and governance reforms and intend to adopt new regulations on corporate governance. These measures will strengthen corporate governance while safeguarding financial stability. They are also advancing towards risk-based supervision (RBS), with a manual and risk matrix already in place, while a pilot for supervising entities based on the RBS manual is ongoing. Other key financial sector priorities include enhancing AML/CFT risk-based supervision, strengthening bank resilience and enhancing the BoU's stress testing capacity. To foster financial inclusion, the authorities are implementing the National Financial Inclusion Strategy and envisage further progress under the program, by leveraging on developments in digitalization.

Structural Reforms and Governance

14. The authorities continue to pursue policies in line with their structural reform agenda, which remains focused on generating higher and more inclusive growth. They view the role of the private sector and continued human capital development as essential. To complement these efforts, they consider measures to reduce the cost of doing business through a centralized one-stop shop for permits and registration requirements for new businesses and streamlining red tape as important steps towards increased private sector participation.

15. Advancing governance and anti-corruption policies by, among others, enhancing transparency in the implementation of asset declaration to help build further public trust in the regime, remains a priority for our authorities. They plan to intensify efforts aimed at promoting good governance and tackling corruption, guided by the strategic objectives outlined in the National Anti-Corruption Strategy (NACS) 2019–2024. Further, as part of their commitment to the Extractive Industries Transparency Initiative (EITI) and transparency objectives, the authorities will disclose contracts and licenses for oil and gas production and beneficial owners of corporate entities that hold a legal interest.

16. In view of the country's climate vulnerabilities, the authorities view adaptation and mitigation efforts as essential to enhancing the economy's resilience. In this connection, they have completed accreditation to the Green Climate Fund and the Adaptation Fund. They are currently working with development partners to scale-up capacity to leverage these accreditations to access climate financing. Specifically, the authorities will prioritize strengthening water catchment ability; expanding forest coverage from 14 percent to 21 percent by 2030; and include climate change risk as one of the focus areas of the BoU's Strategic Plan 2022–2027.

Conclusion

17. Our Ugandan authorities remain committed to program objectives, designed to help maintain macroeconomic stability and support sustainable growth and an inclusive recovery. They appreciate the Fund's continued policy and technical support, which remains instrumental to the success of the program. The authorities look forward to continued engagement with the IMF for a successful implementation of their reform agenda and the Executive Board's support in the completion of the fourth review under the ECF arrangement.