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March 2024

FIFTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR UGANDA

In the context of the Uganda—Fifth Review Under the ECF Arrangement and Request for Modification of Performance Criteria, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 6, 2024, following discussions that ended on December 6, 2023, with the officials of Uganda on economic developments and policies underpinning the IMF arrangement under the ECF Arrangement. Based on information available at the time of these discussions, the staff report was completed on February 14, 2024.
- A **Statement by the Executive Director** for Uganda.

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Washington, D.C.

IMF Executive Board Completes Fifth Review Under the Extended Credit Facility Arrangement for Uganda

FOR IMMEDIATE RELEASE

- The Executive Board of the International Monetary Fund (IMF) concluded today the fifth 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 consolidate the recovery from COVID-19 and other recent shocks and support sustainable, inclusive private-sector led growth. Reforms focus on creating fiscal space for priority social spending and investment, preserving debt sustainability, strengthening governance, and reducing corruption, and enhancing the monetary and financial sector frameworks.
- Economic growth is projected at 6 percent in FY23/24 and to rise to 7 percent in FY24/25 and the medium-term. Core inflation is expected to remain subdued at 2.8 percent in FY 23/24 and rising to the Bank of Uganda's target of 5 percent in the medium-term.
- A tight fiscal policy will reduce financing and debt risks, while maintaining fiscal space for social and development expenditure. Monetary policy should be data dependent, and a flexible exchange rate will help rebuild external buffers.

Washington DC, March 6th, 2024: The Executive Board of the International Monetary Fund (IMF) today concluded the fifth review of Uganda's Extended Credit Facility (ECF) Arrangement. The completion of the fifth 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 631.75 million (about US$870 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, (IMF Executive Board Approves US$1 billion ECF Arrangement for Uganda), aiming to support the near-term response to the COVID-19 pandemic and boost more inclusive private sector-led long-term growth. Reforms have focused on creating fiscal space for priority social spending, preserving debt sustainability, strengthening governance, and reducing corruption, and enhancing the monetary and financial sector frameworks.

Uganda's economic recovery is gaining pace, with growth projected at 6 percent in FY 23/24, and rising to 7 percent in FY 24/25 and the medium-term. The inflation outlook has improved, with core inflation expected to remain subdued at 2.8 percent in FY 23/24 and rising to the Bank of Uganda's target of 5 percent in the medium-term.

Risks to the outlook remain on the downside. A further tightening of external financial conditions could constrain the availability of syndicated loans and jeopardize fiscal financing and the ongoing recovery. The passing of the Anti-Homosexuality Bill, 2023 (AHA) could negatively impact foreign investment, loans, and grants, as well as tourism. Uganda's mostly rain-fed agriculture also remains vulnerable to weather-related shocks. Risks to inflation are also on the upside, reflecting a slightly positive output gap, risks of higher international fuel prices from the ongoing Israel-Gaza war, exchange rate depreciation pressures from portfolio outflows, and weather-related shocks.

Fiscal consolidation is necessary to reduce risks to financing and debt sustainability, while maintaining fiscal space for social and development expenditure. A data dependent monetary policy stance will guard against risks while bringing core inflation back to the central bank's target. These policies, in addition to exchange rate flexibility, will help rebuild external buffers and improve competitiveness.

At the conclusion of the Executive Board's discussion, M. Bo Li, Deputy Managing Director, and Acting Chair made the following statement:[1]

Uganda's recovery is becoming more broad-based, supported by falling inflation and oil industry investments. The ECF arrangement continues to support fiscal consolidation to keep the public debt ratio on a downward path, ensure sustainable social and development expenditure, and implement structural reforms to improve governance and facilitate private-sector-led growth. The economic outlook is positive but remains subject to downside risks including from lower external financing and tourism following passage of the Anti-Homosexuality Act (AHA). The authorities' commitment to strong policies and structural reforms will help ensure robust, sustainable, and inclusive growth going forward.

Continued commitment to fiscal consolidation is key to reduce financing risks and safeguard debt sustainability. Implementing the Domestic Revenue Mobilization Strategy will help secure consolidation gains and lower reliance on costly domestic and external financing. Improving the structure of expenditures will help maintain social services and space for growth-enhancing capital expenditures. Addressing deficiencies in public financial management will improve budgeting and expenditure control.

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[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.

The Bank of Uganda has been proactive in addressing inflation, but upside risks remain. Monetary policy should remain data dependent, loosening only as inflation risks recede, to bring core inflation back to the central bank target.

Pursuing fiscal consolidation and maintaining a flexible exchange rate will help rebuild international reserves to safer levels. Limiting intervention in the foreign exchange market to situations of excess volatility will also help the economy adjust to external pressures and maintain competitiveness.

Vigorously pursuing structural reforms will set the preconditions for robust private-sector-led growth, in line with the authorities' National Development Plan III. Priorities include improving governance and reducing corruption, strengthening financial stability and access, enhancing the Bank of Uganda's independence, and improving spending efficiency. We welcome Uganda's progress in reforming its AML/CFT framework and its removal from the FATF grey list.

Table 1. Uganda: Selected Economic Indicators, FY2020/21–FY2024/25

	FY2020/21	FY2021/22	FY2022/23	FY2023/24	FY2024/25
		Act.		Rev. Prog.	Forecast
Output					
Real GDP Growth (%)	3.5	4.6	5.2	6.0	6.2
Prices					
Headline Inflation - average (%)	2.5	3.4	8.8	3.1	4.5
Core Inflation - average (%)	3.5	3.2	7.4	2.8	4.4
Central Government Finances					
Revenue and grants (% of GDP)	14.3	14.1	14.4	15.7	16.0
Expenditure (% of GDP)	23.7	21.5	19.9	19.6	19.7
Primary Balance (% of GDP)	-7.1	-4.6	-2.3	-0.6	-0.4
Fiscal Balance (% of GDP)	-9.8	-7.6	-5.5	-3.8	-3.6
Public Debt (% of GDP)	48.8	50.5	50.2	49.6	49.3
Money and Credit					
Broad Money (% change)	8.5	10.0	6.6	11.5	10.8
Credit to Private Sector (% change)	8.3	11.0	6.5	8.0	12.1
Policy Rate, EOP (%)	6.5	7.5	10.0	…	…
Balance of Payments					
Current Account Balance (% of GDP)	-10.6	-8.1	-8.3	-8.2	-7.3
Reserves (in months of next year's imports)	4.9	4.0	3.4	3.3	3.7
External Public Debt (% of GDP)	31.4	31.3	29.5	30.1	30.2
Exchange Rate					
REER (% change)	0.7	3.6	4.1	…	…

Source: Uganda authorities and IMF staff estimates and projections

INTERNATIONAL MONETARY FUND

UGANDA

February 14, 2024

FIFTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA

EXECUTIVE SUMMARY

Context. Economic recovery continues to gain strength following a rapid decline in inflation, favorable agriculture and robust industrial and services activity. Fiscal financing and foreign portfolio flows are facing headwinds amid tight global financial conditions and the passage of the Anti-Homosexuality Act (AHA) in May 2023. The authorities are implementing fiscal consolidation to contain vulnerabilities, maintaining a moderately tight monetary stance in the face of upside risks to inflation and undertaking reforms to improve governance and reduce corruption.

Arrangement under the Extended Credit Facility (ECF). The 36-month ECF arrangement was approved by the IMF's Executive Board in June 2021 with access at 200 percent of quota. The 1st review was completed in March 2022, the combined 2nd and 3rd reviews were completed in January 2023, and the 4th review was completed in June 2023. The program supported Uganda's recovery from the COVID-19 pandemic and subsequent external shocks and is helping to put in place the conditions for sustainable private-sector-led growth.

Program performance. All September 2023 quantitative performance criteria (QPCs) were met, as well as most June 2023 indicative targets (ITs). Preliminary data suggest that the December 2023 IT for net credit to government (NCG) and inflation were met but the IT for net international reserves (NIR) was missed. Four out of seven structural benchmarks (SBs) for the current (fifth) review were met on or before test dates, and one was completed with a delay. The SB on amendments to the Financial Institutions Regulations (end-December 2023) was missed and the SB on amendment of the Bank of Uganda (BoU) Act was reformulated as amendment of the PFM regulation and elevated as a prior action (PA) for the completion of the current review. There are two additional PAs for the completion of the fifth review, identifying fiscal contingency measures for FY23/24 and finalizing the cash management framework. All three PAs have been met.

Request for modification of QPCs and ITs. Considering domestic and external developments since the conclusion of the fourth review, including updated

financing plans, the authorities request modifications to the following end-March 2024 QPCs and ITs: **floors** on primary budget balance and tax revenues, NIR and social spending, and the **ceiling** on NCG from the BoU.

- The authorities are committed to deliver the same amount of fiscal consolidation agreed under the fourth review, but a higher FY22/23 budget deficit outturn necessitates an upward revision of 0.4 percent of GDP in the primary budget deficit target for FY23/24. Meanwhile, a lower nominal GDP forecast requires a downward revision in the tax revenue target. Reflecting persistent absorption capacity constraints, the authorities are requesting to revise down the program target for social spending.

- A downward revision in the March 2024 NIR target is requested to reflect higher-than-anticipated debt services payments in the first half of FY23/24.

- The authorities are requesting lowering the ceiling on NCG from the BoU as they envisage higher repayments to BoU to partly compensate for the shortfall last year.

- The June 2024 ITs are to be dropped as they fall outside the period of the ECF arrangement, which ends on June 27, 2024.

Risks to the program. Tighter external financial conditions, a larger-than-expected impact of the AHA on the availability of external financing and tourism, and the impact of climate shocks on agriculture, could jeopardize growth and attainment of program objectives. Uganda's moderate level of public debt and strong FDI inflows would continue to provide buffers.

Approved By
Catherine Pattillo (AFR) and Jay Peiris (SPR)

The mission team consisted of Ms. Rahman (head), Messrs. Abdel-Latif, Bannister, Csonto and Tchaidze (AFR), Ms. Khandelwal (AFR), Ms. Zhang (SPR), and Ms. Huang (MCM). The mission was assisted by Ms. Karpowicz (Resident Representative) and Ms. Sozi (local economist). Ms. Basutli (OED) participated in official meetings. Discussions were held in Kampala during November 28-December 6, 2023, and remotely from Washington D.C. during December 18-21, 2023. The team met with 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 held discussions with representatives of development partners and private sector. Ms. Lertprasert provided excellent assistance for the preparation of this report.

CONTENTS

CONTEXT 5

ECONOMIC DEVELOPMENTS 5

PROGRAM PERFORMANCE 9

MACROECONOMIC OUTLOOK AND RISKS 10

POLICIES 11
A. Reinforcing Fiscal Consolidation and Discipline 12
B. Minimizing Inflation Risks and Safeguarding Stability 15
C. Rebuilding External Buffers 16
D. Improving Governance, Financial Stability and Inclusion 17

PROGRAM MODALITIES AND OTHER ISSUES 18

STAFF APPRAISAL 20

BOXES
1. Implications of the Anti-Homosexuality Act 22
2. Inflation Performance: Key Drivers and Policy Assessment 23
3. Near-Term Revenue Reform Priorities 25

FIGURES
1. Real Sector Developments 27

2. External Sector Developments 28
3. Fiscal Developments 29
4. Monetary Developments 30
5. Financial Sector Developments 31

TABLES

1. Selected Economic and Financial Indicators, FY2020/21-2027/28 32
2a. Fiscal Operations of the Central Government, FY2020/21-2027/28 (Billions of Ugandan Shillings) 33
2b. Fiscal Operations of the Central Government, FY2020/21-2027/28 (Percent of GDP) 34
3. Monetary Accounts, FY2020/21-2027/28 35
4a. Balance of Payments, FY2020/21-2027/28 (Millions of U.S. Dollars) 36
4b. Balance of Payments, FY2020/21-2027/28 (Percent of GDP) 37
5. Banking Sector Indicators, March 2020-June 2023 38
6. Access and Phasing Under the ECF Arrangement 39
7. External Financing Requirements, FY2020/21-2027/28 40
8. Quantitative Performance Criteria 41
9. Structural Benchmarks Between June 2023 and June 2024 42
10. Prior Actions and Proposed New Structural Benchmark 44
11. Indicators of Capacity to Repay the IMF, 2021-30 45

ANNEXES

I. Risk Assessment Matrix 46
II. Financial Inclusion in Uganda 49

APPENDIX

I. Letter of Intent 52
Attachment I. Memorandum of Economic and Financial Policies 54
Attachment II. Technical Memorandum of Understanding 74

CONTEXT

1. The Ugandan economy continues to strengthen amidst increased downside risks. While the post-pandemic economic recovery has broadened, the passing of the Anti-Homosexuality Act (AHA) in May 2023, currently under review by the Constitutional Court following legal challenges, has complicated the external financing landscape. In particular, the World Bank (WB) has suspended new loans and put in place safeguard measures to ensure non-discrimination, that are likely to impact the pace of implementation of current projects (Box 1). More recently, the U.S. Government issued a business advisory cautioning private investors against financial and reputational risks stemming from corruption and human rights restrictions in Uganda and removed Uganda from the African Growth and Opportunity Act (AGOA). These actions have increased downside risks, including for external financing.

2. Program performance since the completion of the fourth review under the Extended Credit Facility (ECF) has been broadly satisfactory. The ECF has helped Ugandan authorities focus on keeping public debt sustainable in the context of multiple external shocks and continued financing pressures. It has also incorporated a rich capacity development program helping to jumpstart difficult reforms, including rationalization of tax expenditures and strengthening of anti-corruption and AML/CFT framework. All September 2023 quantitative performance criteria (QPCs) and most indicative targets (ITs) for June and September 2023 were met. The June 2023 ITs on primary balance and net credit to the government, the September 2023 ITs on tax revenue and social spending, and both June and September 2023 ITs on spending to support vulnerable households were missed. The authorities continue to implement the structural reform agenda with four of the seven structural benchmarks (SBs) for the current review met on time or before the test dates, and one implemented with a delay. The SB on amendments to the Financial Institutions Regulations (end-December 2023) was missed while the SB on the Bank of Uganda (BoU) Act amendment (end-October 2023, reprogrammed from September 2022) has been reformulated and elevated as a prior action (PA) for the completion of this review (see paragraph 25, Table 10). There are two additional PAs set forth for the completion of the fifth review on the finalization of cash management framework and identification of fiscal contingency measures All three PAs have been met.

ECONOMIC DEVELOPMENTS

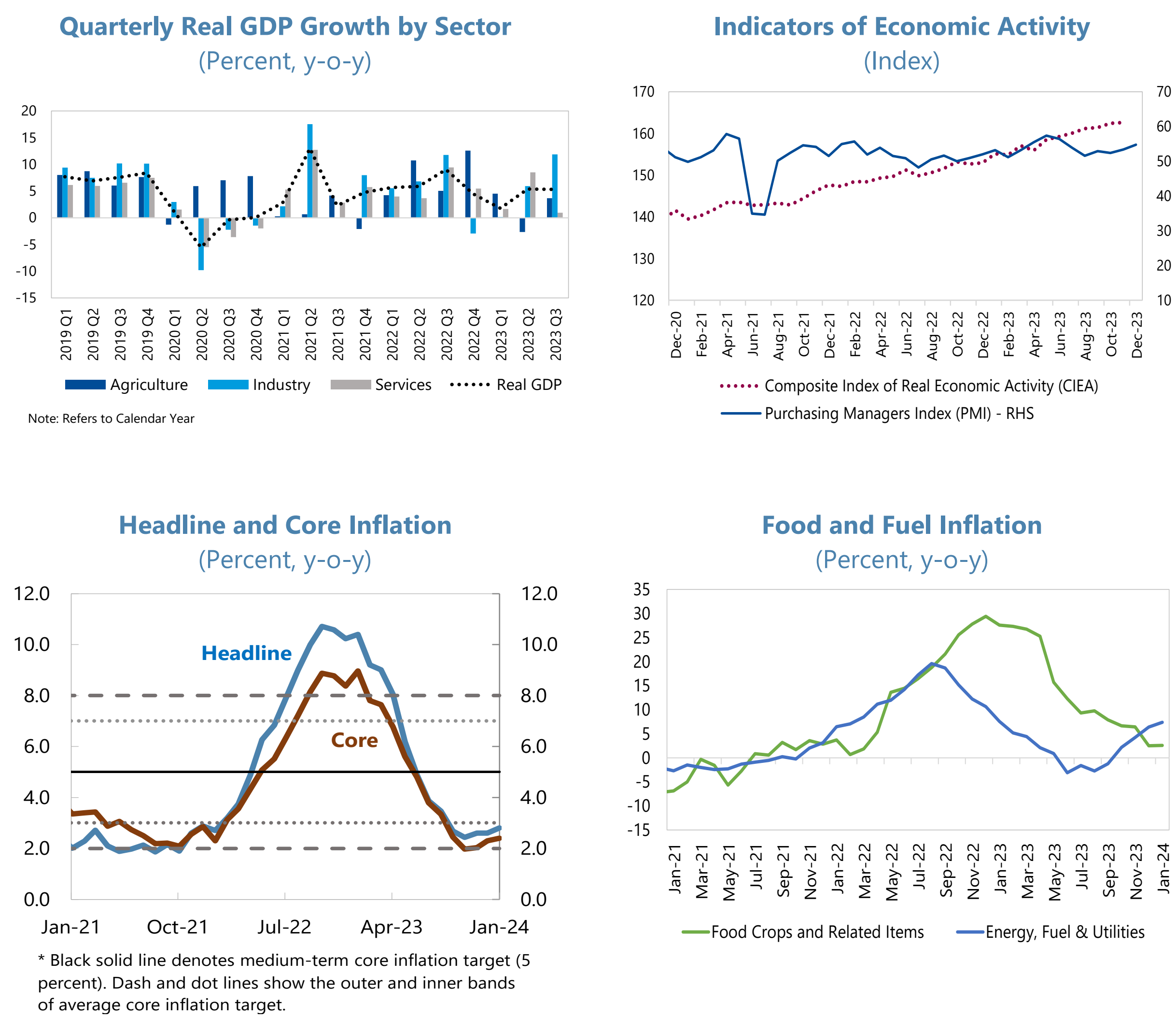
3. Economic activity strengthened in FY22/23.[1] Real GDP growth accelerated to 5.2 percent from 4.6 percent in FY21/22 on the back of strong performance in agriculture and services sectors (Text Figure 1). Data for FY23/24Q1 and high-frequency indicators point to continued robust sentiment buoyed by low inflation. The monthly index of economic activity increased by 5.5 percent in October and the purchasing manager's index, which has been above the breakeven value of 50

[1] The fiscal year goes from July to June.

since July 2022, rose to a 4-month high of 53.4 in November 2023, signaling sustained growth in economic activity.

4. **Inflation has decelerated sharply.** Following a marked decline between January and October 2023, driven by declining food prices, monetary policy tightening, and relative stability in the exchange rate, headline inflation reached 2.4 percent in October (Text Figure 1, Box 2). Since then, headline inflation has increased to 2.8 percent (y/y) in January 2024 reflecting both higher energy prices and a mild increase in core inflation, which remains well below the BoU's target of 5 percent.

Text Figure 1. Growth and Inflation Developments

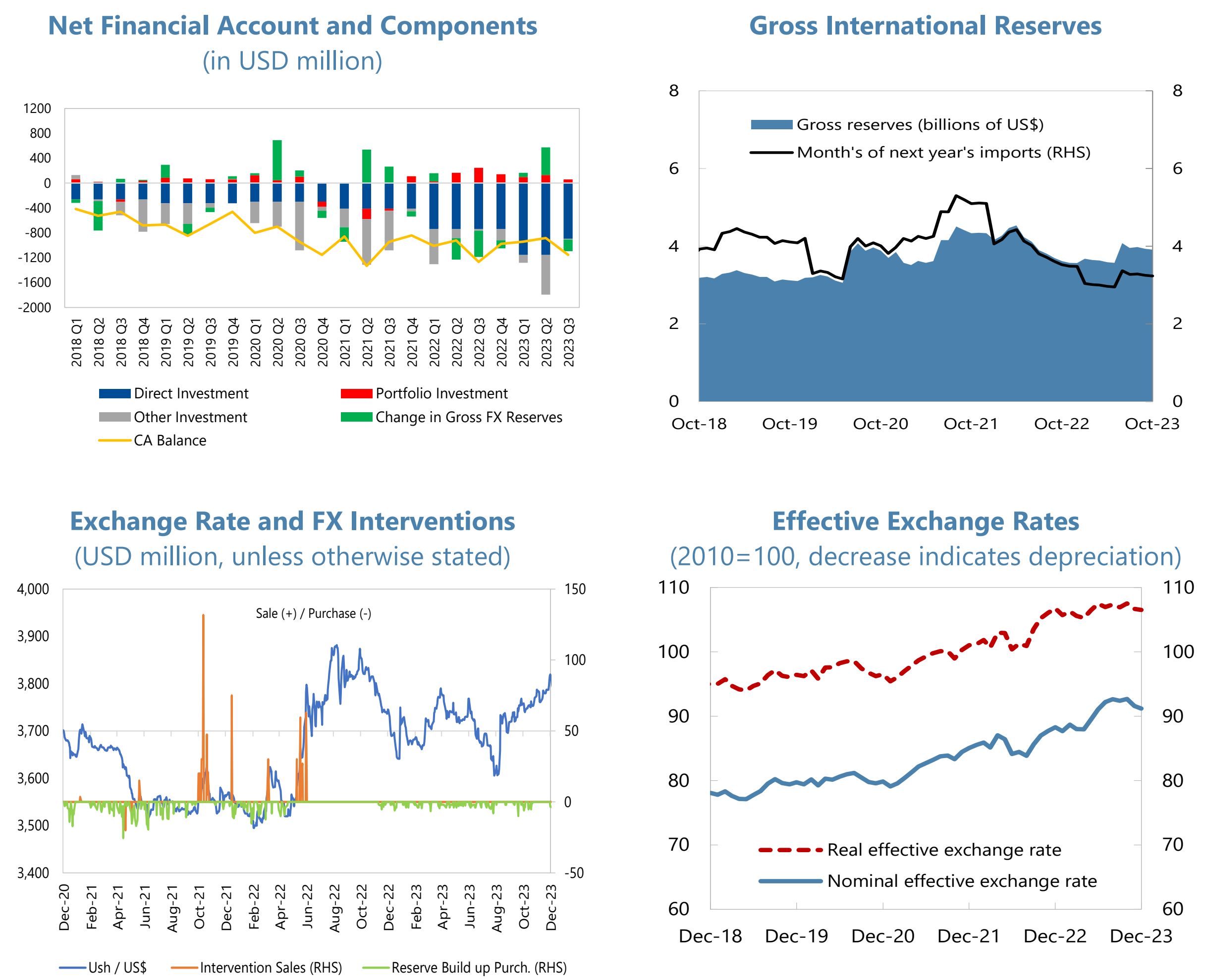


Source: BoU, Haver and IMF staff calculations

5. **Despite a recovery in exports, the current account (CA) deficit remains elevated and external financing conditions continue to be challenging.** Exports have rebounded with the resumption of gold exports and recovery in tourism, while imports continue to rise amid strong FDI

inflows, partly driven by investment in the oil sector. On the other hand, portfolio outflows persist, and other investment inflows remain weak, notably since the passage of the AHA (Text Figure 2). Gross international reserves stood at $3.7 billion at end-December 2023 covering 3.1 months of imports. Following the WB announcement of suspension of new loans until safeguards are in place, the FX market experienced temporary volatility. The bilateral UGX/USD exchange rate depreciated by around 2 percent during July-December 2023, while the NEER and the REER remained broadly stable. The government announced plans to centralize oil imports through UNOOC (the state-owned oil company) instead of oil-marketing companies, with the goal to reduce supply vulnerability and lower costs. However, the implementation of the new regime remains uncertain.

Text Figure 2. External Sector Developments



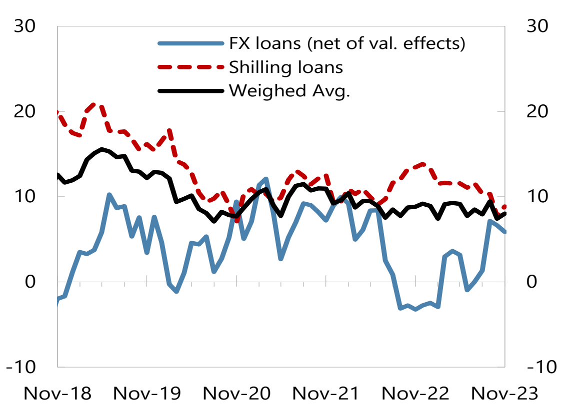
Source: BoU, Haver and IMF staff calculations

6. **Private sector credit growth remains anemic.** Despite healthy balance sheets, banks have preferred to reap relatively high returns from investing in government securities, anticipating a rise in loan delinquency from the lagged effects of the COVID-19 pandemic (Text Figure 3). In November 2023, credit to the private sector increased by 8.7 percent (y/y) in nominal terms with the shilling

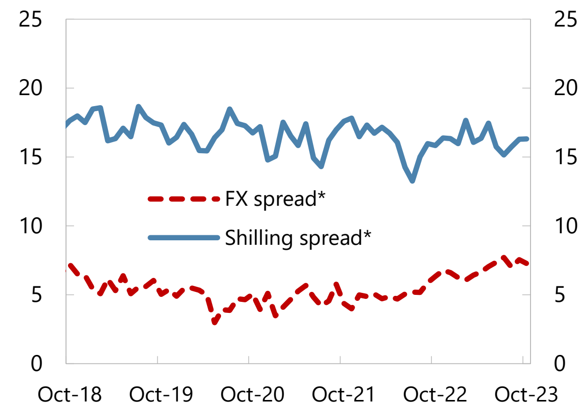
and FX loans growing by 9 and 8 percent, respectively (Text Figure 3). Between June 2022 and June 2023, the ratio of nonperforming loans (NPLs) rose slightly from 5.3 to 5.7 percent while the provisioning ratio also improved from 65.4 to 65.9 percent. The banking sector liquidity remains strong, limiting concerns about near-term crowding out. However, growing exposure of commercial banks to the government (credit to the public sector stood at close to 30 percent of total assets at end-2022), if continued, poses concerns for potential crowding out in the medium term.

Text Figure 3. Financial Sector Developments

Credit to the Private Sector
(Percent, y-o-y)

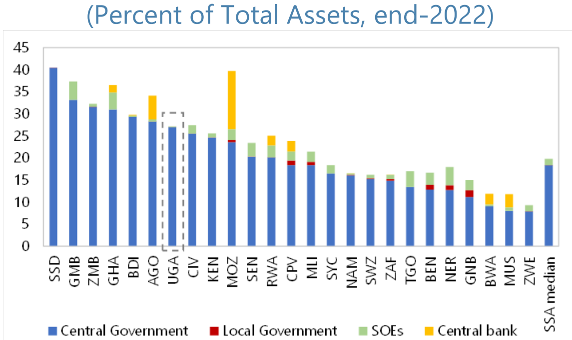


Interest Rate Spread
(Percent, y-o-y)



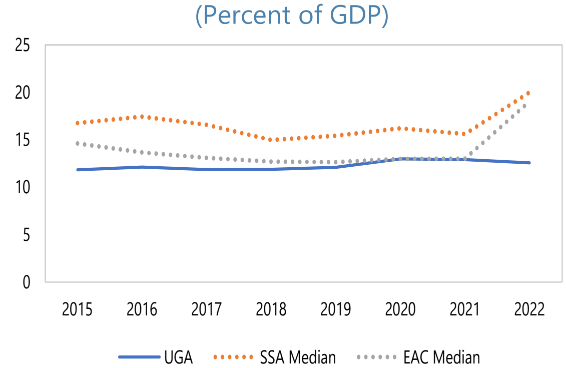
*Both FX and Shillings spreads are calculated as the weighted average lending rate minus the weighted average deposit rate.

Commercial Banks' Lending to the Public Sector
(Percent of Total Assets, end-2022)



Note: The SSA median is calculated based on 29 SSA countries

Domestic Credit to Private Sector
(Percent of GDP)



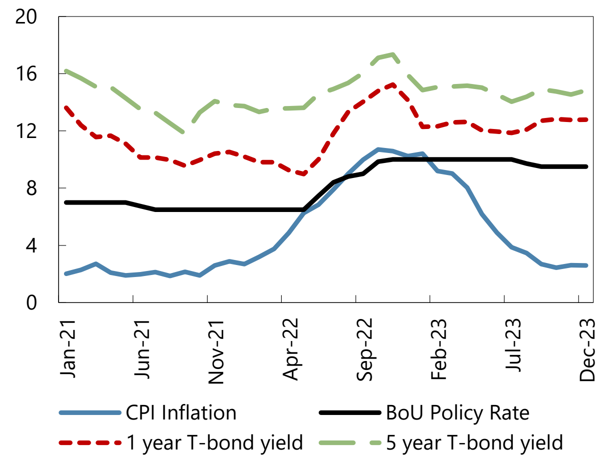
Source: BoU, World Bank and IMF staff calculations

7. **The headline fiscal deficit for FY22/23 was larger than anticipated on account of a supplementary budget approved late in the fiscal year.** At 5.5 percent of GDP, compared to 5.1 percent projected at the time of the 4th review, the higher deficit reflected an increase in pensions and gratuities, financial support for ailing state-owned companies, classified expenditures, and co-

financing for WB local government projects.[2] The larger headline deficit was driven by higher current spending (1 percent of GDP) and lower grants (0.6 percent of GDP), partly offset by higher tax revenues (0.2 percent of GDP) and lower capital expenditure (0.9 percent of GDP). With a larger deficit, a shortfall in external commercial loans, and a delayed approval of the use of the allocated SDR, the government had to resort to borrowing from the BoU instead of making the planned repayment of the outstanding stock of advances as stipulated in the BoU-MOFPED Service Level Agreement (SLA) and the PFM Act.[3]

Text Figure 4. Inflation and Selected Interest Rates

(Percent)



Source: Haver

8. Financing pressures are impacting fiscal operations. In FY23/24Q1, both current and domestically financed development expenditure were under-executed, by around 20 and 70 percent, respectively as the authorities held off borrowing, hoping that low inflation would help lower domestic borrowing costs in the remainder of the fiscal year (Text Figure 4). Meanwhile, external borrowing costs have also remained elevated given tight global financial conditions. The rising interest payments (doubling since FY14/15 and reaching 23 percent of revenues in FY22/23), in part stemming from greater reliance on more expensive external financing (i.e., commercial loans), prompted S&P to lower Uganda's long-term sovereign credit rating from B to B- in October 2023.

PROGRAM PERFORMANCE

9. Most end-June and end-September 2023 quantitative targets were met (MEFP ¶9 - ¶10 and Table 8). Seven of the ten June 2023 ITs (NIR, inflation, tax revenues, floor on social spending, repayment of domestic arrears, newly contracted external debt, and non-accumulation of external arrears) were met. Two June 2023 ITs, the primary budget balance adjusted for lower-than-anticipated project loans, and the BoU's NCG, were missed by large margins (1.3 and 1.7 percent of GDP, respectively) due to additional spending introduced in the supplementary budget as discussed in ¶7. The IT on the spending for vulnerable households was missed by a small margin due to the need to verify outstanding arrears under this program. All end-September 2023 QPCs and the IT on

[2] The primary deficit outturn was 2.3 percent of GDP, compared to the projection of 1.9 percent at the time of 4th review and an adjusted target of 1.0 percent.

[3] The PFM act requires full repayment of current year advances with advances to be capped at 10 percent of current year's revenues within the year. The SLA agreement governs safeguards and responsibilities of the MOFPED and the BoU regarding BoU credit to the government arising from short-term advances and repayment of government securities. Under an addendum to the agreement dated February 2022, the MOFPED had agreed to repay the full stock of advances by the end of FY23/24.

repayment of domestic arrears were met. The IT on tax revenue was missed on account of low profitability in the manufacturing sector amidst high real interest rates as well as lower imports of fabrics, textiles, and tiles. The September 2023 ITs on social spending and spending for the vulnerable households were missed by large margins (26 and 63 percent below the target, respectively) due to financing constraints and under-execution of spending discussed in ¶8. Preliminary data suggests that the December 2023 NCG and inflation targets were met but the NIR target was missed as tight market conditions in 2023Q4 prevented the BoU from executing planned FX purchases for the purpose of building up FX reserves.

10. The structural reform agenda is progressing well with four of the seven SBs due between June and December 2023 met on or before the test dates (MEFP ¶11 and Table 9). Two SBs for June 2023, which aim to strengthen social assistance programs and governance, were met ahead of the test dates; the end-November 2023 SB on publication of an anti-corruption assessment and the end-December 2023 SB on finalizing entries of learners' data into the Education Management Information System (EMIS) and publication of diagnostics by local government were met on time (Table 9). The SB on ownership structure for data collected by the Central Data Hub as a prerequisite for the use of the Credit Registration Bureau (end-October 2023) was approved with a delay in January 2024 due to the backlog the BoU Board had to attend to. The SB on adoption of amendments to the Financial Institutions Regulation (end-December 2023) was missed and is currently being implemented. The SB on the BoU Act amendment (end-October 2023, reprogrammed from September 2022) was not met (paragraph 25, third bullet; Table 10). This SB has been reformulated to include a more comprehensive definition of BoU advances to the government in the amendment to the PFM regulation and elevated to a PA for the completion of the fifth review. The PA was completed in February.

MACROECONOMIC OUTLOOK AND RISKS

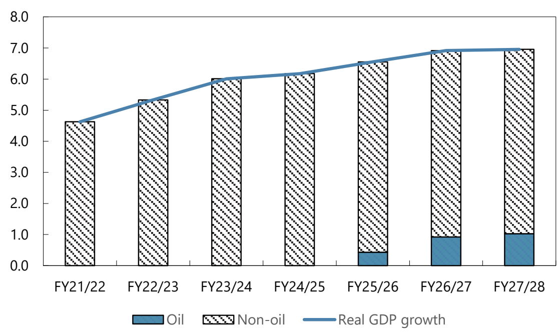
11. The growth outlook remains broadly unchanged relative to that envisaged at the time of the 4th review. Growth is projected to reach 6 percent in FY23/24 benefiting from favorable weather conditions, construction and investment in the oil sector, subdued inflation, and positive impacts from the roll-out of the Parish Development Model (MEFP ¶17). Exports are expected to recover further amid robust coffee and gold trade, while imports are likely to remain elevated reflecting large investments associated with the oil project. Over the medium term, growth is projected to return to its pre-pandemic trend of 6-7 percent boosted by oil production (Text Figure 5). The East Africa Crude Oil Pipeline (EACOP) project is expected to begin transporting crude oil by end-2025 and a refinery is expected to operate in 2027. This is projected to significantly reduce the CA deficit in the medium term (Tables 4a and 4b). In line with faster economic growth, private sector credit growth is projected to pick up as the effects of the COVID-19 pandemic on banks' balance sheets dissipate, continued fiscal consolidation reduces the risk of private sector crowding out, and structural impediments to financial market development are addressed.

12. Risks to growth are tilted to the downside (Annex I). A further tightening of external financial conditions could constrain the availability of syndicated loans and jeopardize fiscal financing and ongoing recovery. The AHA could have a larger-than-anticipated impact on the availability of external grants and loans, as well as portfolio flows and tourism. With mostly rain-fed agriculture, Uganda also remains vulnerable to climate shocks.

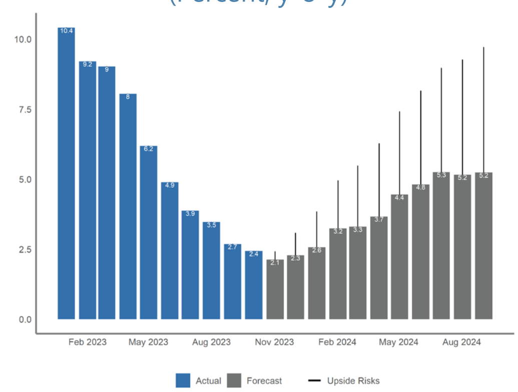
13. The inflation outlook has improved but there are upside risks. The annual average headline and core inflation rates are projected at 3.1 and 2.8 percent, respectively, in FY23/24, down from 5.7 and 5.3 percent, respectively, projected at the time of the 4th review. Although energy prices are expected to increase on the back of base effects, core inflation is projected to remain contained. There are upside risks to inflation from a slightly positive output gap, commodity price volatility, unpredictable domestic weather conditions, and exchange rate depreciation pressures from continued portfolio outflows.

Text Figure 5. Macroeconomic Outlook

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



CPI Headline Inflation
(Percent, y-o-y)



Source: UBOS, and IMF staff calculations

POLICIES

The overall policy mix calls for the following: a tight fiscal policy to reduce financing and debt sustainability risks and address potential concerns for crowding out of private sector credit; a data-dependent monetary policy with potential room for loosening mindful of emerging risks; and exchange rate flexibility limiting interventions to address excessive volatility. With significant fiscal slippages and limited policy space, fiscal consolidation needs to be reinforced while ring-fencing spending for social needs and growth-enhancing development. Expenditure control, strengthening of the budgetary processes, and revenue mobilization are priorities. With inflation well below the central bank's target, the room for monetary loosening is emerging, though monetary policy should be mindful of risks stemming from tight global financial conditions and higher commodity prices. Rebuilding external buffers and improving competitiveness through exchange rate flexibility and structural reforms remain critical to reducing external vulnerabilities. Structural reforms to improve governance, reduce corruption and enhance financial stability and inclusion will facilitate private-sector-led growth.

A. Reinforcing Fiscal Consolidation and Discipline

14. The authorities are committed to delivering the same fiscal consolidation in FY23/24 as agreed in the 4th review, i.e., 1.7 percentage points of GDP (MEFP ¶12). While the authorities recognize the need for corrective measures given the large fiscal slippage in FY22/23, further consolidation in FY23/24 is difficult as (i) many enterprises are still recovering from the impacts of the COVID-19 pandemic and (ii) projects that were inadvertently omitted from the original FY23/24 budget or previously approved by the Parliament could not be postponed.[4] The FY23/24 fiscal consolidation is expected through (i) revenue measures agreed at the time of the 4th review, namely tax administration reforms, rationalization of VAT and income tax exemptions, and several additional tax policy measures, which are expected to yield savings worth 0.6 percent of GDP and (ii) a reduction in current spending and domestically-financed capital spending yielding savings worth 1.3 percent of GDP. However, this is partly countered by higher externally financed development spending (net of grants) of 0.3 percent of GDP. Over the medium term, the fiscal deficit is expected to improve to around 3 percent of GDP, boosted by oil revenues coming onstream in FY25/26. The public debt trajectory has been revised up relative to the 4th review by about 2 percentage points of GDP, but the debt level is expected to remain below 50 percent of GDP in FY23/24 and decline further to 44 percent by FY28/29.

15. The revised fiscal spending relative to the 4th review shows a continued decline in current spending. Current spending is projected to decline in FY23/24 on account of lower non-wage primary spending (by 0.6 percent of GDP)[5] while capital spending is expected to slightly increase (by 0.2 percent of GDP). Social spending, which was expected to increase as a share of domestically financed spending under the program, is expected to remain flat in FY23/24 (Text Table 1). The authorities explained that the need to absorb sizable off-budget donor support (over time, donor support in social sectors has moved in favor of off-budget support) and capacity constraints at the local level continue to cause underspending of on-budget social spending. They plan to investigate causes of capacity constraints and seek IMF TA if needed. Work on the Parish Development Model (PDM), the authorities' strategy to boost income and welfare of Ugandans, has been substantially advanced, with about 83 percent of loans disbursed which has reached 88 percent of the targeted beneficiary households (MEFP ¶17).

[4] These include several infrastructure projects, payments to various public sector workers (secondary school teachers, police force, etc.), programs to feed prisoners, and intergovernmental fiscal transfers for WB projects (UGiFT). The authorities adopted a supplementary budget in December 2023 to accommodate these spending items, which also included additional borrowing of up to UGX 3.5 trillion (1.7 percent of GDP).

[5] The decrease would have been higher, had it not been for two one-off projects—2024 population census and renewal of national ID cards—costed at about 0.35 percent of GDP.

Text Table 1. Uganda: FY22/23-23/24 Spending Composition, Percent of GDP

	FY22/23	FY22/23	
	Outturn	4th review	5th review
Recurrent Spending	13.6	12.1	13.0
Development Spending	5.8	6.7	6.0
o/w Project grants	0.5	1.5	1.3
o/w Concessional project loans	0.9	1.6	1.0
o/w Non-consessional funds	0.3	0.7	0.6
o/w Domestically financed	3.9	2.9	3.2
Social Spending	3.7	3.4	3.4
in percent of domestcially financed expenditure	21.2	22.4	21.2
Security Spending	2.2	2.0	2.1
in percent of domestcially financed expenditure	12.5	13.2	12.7

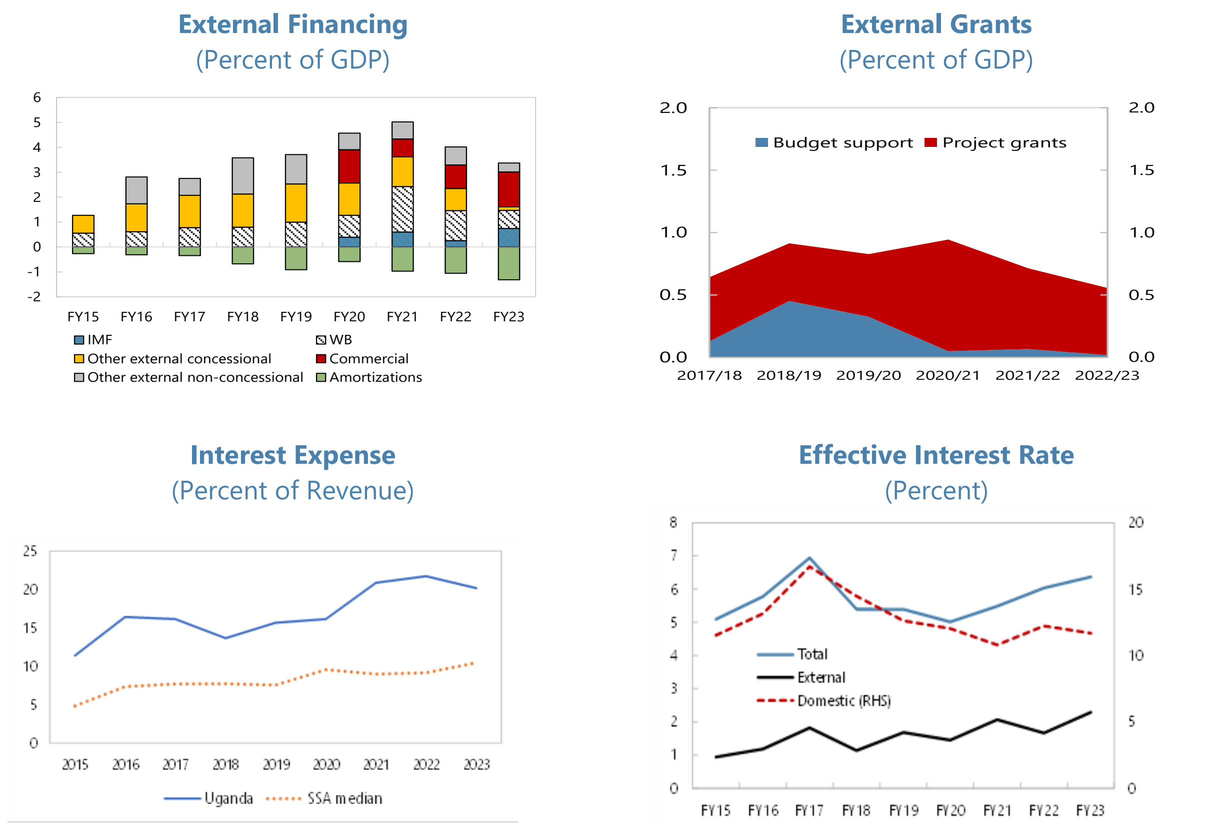
Source: Ugandan authorities and IMF staff calculations

16. The authorities have committed to three new conditionalities to fortify their commitment to deliver the envisaged fiscal consolidation and avoid a repeat of fiscal slippage in future (Table 10). To ensure achieving the overall fiscal target of 3.8 percent, they have identified contingency measures worth 0.5 percent of GDP should unforeseen spending pressures or risks materialize (a PA for the completion of this review). These include, among other things, postponement of non-priority current and capital spending. With the help of a recent IMF TA mission, the authorities are working to improve their cash management practices, incorporating actual and forecasted revenues when releasing budgetary funds, thus reducing errors in spending forecasts that have in the past led to reliance on ad-hoc funding methods, such as the BoU advances. They have finalized a new cash management framework to help manage financial planning and instill expenditure control (a PA for the completion of this review) and are also working to improve the current TSA model to overcome limitations regarding the incorporation of entities with more autonomy than traditional Ministries, Departments and Agencies. In addition, the authorities have also committed to sharing with staff information and relevant data for any supplementary budget ahead of its adoption (a continuous SB).

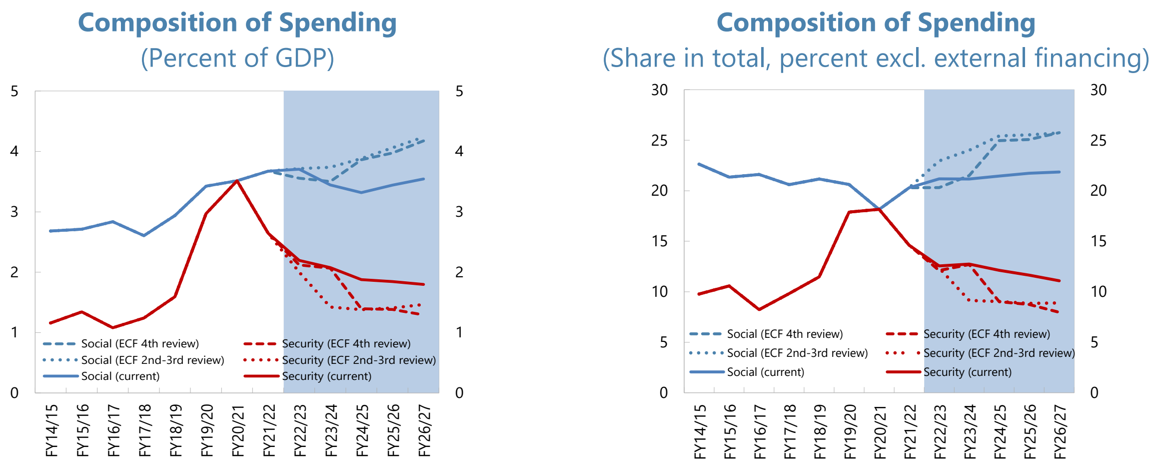
17. The authorities plan to meet most of the financing needs for FY23/24 domestically. They are seeking to borrow around 3½ percent of GDP in the domestic market. The domestic financial system has adequate liquidity to absorb this demand although large financing needs are likely to keep domestic interest rates elevated (Text Figure 6) and, if continued, could potentially crowd out credit to the private sector in the medium-term. In addition, the authorities are planning to borrow around 0.8 percent of GDP externally mostly from commercial banks, for which discussions are well-advanced. The borrowed funds will finance both the budget deficit and repayments of the BoU advances. Of the total stock of outstanding BoU advances of UGX 4.8 trillion, the authorities plan to repay UGX 3.5 trillion in FY23/24 and the remainder in FY24/25. Finally, the forthcoming ECF disbursements will also contribute to budget support, while addressing the identified balance of payment need.

18. As per the June 2023 Debt Sustainability Analysis (DSA), Uganda's public debt is deemed sustainable in the medium term with moderate risk of debt distress. Except for a one-off breach of the external debt service-to-exports ratio, external debt burden indicators and total public debt remained below their respective thresholds and benchmarks throughout the projection horizon under the ECF-supported program scenario. The stress tests, however, indicated more breaches of the thresholds. Although the present value (PV) of external debt-to-GDP ratio indicated substantial space to absorb shocks, the PV of external debt-to-exports, the external debt service-to-revenues ratio, and the external debt service-to-exports ratios were close to their respective thresholds. An update to the DSA is expected in mid-2024 at the time of the Article IV consultation or the 6th ECF review.

Text Figure 6. Fiscal Financing, Interest Expense and Composition of Spending



Text Figure 6. Fiscal Financing, Interest Expense and Composition of Spending



Source: Ugandan authorities and IMF staff calculations

19. With economic recovery now on a strong footing, the authorities intend to be more forceful in implementation of the domestic revenue mobilization strategy (DRMS) to achieve a target of 0.5 percent of GDP annually (Box 3). They are currently studying recommendations of the two recent IMF TA missions[6] with a view to propose tax policy and revenue administration measures to feed into the FY24/25 budget discussions and are working to formulate a compliance improvement plan for the large taxpayer office (LTO) with focus on specialized sectors and taxation of multinational enterprises (MNEs).

B. Minimizing Inflation Risks and Safeguarding Stability

20. The current monetary policy stance is appropriately tight. In August 2023, the BoU reduced both the policy rate and the reserve requirement ratio by 50 basis points each, as inflation began to ease. The policy rate has been held steady at 9.5 percent since October 2023 monetary policy committee meeting, reflecting robust economic activity and anticipation of a possible surge in energy inflation. Staff assessment, considering BoU's inflation projections, indicates an ex-ante real policy rate of about 6 percent, 150 basis points above the estimated neutral real rate of 4.5 percent.

21. While there is room for further loosening, monetary policy must remain vigilant and data dependent as inflation risks are tilted to the upside (MEFP ¶19). Core inflation is expected to remain within the BoU's target band (5 percent plus or minus 3 percent) in the near term and return to the central target over the medium term. However, there are upside risks (¶10 and Text Figure 4). If inflation continues to remain far below the BoU's target, a cautious and gradual easing could help bring it back to the target and support economic activity in the medium term. The authorities continue their efforts to reform and deepen financial markets to enhance monetary policy transmission and acknowledge the importance of clear communication by the BoU about

[6] *Domestic Revenue Mobilization Strategy Implementation Progress* and *Recalibration and Tax Expenditure Evaluation and Reform*, both September 2023.

policy actions and its commitment to the inflation target. An MCM TA mission in January 2024 performed a communication diagnostic and suggested reform priorities.

22. While the banking sector is liquid, profitable and well-capitalized, minimizing financial stability risks remains a priority. Capital buffers appear to be adequate, partly due to the statutory increase in minimum paid-up capital implemented in December 2022. The aggregate liquidity coverage ratio (LCR)[7] has significantly increased from 185 percent in June 2022 to 269 percent in September 2023, primarily driven by increased holdings of treasury securities. The profitability of the banking sector continues to improve with ROA reaching 2.9 percent in September 2023. The BoU continues to benefit from bottom-up stress testing and risk-based supervision TA, which has supported its efforts to monitor risks to financial stability.

C. Rebuilding External Buffers

23. Despite efforts to cut government imports, building FX reserves remains challenging amid elevated debt service and challenging financing conditions. Reflecting disbursements from the IMF and external commercial loans, FX reserves improved at end FY22/23 with the coverage reaching 3.4 months of imports (4.3 months, excluding oil investment related imports). However, weak FX market sentiment following the WB and the U.S. announcements, as well as other one-off outflows in 2023Q4 (repatriation of a large IPO under the new Telecom licensing requirement, seasonal profit repatriation under a new regulation) limited the BoU's ability to purchase FX. In addition, government debt service payments in the first half of FY23/24 were higher than projected under the 4th review reflecting debt reprofiling and higher interest costs. As a result, reserve buffers declined to 3.9 bn USD (covering 3.6 months of imports, excluding oil imports) at end-September 2023, from 4.1 bn in end-June 2023, and fell further to 3.7 bn USD at end-December 2023. Going forward, further buildup of FX reserves will remain challenging in an environment of high interest rates and limited portfolio inflows.

24. Fiscal consolidation and exchange rate flexibility are essential to rebuild external buffers (MEFP ¶21 - ¶22). Achieving the NIR target of four months of next year's imports of goods and services (excluding oil investment related imports) should be retained as the end point of the ECF-supported program. Notwithstanding a challenging financing landscape, the authorities are committed to this target through reduced government imports and plan to step up FX purchases as market conditions improve. They reduced government imports by 20 percent in FY22/23 and plan to cut further by 30 percent in FY23/24. The authorities are committed to allowing the exchange rate to move in line with market developments. They have not intervened in the FX market since June 2022, and plan to limit any FX sales to preventing excessive exchange rate volatility only.

[7] Although the Financial Institutions (Liquidity) Regulations was gazetted in August 2023, the guidelines on requirements, computation and treatment of the liquidity coverage ratio have not been issued yet. Therefore, the LCR reported in this SR still use the old definition of liquid assets.

D. Improving Governance, Financial Stability and Inclusion

25. The authorities' structural reform agenda continues to focus on governance and anti-corruption, financial stability and inclusion, in line with the priorities of the National Development Plan (MEFP ¶25 - ¶33):

- **Governance and anti-corruption.** Guided by the National Anti-Corruption Strategy (NACS) framework, the authorities have prepared and published an assessment report against agreed indicators and targets, and an annual report for FY22/23 on the prevalence of corruption and anti-corruption efforts, to guide anti-corruption policies and reforms going forward. The authorities are in the process of amending the Financial Institutions (Corporate Governance) Regulations, a structural benchmark for end-December 2023, in line with the principles provided in the Basel Committee guidelines on Banking Supervision. Staff continues to encourage the authorities to adopt measures against corruption that hampers sustainable economic development and to request TA from the Fund to conduct a governance diagnostic assessment on corruption vulnerabilities linked to key state functions.

- **Strengthening the AML/CFT framework.** With the support of Fund TA, the BoU has adopted AML/CFT risk-based supervision tools for banks, and for foreign exchange bureaus and money remitters as of May 2023. The findings from these tools informed the authorities' AML/CFT supervisory strategy, including onsite inspections conducted for higher-risk banks, forex bureaus and money remitters. The BoU hired four additional staff to enhance the effectiveness of the AML Unit. In order to exit the FATF grey-list, the authorities completed their action plan with the FATF. An on-site visit in December 2023 confirmed Uganda's high-level commitment to sustain AML/CFT reforms and continue strengthening its system.

- **Enhancing financial stability and access.** The implementation of the first National Financial Inclusion Strategy (NSFI I) has significantly improved access to financial services (Annex II). The two new objectives—developing an inclusive green finance market and promoting gender-inclusive finance—prioritized under NSFI II launched in November 2023 will further improve financial inclusion. As part of continuing efforts to enhance financial information, the BoU has clarified the ownership structure of financial data collected by the Central Data Hub which will facilitate the use of that data by the Credit Registration Bureau to compute credit scores for MSMEs and individuals and to generate indicators for macroprudential regulations (SB for end-October 2023). The authorities are looking to develop and implement cybersecurity guidelines for financial services in early 2024 and are working to enhance financial access by operationalizing a BoU platform, with requisite safeguards, that enables the purchase of government securities using mobile money.

- **Enhancing BoU governance and independence.** The 2021 safeguards assessment identified reforms in the BoU Act to enhance transparency and independence in the BoU. The authorities agree that as part of this effort it is important to provide full clarity of the definition of BoU advances to the central government that would include redemption of government securities.

The authorities addressed this through changes in regulations in the PFM Act, which includes a limit on BoU advances to the government, in consultation with staff (a PA for the completion for this review). The authorities plan to make further revisions to the BoU Act to remediate deficiencies identified in the safeguards assessment. They continue to take steps to implement the 2021 safeguards assessment recommendations. The BoU revised the investment policy and guidelines to reduce concentration risk in foreign exchange reserves. Steps are being taken to safeguard the independence of the audit committee and to strengthen currency operations. Other safeguards recommendations remain in progress (MEFP ¶39), including amendments to the BoU Act (MEFP ¶26).

- **Enhancing the beneficial ownership transparency of companies.** Uganda Registration Services Bureau (URSB) is implementing measures to increase companies' submissions of beneficial ownership information, including configuration of the e-register to require submission of beneficial ownership information at the incorporation stage to access URSB services and submit annual returns. Daily fines provided under the law for non-compliance with reporting obligations are not binding in practice; the authorities therefore rely on the e-system's requirements and company strike-offs to collect beneficial ownership information more effectively. URSB currently holds beneficial ownership information for 98% of active companies on the register and expected full compliance by end-2023.

- **Improving spending efficiency.** The entry of student data in the Education Management Information System (EMIS) has been completed, which will help improve accuracy of projected funding requirements for primary and secondary schools and support planning and budgeting processes.

PROGRAM MODALITIES AND OTHER ISSUES

26. The proposed revision to end-March 2024 QPCs and targets reflect the revisions in the fiscal framework and projections. The relaxation of the fiscal deficit target for FY23/24 is reflected in the proposed downward revision of the primary balance target (Table 8). Relatedly, the IT on tax revenues is also revised down in line with lower nominal GDP. The IT on social spending is revised down in nominal terms but is projected to remain unchanged as a share of GDP relative to FY22/23. Finally, given that the June 2023 IT on BoU net credit to the government was missed, a larger repayment in FY23/24 requires a downward revision in the end-March 2024 QPC ceiling. To accommodate higher-than-projected debt service payments during the first three quarters of FY23/24 and previously unbudgeted war reparation payments to Democratic Republic of Congo, the March 2024 NIR target has been revised down correspondingly. The June 2024 ITs have been dropped as they fall outside the current ECF arrangement, which ends on June 27, 2024.

27. Staff proposes to drop the end-March 2024 SB on AML/CFT supervision (Table 9). A recent IMF TA identified inconsistencies between AML Act and related regulations and overlapping responsibilities between institutions in charge of sanctioning non-compliance with AML/CFT requirements. Staff advised that the AML regulations should be revised ahead of the preparation of related supervisory policies and procedures. To support the assessment, coordination, and application of sanctions in the interim, the BoU and the Financial Intelligence Authority (FIA) have developed a memorandum of understanding (MoU) outlining their respective responsibilities and procedures. In the context of the ongoing TA to the BoU, Fund staff will work with the authorities to further strengthen the MoU and the adopted risk-based supervision tools for the banking, money remittance and foreign exchange sectors by the end of the program.

Text Table 2. Uganda: External Financing Between FY20/21 and FY23/24

	FY2020/21	FY2021/22	FY2022/23		FY2023/24	
	Actual	Actual	4th review	Rev. Prog.	4th review	Rev. Prog.
Financing needs	4,783	3,903	3,944	3,966	5,416	4,687
Current account deficit	4,286	3,713	4,253	4,066	4,849	4,433
Net payment to the IMF	0	0	0	0	0	0
Reserve accumulation (+=increase)	497	190	-309	-101	567	254
Financing sources	3,387	3,458	3,060	3,954	5,173	4,319
ow FDI	1,420	2,300	2,475	3,784	3,977	3,951
ow World Bank 1/	374	112	14	0	45	100
ow AfDB	0	32	0	0	0	0
ow commercial banks	289	432	976	686	426	415
BOP financing gap	243	116	365	365	243	243
ECF	243	116	365	365	243	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).

28. The program is fully financed. There are firm commitments for the remainder of the arrangement, including ongoing discussions on new syndicated loans from commercial banks (Text Table 2). In addition, the authorities are also using half of the August 2021 SDR allocation for program financing in FY23/24. A larger catalytic role of the ECF-supported program is unlikely given long-standing donor concerns on broader governance issues and negative impacts of the AHA (paragraph 1).

29. Uganda retains an adequate capacity to repay the Fund (Table 11). The total amount of outstanding Fund credit would peak at SDR1,083 million, or 300 percent of quota in 2024, equivalent to 2.8 percent of GDP, 17.9 percent of exports of goods and services and 46.3 percent of gross international reserves. IMF repayments are expected to peak at 1.9 percent of exports of goods and services and 5.7 percent of reserves in 2029. Considering the strong track record of servicing debt and Uganda’s moderate level of public debt, risks to Uganda's capacity to repay would remain adequate even if downside risks listed in Annex I were to materialize.

30. Statistical issues and capacity development. Data provision is broadly adequate for surveillance and program monitoring. Further progress is needed in fiscal and real sector statistics, where Uganda is expected to continue receiving TA from AFRITAC East. Uganda has also committed to ambitious climate change objectives and targets, both in adaptation to climate change and mitigation of emissions, as outlined in its 2022 updated Nationally Determined Contribution (NDC). The recently conducted C-PIMA assessment has identified good practices and reform priorities across several areas that should allow the country to effectively incorporate climate change-related aspects into PFM. The WB Country Climate and Development Report is expected to be completed in summer of 2024. The authorities have expressed interest in developing climate reforms that could be supported by an RSF.

STAFF APPRAISAL

31. Broad-based recovery continues. Economic growth is accelerating, supported by the rapid decline in inflation and construction of a new oil pipeline which is supporting investment and demand for services. A rebound in gold exports and tourism has also supported economic activity and narrowed the current account deficit. Inflation has fallen to below the central bank's target, thanks to prompt policy action, and is expected to converge to the target in the medium term. Private sector credit growth remains sluggish, but the banking system is sound and there are good prospects of expanding credit growth as the economic recovery consolidates.

32. Risks are mostly on the downside. The passing of the AHA has led to a negative reaction among development partners and donors, complicating the financing landscape. It could also affect foreign direct investment and tourism flows going forward, dampening growth and widening the current account deficit. High international interest rates and the growing reliance on external financing are leading to a rise in debt servicing costs. The large share of agriculture in the economy makes it vulnerable to climate shocks, which are becoming more frequent.

33. A continued commitment to fiscal consolidation is particularly important to reduce risks and safeguard sustainability. Enhancing revenue by redoubling efforts to implement the DRMS will provide the authorities with space to maintain critical expenditures and rely less on costly domestic and external financing. Staff welcomes the identification of contingency measures that could be implemented if necessary to reach the FY23/24 fiscal deficit target. In the context of consolidation, improving the composition of spending is key to maintaining social services and support for the most vulnerable, and providing space for growth-enhancing capital expenditures. Enhancing revenue and controlling expenditure will also allow the authorities to reduce their reliance on central bank financing, and to abide by the legal limits set under the PFM Act.

34. Addressing deficiencies in public financial management will support fiscal sustainability and strengthen governance. Challenges in these areas have resulted in the repeated need to issue supplementary budgets which add to expenditure uncertainty. The authorities have received technical assistance, and staff welcomes ongoing efforts to improve budgeting, expenditure control and cash management which are needed for the foundation of public and external accountability for prudent use of resources.

35. Monetary policy should remain vigilant and data dependent. Noting upside inflation risks and uncertainty, the BoU kept the policy rate stable at its most recent policy meeting in February 2024. Staff assesses the policy stance to be moderately tight and appropriate, acknowledging the room to loosen monetary policy gradually as risks recede, to bring core inflation back up to the central bank target.

36. The authorities need to rebuild external buffers. Fiscal consolidation and exchange rate flexibility are expected to help alleviate pressures on foreign exchange reserves and facilitate the BoU's target to reach an FX coverage of 4 months of imports, excluding oil-related imports. At the same time, limiting intervention in the exchange rate market to situations where there is excess volatility will allow the exchange rate to adjust to external pressures and improve competitiveness. Uganda's capacity to repay the Fund remains adequate.

37. Financial sector policies should continue to address remaining risks and improve financial inclusion. Uganda's financial system is well capitalized and liquid, but there remain pockets of vulnerability. Staff welcomes the BoU's continued improvements in stress-testing methodology. For AML/CFT, strengthening the BoU's supervisory capacity, including the application of a consistent sanctioning regime, and finalizing Uganda's exit from the FATF grey-list, are priorities. Efforts should continue to extend the significant gains made in improving financial inclusion under the second National Financial Inclusion Strategy**.**

38. Structural reforms will remain focused on reducing corruption and improving governance. Staff welcomes implementation of the National Anti-Corruption Strategy, and efforts to improve corporate governance, enhance beneficial ownership transparency, and implement cybersecurity guidelines. Greater clarity on the definition of BoU advances to the government in the PFM Act will help reduce risks of fiscal dominance, improve governance, and enhance transparency. It will be important for the authorities to address remaining shortcomings in the BoU Act identified in the Safeguards Assessment to enhance the independence and transparency of the Bank of Uganda.

39. Staff supports the authorities' request for the completion of the fifth review, and the modification of QPCs and ITs.

Box 1. Implications of the Anti-Homosexuality Act

In May 2023, the President signed into law the Anti-Homosexuality Act (AHA) criminalizing behavior of lesbian, gay, bisexual, transgender, an intersex people. The AHA subjects to penalties for certain offences, including participating in, promotion, facilitation, and failure to report same sex acts. These penalties include a life sentence on consensual same-sex conduct among adults (already punishable under the penal code) and death penalty for "aggravated homosexuality" which involves children or people with disabilities. Uganda has in the past attempted to criminalize homosexuality with the AHA in 2014 which the Constitutional Court ruled invalid on procedural grounds, and subsequently with the Sexual Offences Bill 2021, that was vetoed by the President on grounds of overlap with existing legislation.

Donor reactions have been mixed. In August 2023, the World Bank (WB) suspended approval of all new loans until safeguards are put in place to secure equal access for all to their programs. A technical mission has assessed risks to minorities posed by the AHA on the existing portfolio of 22 projects under implementation and 9 under preparation. The mission proposed mitigation measures, including issuance of guidelines, third-party monitoring, and grievance redress mechanisms to support eventual corrective actions. Bilateral development partners have pledged to keep doors for dialogue open and their existing portfolios unchanged while they monitor the implementation of the Act. The US Embassy issued several advisories discouraging businesses from operation in Uganda citing corruption and human rights restrictions.

The government is acting to dampen the effects of the AHA and satisfy the new WB requirements. In response to concerns raised by the WB, the government has issued several circulars and guidelines to Ministries to include provisions against discrimination, among which are: Budget circular (July 2023); Circular on the provision of education services to all people without discrimination (August 2023); Circular on the provision of health services without discrimination (June 2023); Circular on management of cases with charges under the AHA, (Directorate of Public Prosecutions, August); Leaving no one behind: A national plan for achieving equity in access to HIV, TB, and Malaria Services in Uganda (2020-2024); Guidelines on non-discrimination and inclusion in the workplace (Ministry of Gender, Labor, and Social Development, under preparation); and Circular on social safeguard policies by MOFPED (September 2023).

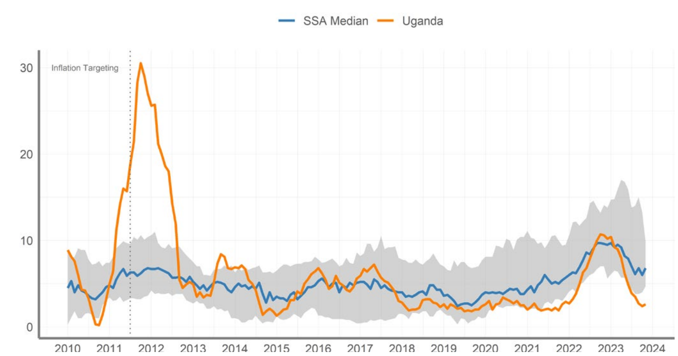
The process for petitioning the Constitutional Court is currently underway. The Constitutional Court has started hearing three petitions challenging the AHA that were filed by various groups including politicians, activists, journalists, and academics. These petitions contend that the law was passed without public participation and infringes on Constitutional rights and freedoms. The AHA could be nullified on grounds of its clash with the provision on inclusion in the Constitution.

Box 2. Inflation Performance: Key Drivers and Policy Assessment

Uganda's inflation has receded more swiftly than expected, falling below the central bank's target of 5 percent core inflation. This trend benefits from a prolonged period of stringent policy measures and a stable exchange rate. This box analyzes recent inflation trends in Uganda relative to other SSA countries, explores key factors driving inflation in Uganda, and assesses the sensitivity of inflation to changes in the policy rate and its transmission.

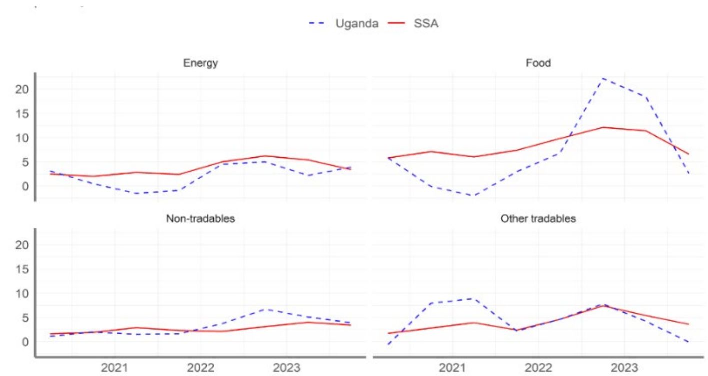
Uganda's inflation generally remains lower than that of other SSA countries, despite occasional increases due to global and domestic factors. Since the Bank of Uganda (BoU) adopted inflation targeting in July 2011, the inflation rate has consistently stayed below the SSA median, with only a few brief exceptions. This trend holds true even when compared to SSA countries that follow an inflation targeting regime (Box Figure 1). However, following the war in Ukraine, Uganda's inflation rate temporarily exceeded the SSA median and reached double digits for the first time since August 2012. After reaching its peak in October 2022, it rapidly decelerated and is now declining more swiftly than the SSA median. The 2022-23 temporary surge in Uganda's inflation was driven primarily by higher food prices compared to the SSA median (Box Figure 2). This increase can be attributed to a global surge in food prices and domestic droughts. Data indicate a high correlation of 0.7 exists between Uganda's food prices and global food prices. However, Ugandan food prices subsequently declined at a faster rate than the SSA median thanks to receding global food prices and favorable weather conditions.

Box 2. Figure 1. SSA: Headline Inflation
(Percent, y-o-y)



Source: Haver and IMF staff calculations
Note: Shaded area denotes the interquartile range.

Box 2. Figure 2. Inflation Components: Uganda vs. SSA Median
(Percent, y-o-y)



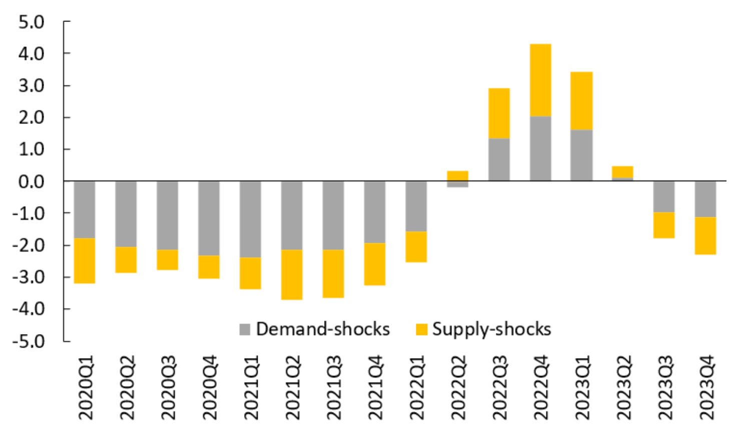
Source: Haver and IMF staff calculations

Supply-side factors have played a slightly more prominent role in explaining inflation fluctuations in Uganda, though demand-side factors remain relevant. A vector autoregressive (VAR) model, coupled with sign restrictions, is employed for an empirical analysis of demand and supply factors influencing Ugandan inflation using quarterly data from 2007 to 2023. These sign restrictions, in line with economic theory, are limited to initial responses, enabling a data-guided assessment of impact magnitude and subsequent impulse response functions (IRFs). The results indicate that a one percentage point decrease in

Box 2. Inflation Performance: Key Drivers and Policy Assessment (concluded)

output growth due to an aggregate demand (AD) shock would lower annualized inflation by 0.4 percentage point within a year. Conversely, a similar decrease from an aggregate supply (AS) shock would raise annualized inflation by 0.5 percentage point. While IRFs illustrate macroeconomic reactions to unexpected shocks, they do not quantify the shocks' contributions to historical inflation fluctuations. Therefore, Box Figure 3 offers a historical breakdown of Ugandan headline inflation into AD and AS factors, excluding deterministic contributions and initial conditions unaccounted for by structural shocks. While both supply and demand factors have influenced inflation fluctuations in Uganda, supply-side contributions have been relatively more significant in driving the recent surge in inflation and the subsequent decline towards the end of 2023.

Box 2. Figure 3. Historical Decomposition of Headline Inflation
(Precent, y-o-y)



Source: Haver and IMF staff estimates

How much have monetary policy changes contributed to keeping inflation low? In response to the 2022-23 inflation surge, the BoU raised its policy rate from 6.5 to 10 percent between June and October 2022, then held it steady until a 50-basis point cut in August 2023, maintaining that rate thereafter. Based on the earlier-described VAR model, a 50-basis point hike in the policy rate leads to an estimated 1 percentage point reduction in inflation after a year, with approximately 33 percent of this decrease attributable to changes in the monetary policy rate. However, an analysis based on monthly data from 2011 to 2023 and an autoregressive distributed lags model (ARDL) finds that policy rate changes primarily affect bank lending rates in the long term. While treasury rates are notably sensitive to policy rate changes and adjust in tandem with them, government credit inversely responds to these adjustments. Other indicators, like private sector credit show minimal impact from monetary policy changes, possibly indicating structural barriers in policy transmission. Consequently, while monetary policy has been instrumental in controlling inflation, inherent structural challenges somewhat undermine its transmission. Addressing such challenges could further enhance the effectiveness of monetary policy.

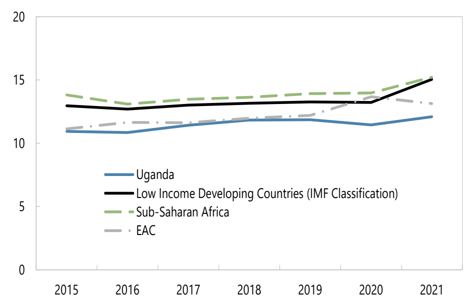
Box 3. Near-Term Revenue Reform Priorities

A key aspect of the authorities' reform program—the third National Development Plan (NDPIII), adopted in 2020 and supported by the current ECF arrangement—is a multi-year fiscal consolidation plan to create space for priority social and high-quality infrastructure spending. The reforms aim at increasing domestic revenue, fostering public sector efficiency, and strengthening governance, while preparing the ground for sound management of oil revenues. These plans have faced a setback from the COVID-19 pandemic and other external shocks, but the Ugandan authorities are committed to getting back on track.

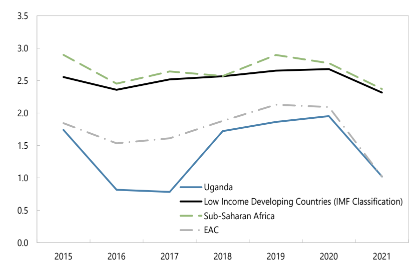
The main element of the fiscal strategy is the DRMS, which envisages bringing the domestic revenue to 16-18 percent of GDP from the current level of some 14 percent, which is below the average for regional peers. A key pillar of this is raising revenues through successful rationalization of tax expenditures and improvements in the revenue administration, where estimates suggest large potential gains. Indeed, despite relatively high statutory tax rates, untargeted exemptions and collection inefficiency result in a low tax-to-GDP ratio compared to peers (Text Figure 8). As many of these tax expenditures are offered outside the purview of the revenue authorities, the reforms would need broad ministerial support as well as appropriate resources and a timeframe for conducting proper cost-benefit analysis.

Box 3. Figure 1. Revenue Patterns

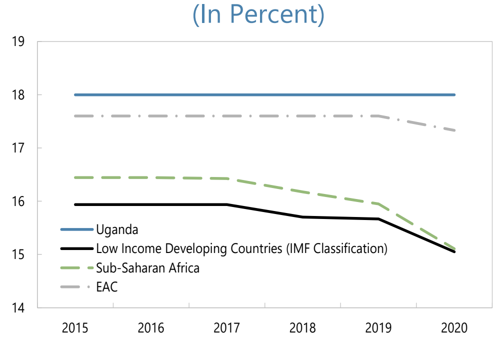
Tax-to-GDP Ratio
(In Percent)



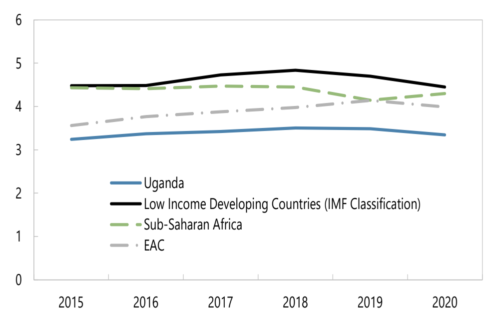
Corporate Income Tax Revenue
(Percent of GDP)



VAT Standard Rate[1]
(In Percent)



VAT Revenue[1]
(Percent of GDP)



1/ VAT includes both VAT and Goods and Services Tax

Source: WEO, IMF Internal Databases: World, IBFD

Box 3. Near-Term Revenue Reform Priorities (concluded)

As of FY22/23, the revenue forgone from tax expenditures administered by the Uganda Revenue Administration (URA) was estimated at 1 percent of GDP while an even larger part of tax exemptions is administered outside the URA's domain. The government needs to conduct a comprehensive cost-benefit analysis to determine impact of these tax incentives and strengthen controls for their administration to limit leakages. In particular, the CIT and VAT regimes are characterized by relatively high rates and narrow bases, while the excise regime, even though raising revenues that are above-average compared to peers in the region, is not well focused on correcting the negative externalities associated with the major excise tax bases: fossil fuels, vehicles, alcohol and tobacco. Top *CIT reform priorities* include (i) discontinuing tax holidays that are cost-ineffective, offering windfall gains to companies who would have invested even in the absence of any incentives, and instead offering cost-based incentives, such as accelerated depreciation to strategic industries and (ii) repealing the tax exemption for savings and credit cooperative societies (SACCOs) or restricting it to microfinance cooperatives serving low-income investors.

***PIT reform priorities* include (i) repealing exemptions of parliamentary and military incomes (with a corresponding gross-up), which undermines taxpayer morale; and (ii) taxing non-business capital gains, which would be highly progressive.** The overall net impact of these reforms, however, could be small if taxpayers were to be compensated through higher salaries.

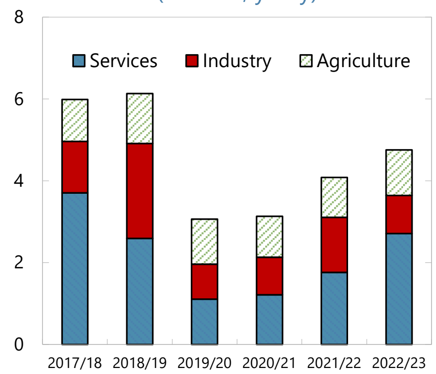
***VAT reforms* should focus on numerous non-standard exemptions and reduced rates, including for fuels, gambling, tourism, garments and textiles, residential construction, agriculture, raw foods, and medical and educational goods and services.** It is worth noting that the VAT and especially excise policies are often used in Uganda to promote domestic production over imports. Such practices, while common in the East African Community (EAC), should be avoided and strategic domestic industries could be promoted using cost-based direct tax incentives (such as accelerated depreciation).

On *the revenue administration side*, the URA needs to be transformed to better support good international practices across the compliance continuum and promoting voluntary compliance. This requires focusing on taxpayer perceptions and confidence in the revenue system and administration, prioritizing funding for basic infrastructure, enhancing the digitalization and IT strategy, and, particularly, fast-tracking the implementation of a new e-tax 2 system. URA's compliance risk management should be strengthened by (a) finalizing/publishing a customer identification program (CIP) for large taxpayers, (b) initiating CIPs for other specialized sectors, and (c) investing in measures to promote the work of the Internal Compliance Division. Performance of the URA can be further strengthened by an organizational reform supported by a comprehensive change in the management strategy, increased staff, and investment in skills development. Data cleansing would also be a priority to build internal trust and successfully implement the new e-tax system. Finally, as Uganda expands development of the extractive industry, there is need to build compliance management strategies that safeguard revenue from the sector even before production starts.

Figure 1. Real Sector Developments

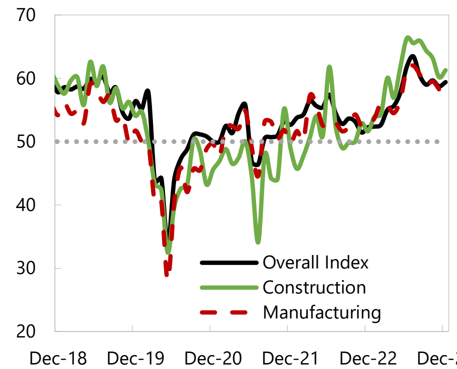
Driven by the strong recovery in services, growth has picked up.

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



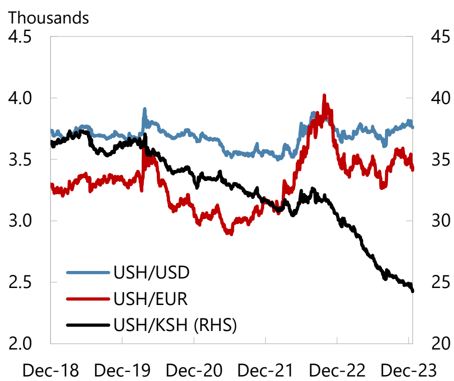
Business perceptions and other leading indicators reflect robust economic activity.

Business Tendency Indicators
(Index)



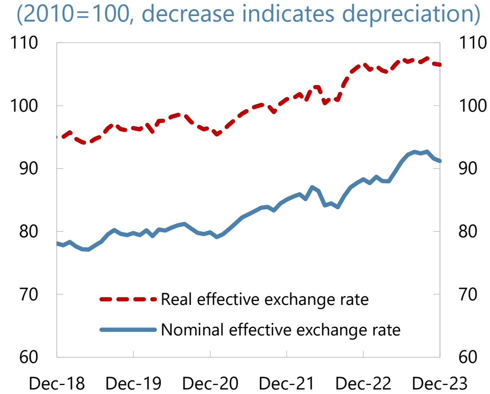
The Shilling has recently weakened against the U.S. dollar but appreciated against Kenyan Shilling.

Nominal Exchange Rate
(Ugandan Shilling per FX)



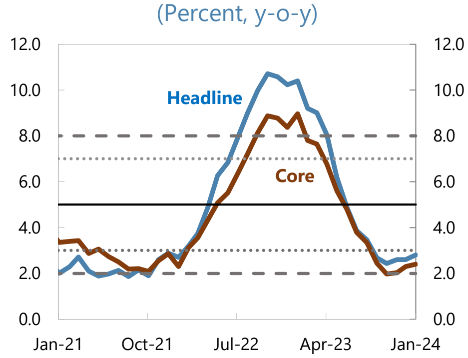
The real effective exchange rate has been broadly stable.

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



After reaching highs in October 2022, core and headline inflation have decelerated sharply…

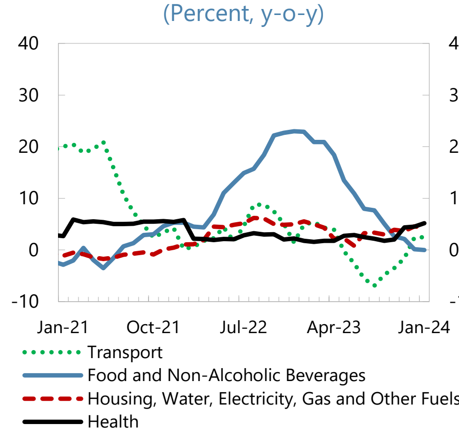
CPI Inflation Rates
(Percent, y-o-y)



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

…on the back of falling food and energy prices.

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

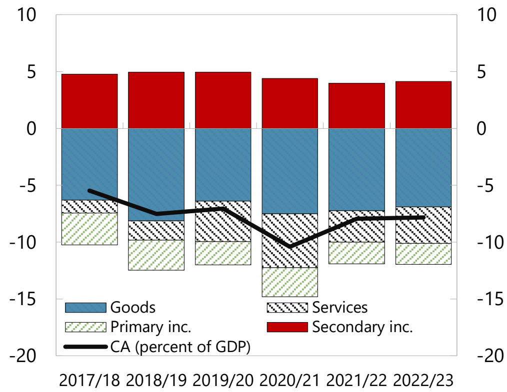


Source: Ugandan authorities and IMF staff calculations

Figure 2. External Sector Developments

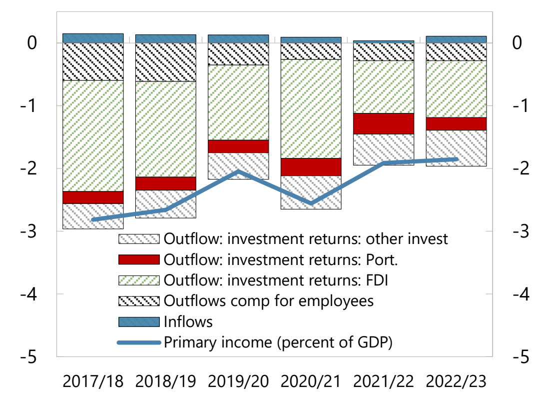
The current account deficit remained elevated in FY22/23…

Contributions to Current Account
(Percentage points)



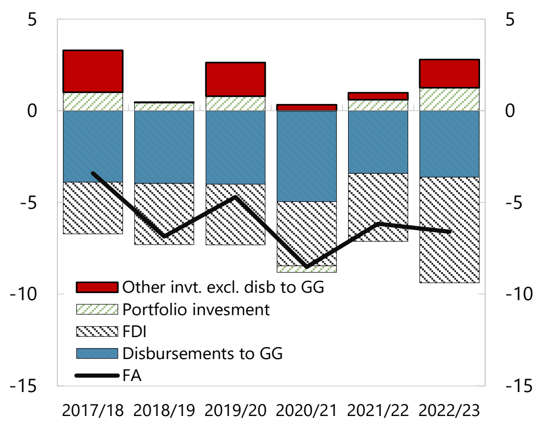
..with broadly unchanged primary income balance.

Contributions to Primary Income Balance
(Percent of GDP)



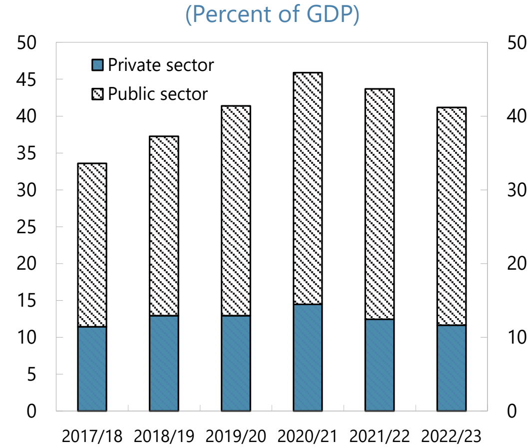
Capital inflows were mostly concentrated in oil-investment related FDI and government borrowing.

Financial Account
(Percent of GDP)



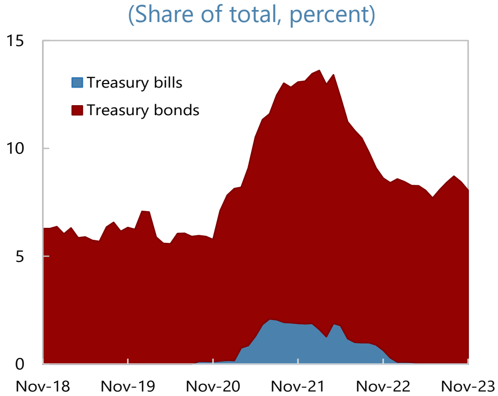
External debt has further declined as a share of GDP.

External Debt
(Percent of GDP)



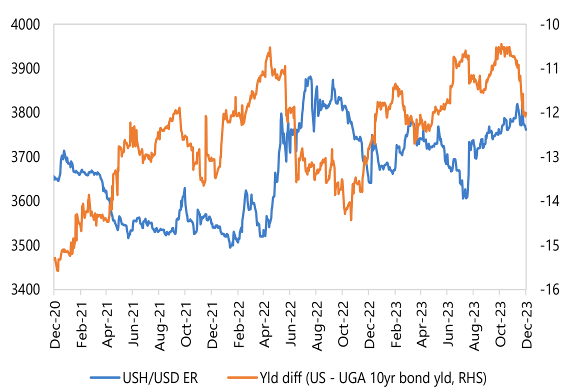
There are tentative signs of stabilization in foreign portfolio flows following a prolonged decline…

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



…as bond yields differential has widened amid falling U.S. treasury yields.

Yield Differential and Exchange Rate

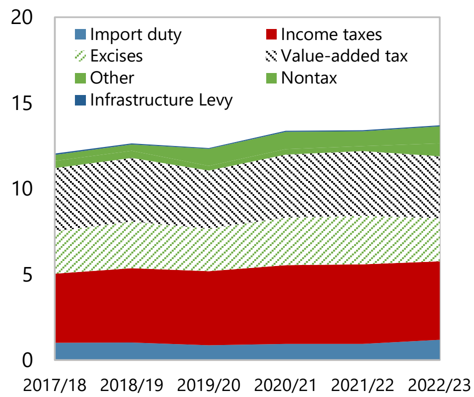


Source: BoU, Haver and IMF staff calculations

Figure 3. Fiscal Developments

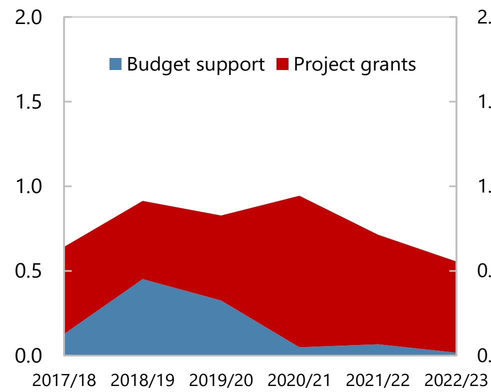
Domestic revenues increased in 2022/23 …

Tax & Non-tax Revenue
(Percent of GDP)



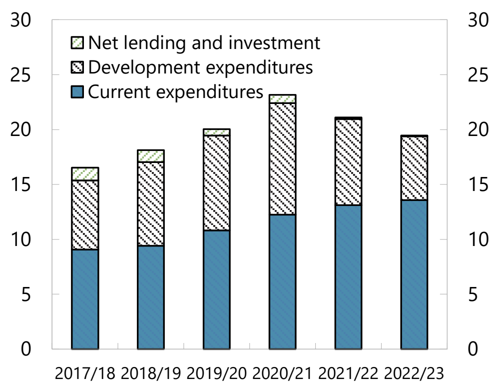
…while grant disbursements continued to decline.

Grants
(Percent of GDP)



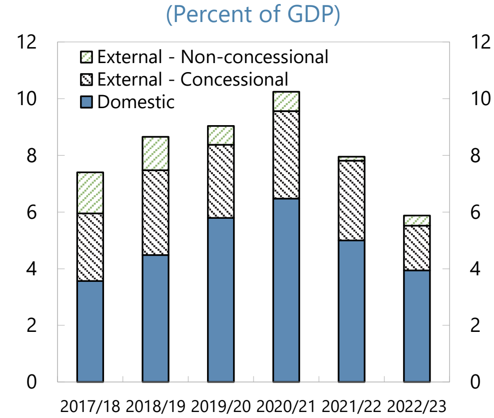
Expenditure composition is changing …

Total Expenditures
(Percent of GDP)



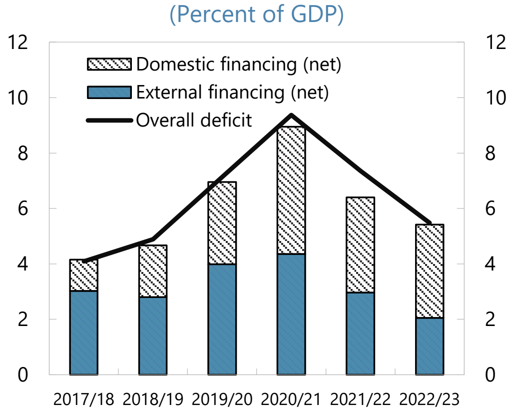
…as external financing for development spending is shrinking.

Development Expenditures
(Percent of GDP)



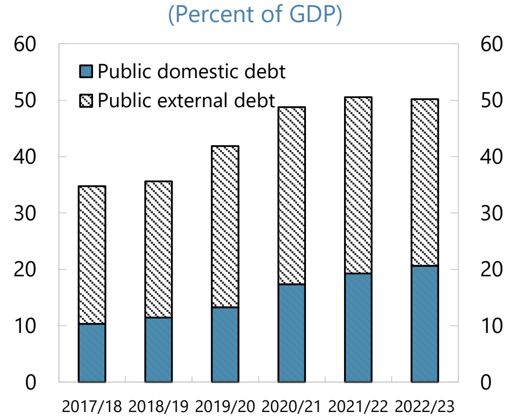
The overall fiscal deficit declined …

Overall Deficit
(Percent of GDP)



…while the debt-to-GDP ratio and its composition remained broadly unchanged.

Public Debt
(Percent of GDP)

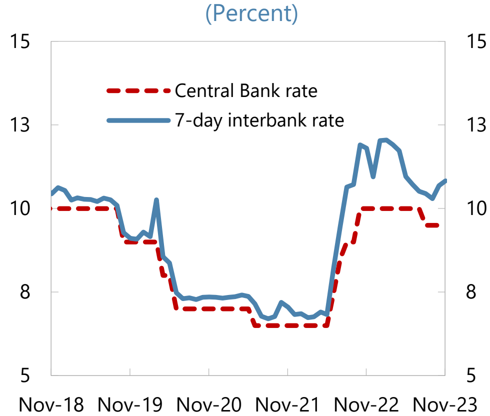


Source: Ugandan authorities and IMF staff calculations

Figure 4. Monetary Developments

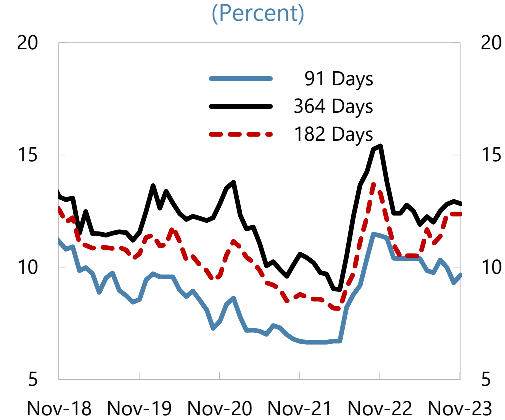
The policy rate was recently reduced by 50 bps reflecting a sharp decline in inflation…

Central Bank and Interbank Rates
(Percent)



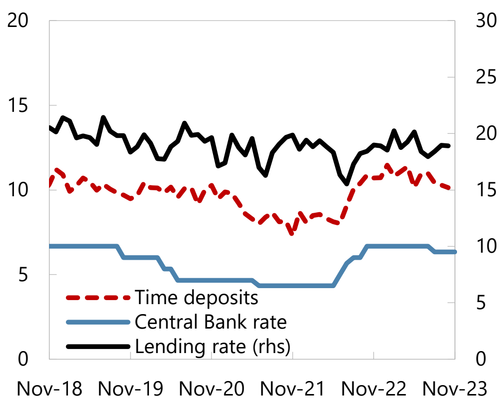
Yields also declined in response to a lower policy rate, although they have started to increase for longer dated government papers..

Evolution of Treasury Bill Rates
(Percent)



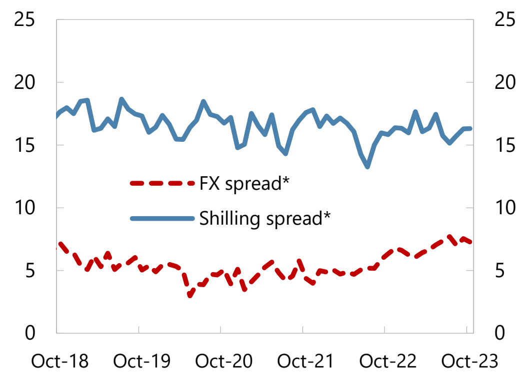
Lending rates remain elevated…

Interest Rate Structure
(Percent)



…with spreads for FX and shilling loans remaining stable.

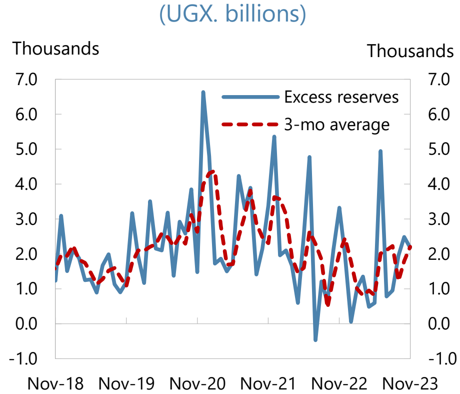
Interest Rate Spreads
(Percent)



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

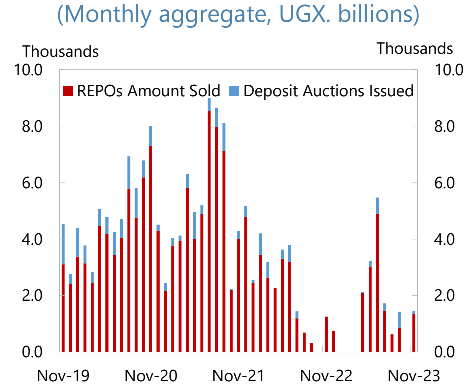
Excess reserves have fallen since 2020 as overall liquidity in the system has tightened…

Excess Reserves
(UGX. billions)



…and the BoU has reduced its Repo operation and deposit auctons.

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



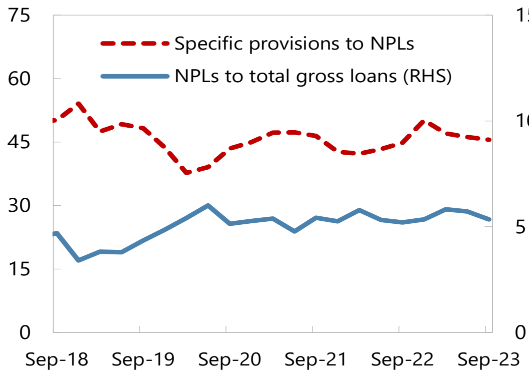
Source: BoU and IMF staff calculations

Figure 5. Financial Sector Developments

Asset quality appears to be stable and exposure to large borrowers has declined.

Selected Asset Quality Indicators

(Percent)

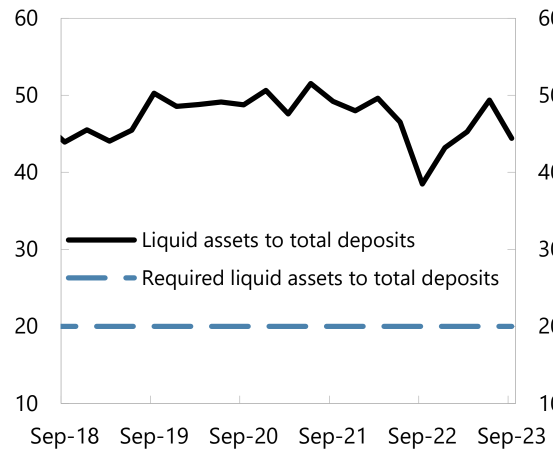


Source: BoU and IMF staff calculations

Banks remain well capitalized and liquidity buffers have improved.

Liquidity Ratio

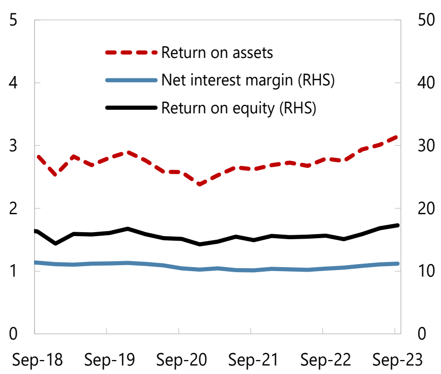
(Percent)



Banks earnings are recovering.

Earnings and Profitability

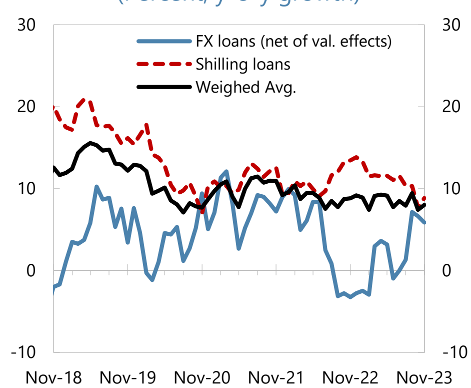
(Percent)



Private sector credit growth remains low.

Evolution of Private Sector Lending

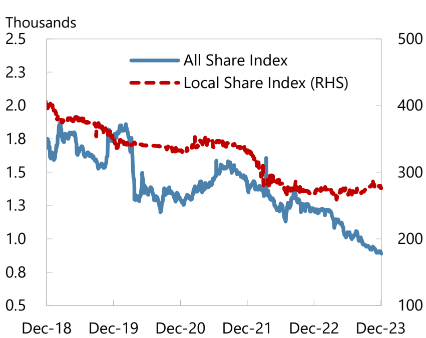
(Percent, y-o-y growth)



The All Share Index has been declining in the past year.

Stock Market Index

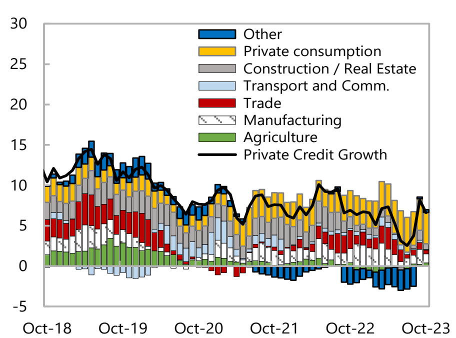
(Index)



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

Contribution to Private Sector Growth

(Percent)



Source: BoU and IMF staff calculations

Table 1. Uganda: Selected Economic and Financial Indicators, FY2020/21-2027/28[1,2]

	2020/21	2021/22	2022/23		2023/24		2024/25	2025/26	2026/27	2027/28
	Act.	Act.	4th Review	Act.	4th Review	Proj.	Proj.			
			(Annual percentage change, unless otherwise indicated)							
Output, prices, and exchange rate										
Real GDP	3.5	4.6	5.5	5.2	6.0	6.0	6.2	6.6	6.9	7.0
Non-Oil real GDP	3.5	4.6	5.5	5.2	6.0	6.0	6.2	6.1	6.0	6.0
GDP deflator	2.5	4.9	8.2	7.9	5.3	2.8	4.2	5.0	5.0	5.0
Headline inflation (period average)	2.5	3.4	9.2	8.8	5.7	3.1	4.5	5.0	5.0	5.0
Core inflation (period average)	3.5	3.2	7.7	7.4	5.3	2.8	4.4	5.0	5.0	5.0
Terms of trade ("–" = deterioration)	-6.7	3.3	1.5	-10.3	2.2	3.2	0.3	2.2	1.9	1.6
Exchange Rate (Ugandan Shilling/US$)	-1.5	-2.4	…	…	…	…	…	…	…	…
Real effective exchange rate ("–" = depreciation)	0.7	3.6	…	…	…	…	…	…	…	…
Money and credit										
Broad money (M3)	8.5	10.0	11.3	6.6	11.2	11.5	10.8	12.1	12.3	13.0
Credit to non-government sector	8.3	11.0	8.9	6.5	10.4	8.0	12.1	14.3	15.0	15.0
Bank of Uganda policy rate (percent)[3]	6.5	7.5	…	10.0	…	…	…	…	…	…
M3/GDP (percent)	22.0	22.0	21.5	20.7	21.4	21.2	21.2	21.3	21.3	21.4
NPLs (percent of total loans)[3]	4.8	5.3	…	5.7	…	…	…	…	…	…
			(Percent of GDP, unless otherwise indicated)							
Central government budget										
Revenue and grants	14.3	14.1	14.7	14.4	15.8	15.7	16.0	17.7	18.5	18.9
Of which: grants	0.9	0.7	1.2	0.6	1.5	1.3	1.1	0.8	0.6	0.5
Of which: oil revenue	0.1	0.0	0.0	0.0	0.0	0.0	0.0	1.4	1.9	2.1
Expenditure	23.7	21.5	19.8	19.9	19.3	19.6	19.7	20.7	21.4	21.7
Of which: Current	12.2	13.1	12.6	13.6	12.1	13.1	12.2	12.4	12.4	12.3
Of which: Capital[4]	10.2	7.9	6.7	5.8	6.7	6.0	7.2	8.1	8.5	8.6
Primary balance	-7.1	-4.6	-1.9	-2.3	-0.5	-0.6	-0.4	0.3	0.3	0.1
Overall balance	-9.8	-7.6	-5.1	-5.5	-3.4	-3.8	-3.6	-3.0	-2.9	-2.8
Of which: Net domestic borrowing	4.6	3.4	1.2	3.4	0.8	1.9	2.0	0.8	0.3	-0.1
Public debt										
Public gross debt[5]	48.8	50.5	48.6	50.2	47.8	49.6	49.3	47.5	45.7	43.9
External[6]	31.4	31.3	30.9	29.5	31.2	30.1	30.2	30.5	30.7	31.2
Domestic	17.4	19.3	17.7	20.6	16.6	19.5	19.1	17.0	14.9	12.7
Investment and savings										
Investment	28.4	26.2	29.2	29.7	33.9	30.5	32.1	33.3	34.4	34.8
Public	10.2	7.9	6.7	5.8	6.7	6.0	7.2	8.1	8.5	8.6
Private	18.2	18.2	22.4	23.8	27.0	24.2	24.7	25.2	25.7	26.1
Savings	17.9	18.1	20.6	21.4	25.0	22.3	24.8	26.5	30.2	30.6
Public	0.4	0.1	1.2	0.0	2.8	2.0	3.2	4.8	5.5	5.7
Private	17.4	17.9	19.4	21.4	22.2	20.3	21.5	21.7	24.7	25.0
External sector										
Current account balance	-10.6	-8.1	-8.6	-8.3	-8.9	-8.2	-7.3	-6.8	-4.2	-4.2
Current account balance (excluding grants)	-10.7	-8.4	-8.6	-8.3	-8.9	-8.3	-7.3	-7.2	-4.5	-4.4
Exports (goods and services)	16.5	12.2	13.7	14.9	14.4	16.5	16.5	19.6	21.7	19.2
Imports (goods and services)	28.7	22.4	24.6	25.0	26.0	26.9	26.8	27.5	25.4	23.2
Gross international reserves										
In billions of US$	4.2	4.1	3.8	4.1	4.3	4.3	5.3	6.4	6.5	7.0
In months of next year's imports of goods and services	4.9	4.0	3.2	3.4	3.1	3.3	3.7	4.5	4.5	4.5
Gross international reserves excluding oil project financing and investment related imports (in mths of imports)	4.9	4.5	3.8	4.3	4.0	4.0	4.6	5.2	4.8	4.5
Memorandum items:										
GDP at current market prices										
Ush. billion	148,307	162,749	185,663	184,880	207,218	201,412	222,738	249,264	279,934	314,293
US$ billion	40.5	45.6	49.5	49.3	54.6	53.9	59.1	64.3	70.1	76.5
GDP per capita (Nominal US$)	969	1,057	1,115	1,099	1,193	1,169	1,244	1,313	1,377	1,430
Population (million)[7]	41.8	43.1	…	…	…	…	…	…	…	…
Interest payments (in percent of revenue)	20.1	22.8	24.1	23.1	20.6	21.9	22.1	19.4	18.1	15.6

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: June 2023; BoU policy rate: June 2023.

[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, FY2020/21-2027/28[1]

(Billions of Ugandan Shillings)

	2020/21	2021/22	2022/23		2023/24		2024/25	2025/26	2026/27	2027/28
	Act.	Act.	4th review	Act.	4th review	Proj.	Proj.			
Total revenue and grants	**21,239**	**22,992**	**27,229**	**26,596**	**32,748**	**31,662**	**35,678**	**44,129**	**51,748**	**59,395**
Revenue	19,839	21,830	25,043	25,567	29,672	29,072	33,245	42,055	49,996	57,935
Tax	18,337	20,425	23,458	23,733	27,424	26,993	31,008	36,003	41,842	48,282
Import duty	1,403	1,557	2,316	2,442	2,566	2,627	3,002	3,635	4,946	5,625
Income taxes	6,805	7,543	8,319	8,466	9,605	9,467	10,671	12,305	13,996	16,196
Excises	4,119	4,600	4,632	4,644	5,730	5,660	6,612	7,631	8,861	10,243
Value-added tax	5,439	6,148	6,681	6,673	7,712	7,476	8,685	10,002	11,289	13,112
Other taxes	476	462	1,396	1,394	1,673	1,629	1,877	2,244	2,535	2,857
Infrastructure levy	95	114	114	114	138	133	160	186	215	248
Nontax	1,502	1,405	1,586	1,834	2,248	2,080	2,237	6,052	8,154	9,653
o/w: Oil revenue	141	0	0	0	0	0	0	3,457	5,398	6,569
Grants	1,400	1,162	2,186	1,028	3,075	2,590	2,433	2,074	1,752	1,460
Budget support	75	108	77	32	70	70	29	29	0	0
Project grants	1,325	1,054	2,109	996	3,006	2,520	2,404	2,045	1,752	1,460
Expenditures and net lending	**35,140**	**34,967**	**36,710**	**36,723**	**39,895**	**39,231**	**43,803**	**51,559**	**59,966**	**68,205**
Current expenditures	18,165	21,324	23,327	25,080	25,164	26,172	27,123	30,950	34,709	38,625
Wages and salaries	5,180	5,628	6,998	7,058	7,267	7,382	7,884	9,109	10,300	11,917
Interest payments	3,990	4,966	6,046	5,912	6,112	6,381	7,345	8,138	9,067	9,036
Other current	8,995	10,730	10,283	12,110	11,785	12,409	11,894	13,702	15,342	17,672
Development expenditures	15,085	12,785	12,355	10,737	13,822	12,139	16,112	20,210	23,769	27,090
Externally-financed projects	5,479	4,644	5,786	3,458	7,716	5,720	8,781	11,659	13,773	15,114
Of which: Non-concessional borrowing	908	72	840	532	1,359	1,145	3,573	4,769	4,595	4,254
Government of Uganda investment	9,606	8,141	6,568	7,279	6,106	6,419	7,331	8,550	9,996	11,976
Net lending and investment	1,096	252	259	137	703	704	248	0	688	191
Hydro-power projects	159	252	259	137	486	487	248	0	688	191
Recapitalization	482	0	0	0	217	217	0	0	0	0
Other net lending	455	0	0	0	0	0	0	0	0	0
Other spending (incl. arrears clearance)	794	606	770	769	206	216	320	400	800	2,300
Overall balance	**-13,902**	**-11,974**	**-9,481**	**-10,127**	**-7,147**	**-7,569**	**-8,125**	**-7,431**	**-8,218**	**-8,810**
Primary balance	**-9,912**	**-7,008**	**-3,435**	**-4,215**	**-1,035**	**-1,188**	**-780**	**707**	**849**	**226**
Financing	**13,266**	**9,993**	**7,219**	**8,648**	**6,223**	**6,012**	**8,125**	**7,431**	**8,218**	**8,810**
External financing (net)	6,468	4,407	5,823	2,425	4,486	3,170	3,634	5,512	7,392	9,186
Disbursement	7,422	6,123	8,065	4,846	6,985	5,621	6,584	9,505	11,911	13,654
Budget support	3,302	2,059	4,128	2,516	1,788	1,935	0	0	0	0
Concessional project loans	3,101	2,890	2,838	1,661	3,351	2,055	2,804	4,846	7,427	9,399
Non-concessional project loans	1,019	1,174	1,099	669	1,845	1,632	3,781	4,660	4,485	4,254
Amortization (–)[2,3]	-954	-1,716	-2,242	-2,421	-2,499	-2,451	-2,950	-3,993	-4,519	-4,468
Exceptional financing	0	0	0	0	0	0	0	0	0	0
Domestic financing (net)	6,798	5,585	1,396	6,224	1,737	2,841	4,490	1,918	826	-376
Bank financing	2,425	2,735	-341	3,887	226	-791	1,584	1,364	974	390
Bank of Uganda[3]	198	384	-2,078	2,296	-1,286	-4,424	-1,321	809	1,122	1,155
Commercial banks	2,227	2,351	1,737	1,591	1,512	3,633	2,906	554	-148	-765
Nonbank financing	4,373	2,851	1,737	2,337	1,512	3,633	2,906	554	-148	-765
Financing gap	**635**	**1,981**	**2,262**	**1,479**	**924**	**1,557**	**0**	**0**	**0**	**0**
Use of SDR Allocation		0	893	0	0	920				
ECF		416	1,369	1,369	924	908				
Memorandum Items:										
Social spending (excluding external financing)	5,210	5,980	6,575	6,850	7,054	6,940	7,391	8,583	9,924	11,558
Security spending (excluding external financing)	5,213	4,303	3,920	4,061	4,163	4,180	4,180	4,603	5,031	5,675

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, FY2020/21-2027/28[1]
(Percent of GDP)

	2020/21	2021/22	2022/23		2023/24		2024/25	2025/26	2026/27	2027/28
	Act.	Act.	4th review	Act.	4th review	Proj.	Proj.			
Total revenue and grants	**14.3**	**14.1**	**14.7**	**14.4**	**15.8**	**15.7**	**16.0**	**17.7**	**18.5**	**18.9**
Revenue	13.4	13.4	13.5	13.8	14.3	14.4	14.9	16.9	17.9	18.4
Tax	12.4	12.5	12.6	12.8	13.2	13.4	13.9	14.4	14.9	15.4
Import duty	0.9	1.0	1.2	1.3	1.2	1.3	1.3	1.5	1.8	1.8
Income taxes	4.6	4.6	4.5	4.6	4.6	4.7	4.8	4.9	5.0	5.2
Excises	2.8	2.8	2.5	2.5	2.8	2.8	3.0	3.1	3.2	3.3
Value-added tax	3.7	3.8	3.6	3.6	3.7	3.7	3.9	4.0	4.0	4.2
Infrastructure levy	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other taxes	0.3	0.3	0.8	0.8	0.8	0.8	0.8	0.9	0.9	0.9
Nontax	1.0	0.9	0.9	1.0	1.1	1.0	1.0	2.4	2.9	3.1
o/w: Oil revenue	0.1	0.0	0.0	0.0	0.0	0.0	0.0	1.4	1.9	2.1
Grants	0.9	0.7	1.2	0.6	1.5	1.3	1.1	0.8	0.6	0.5
Budget support	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project grants	0.9	0.6	1.1	0.5	1.5	1.3	1.1	0.8	0.6	0.5
Expenditures and net lending	**23.7**	**21.5**	**19.8**	**19.9**	**19.3**	**19.5**	**19.7**	**20.7**	**21.4**	**21.7**
Current expenditures	12.2	13.1	12.6	13.6	12.1	13.0	12.2	12.4	12.4	12.3
Wages and salaries	3.5	3.5	3.8	3.8	3.5	3.7	3.5	3.7	3.7	3.8
Interest payments	2.7	3.1	3.3	3.2	2.9	3.2	3.3	3.3	3.2	2.9
Other current	6.1	6.6	5.5	6.6	5.7	6.2	5.3	5.5	5.5	5.6
Development expenditures	10.2	7.9	6.7	5.8	6.7	6.0	7.2	8.1	8.5	8.6
Externally-financed projects	3.7	2.9	3.1	1.9	3.7	2.8	3.9	4.7	4.9	4.8
Of which: Non-concessional borrowing	0.6	0.0	0.5	0.3	0.7	0.6	1.6	1.9	1.6	1.4
Government of Uganda investment	6.5	5.0	3.5	3.9	2.9	3.2	3.3	3.4	3.6	3.8
Net lending and investment	0.7	0.2	0.1	0.1	0.3	0.3	0.1	0.0	0.2	0.1
Hydro-power projects	0.1	0.2	0.1	0.1	0.2	0.2	0.1	0.0	0.2	0.1
Recapitalization	0.3	0.0	0.0	0.0	0.1	0.1	0.0	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	0.0
Other spending (incl. arrears clearance)	0.5	0.4	0.4	0.4	0.1	0.1	0.1	0.2	0.3	0.7
Overall balance	**-9.4**	**-7.4**	**-5.1**	**-5.5**	**-3.4**	**-3.8**	**-3.6**	**-3.0**	**-2.9**	**-2.8**
Primary balance	**-6.7**	**-4.3**	**-1.9**	**-2.3**	**-0.5**	**-0.6**	**-0.4**	**0.3**	**0.3**	**0.1**
Financing	**8.9**	**6.1**	**3.9**	**4.7**	**3.0**	**3.0**	**3.6**	**3.0**	**2.9**	**2.8**
External financing (net)	4.4	2.7	3.1	1.3	2.2	1.6	1.6	2.2	2.6	2.9
Disbursement	5.0	3.8	4.3	2.6	3.4	2.8	3.0	3.8	4.3	4.3
Budget support	2.2	1.3	2.2	1.4	0.9	1.0	0.0	0.0	0.0	0.0
Concessional project loans	2.1	1.8	1.5	0.9	1.6	1.0	1.3	1.9	2.7	3.0
Non-concessional project loans	0.7	0.7	0.6	0.4	0.9	0.8	1.7	1.9	1.6	1.4
Amortization (–)[2,3]	-0.6	-1.1	-1.2	-1.3	-1.2	-1.2	-1.3	-1.6	-1.6	-1.4
Exceptional financing	0.0	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	0.8	3.4	0.8	1.4	2.0	0.8	0.3	-0.1
Bank financing	1.6	1.7	-0.2	2.1	0.1	-0.4	0.7	0.5	0.3	0.1
Bank of Uganda[3]	0.1	0.2	-1.1	1.2	-0.6	-2.2	-0.6	0.3	0.4	0.4
Commercial banks	1.5	1.4	0.9	0.9	0.7	1.8	1.3	0.2	-0.1	-0.2
Nonbank financing	2.9	1.8	0.9	1.3	0.7	1.8	1.3	0.2	-0.1	-0.2
Financing gap	**0.4**	**1.2**	**1.2**	**0.8**	**0.4**	**0.8**	**0.0**	**0.0**	**0.0**	**0.0**
Use of SDR Allocation		0.0	0.5	0.0	0.0	0.5				
ECF	0.0	0.3	0.7	0.7	0.4	0.5	0.0	0.0	0.0	0.0
Memorandum Items:										
Social spending (excluding external financing)	3.5	3.7	3.7	3.7	3.7	3.4	3.3	3.4	3.5	3.7
Security spending (excluding external financing)	3.5	2.6	2.0	2.2	1.4	2.1	1.9	1.8	1.8	1.8

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, FY2020/21-2027/28[1]

(Billions of Ugandan Shillings, unless otherwise indicated)

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
		Act.				Proj.		
Depository Corporations Survey[2]								
Net foreign assets	16,462	15,971	15,742	20,190	19,941	21,757	27,550	30,956
Bank of Uganda	15,574	14,435	13,916	18,377	18,159	19,763	24,215	27,212
Commercial banks	888	1,537	1,826	1,813	1,782	1,994	3,334	3,744
Net domestic assets	16,230	19,971	22,580	22,442	27,305	31,228	31,955	36,265
Claims on public sector (net)[3]	9,389	12,095	16,768	16,688	18,197	18,751	18,604	17,838
Claims on central government (net)	9,318	11,991	15,881	15,696	17,204	17,759	17,611	16,846
Claims on the private sector	18,861	20,936	22,302	24,086	27,000	30,861	35,491	40,814
Other items (net)[4,5]	-12,030	-13,071	-16,499	-18,332	-17,892	-18,385	-22,139	-22,387
Money and quasi-money (M3)	32,620	35,869	38,242	42,632	47,246	52,985	59,504	67,221
Foreign exchange deposits	8,941	9,538	9,689	12,332	13,667	15,327	17,213	19,445
Bank of Uganda								
Net foreign assets	15,574	14,435	13,916	18,377	18,159	19,763	24,215	27,212
Net domestic assets	-6,123	-3,560	-2,862	-6,402	-5,088	-5,115	-7,765	-8,629
Claims on public sector (net)[3]	-940	332	2,757	-1,766	-3,087	-5,380	-2,790	-1,635
Claims on non-financial private sector (net)	593	-865	-230	2,152	4,421	7,052	1,243	-258
Claims on commercial banks	-2,285	-337	-1,902	-2,669	-2,880	-3,459	-3,778	-4,003
Other items (net)[4,5]	-3,491	-2,690	-3,487	-4,120	-3,542	-3,329	-2,440	-2,732
Base money	9,451	10,875	11,054	11,976	13,070	14,648	16,450	18,583
Currency in circulation	6,017	6,828	7,314	7,715	8,550	9,589	10,769	12,165
Commercial bank deposits[6]	3,434	4,047	3,740	4,260	4,520	5,059	5,682	6,418
Other Depository Corporations								
Net foreign assets	888	1,537	1,826	1,813	1,782	1,994	3,334	3,744
Net domestic assets	26,495	28,614	30,150	34,272	38,208	42,854	47,032	53,154
Of which Claims on central government (net)	10,258	11,659	13,124	16,757	19,663	20,217	20,070	19,304
Of which Claims on private sector	18,785	20,855	22,207	24,086	27,000	30,861	35,491	40,814
Deposit liabilities to the non-bank public	27,382	30,151	31,977	36,085	39,990	44,848	50,366	56,897
Shilling deposits	18,441	20,613	22,287	23,753	26,323	29,521	33,153	37,452
Memorandum items:								
(Annual percentage change)								
Base money	7.3	15.1	1.6	8.3	9.1	12.1	12.3	13.0
M3	8.5	10.0	6.6	11.5	10.8	12.1	12.3	13.0
Credit to the private sector	8.3	11.0	6.5	8.0	12.1	14.3	15.0	15.0
Memorandum items:								
Base money-to-GDP ratio (percent)	6.4	6.7	6.0	5.9	5.9	5.9	5.9	5.9
M3-to-GDP ratio (percent)	22.0	22.0	20.7	21.2	21.2	21.3	21.3	21.4
Money multiplier (M2/base money)	2.5	2.4	2.6	2.5	2.6	2.6	2.6	2.6
Credit to the private sector (percent of GDP)	12.7	12.9	12.1	12.0	12.1	12.4	12.7	13.0
Velocity (M3)	4.5	4.5	4.8	4.7	4.7	4.7	4.7	4.7

Sources: Ugandan authorities and IMF staff estimates and projections.

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

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

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

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

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

[6] Inclusive of foreign currency clearing balances.

Table 4a. Uganda: Balance of Payments, FY2020/21-2027/28[1]

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

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
		Act.				Proj.		
Current account	-4,286	-3,713	-4,066	-4,433	-4,315	-4,402	-2,951	-3,210
Trade balance	-3,045	-3,300	-3,398	-3,619	-4,125	-2,579	-58	-548
Exports, f.o.b.	5,279	3,837	5,467	6,766	7,161	9,971	12,436	11,803
Of which: oil	0	0	0	0	105	2,499	4,543	4,244
Imports, f.o.b.	8,324	7,137	8,865	10,385	11,286	12,550	12,494	12,351
Of which: oil	830	1,237	1,638	1,441	1,376	1,399	835	63
Services (net)	-1,861	-1,199	-1,503	-1,841	-1,664	-2,172	-2,196	-2,294
Credit	1,482	1,792	1,921	2,102	2,538	2,564	2,692	2,841
Debit	-3,343	-2,992	-3,424	-3,943	-4,202	-4,736	-4,888	-5,135
Primary income (net)	-1,037	-1,134	-1,229	-1,109	-1,188	-2,427	-3,566	-3,268
Of which: interest on public debt (debit)	-171	-179	-233	-346	-610	-631	-633	-609
Secondary income (net)	1,657	1,920	2,063	2,135	2,663	2,775	2,869	2,901
Private transfers	1,465	1,679	1,855	1,840	2,397	2,545	2,679	2,739
Of which: workers' remittances (credit)	1,014	1,255	1,458	1,449	2,031	2,145	2,242	2,257
Official transfers	192	241	209	295	266	230	190	162
Of which: budget support (including HIPC)	60	94	2	19	8	8	0	0
Capital account	180	158	176	444	408	342	285	231
Financial account	-3,210	-3,302	-3,778	-3,875	-4,923	-5,201	-2,741	-3,439
Direct investment (net)	-1,420	-2,300	-3,784	-3,951	-4,419	-4,738	-4,416	-4,531
Portfolio investment (net)	-145	274	617	122	-30	51	94	96
Other investment (net)	-1,631	-1,271	-609	-40	-470	-510	1,585	1,000
Loans (net)	-1,495	-979	-629	-638	-554	-615	1,411	1,234
Government (net)	-1,478	-1,032	-796	-854	-903	-1,392	-1,888	-2,377
Disbursements	-1,764	-1,444	-1,419	-1,454	-1,754	-2,475	-3,105	-3,546
Budget support	-690	-538	-739	-518	0	0	0	0
Project support	-1,074	-906	-680	-936	-1,754	-2,475	-3,105	-3,546
Of Which: non concessional	-286	-313	-182	-439	-990	-1,185	-1,108	-1,020
Amortization	286	412	624	600	851	1,083	1,217	1,168
Deposits taking corporations	-12	13	98	-97	-1	-4	-1	-1
Other	-15	-4	-2	-5	-4	-4	-4	-4
Net errors and omissions	1,153	329	-353	125	0	0	0	0
Overall balance	257	75	-465	11	1,016	1,141	75	460
Financing	-500	-191	101	-254	-1,016	-1,141	-75	-460
Central bank net reserves (increase = –)	-497	-190	101	-254	-1,016	-1,141	-75	-460
Use of Fund credit	0	0	0	0	0	0	0	0
Exceptional Financing	-3	-1	0	0	0	0	0	0
Financing gap	243	116	365	243	0	0	0	0
Non-concessional project loans	243							
ECF	243	116	365	243	0	0	0	0
Memorandum items:								
Gross international reserves								
In US$ billions	4.2	4.1	4.1	4.3	5.3	6.4	6.5	7.0
In months of next year's imports of goods and services	4.9	4.0	3.4	3.3	3.7	4.5	4.5	4.5
In months of next year's imports of goods and services (excl. oil project financing and investment related imports)	4.9	4.5	4.3	4.0	4.6	5.2	4.8	4.5
Donor support								
Of which : budget support (loans and grants)	750	605	741	537	8	8	0	0
Of which : project support (loans and grants)	1,254	1,064	856	1,380	2,162	2,817	3,389	3,776
Current account balance (excl. oil project financing and investment related imports)	-4,283	-3,692	-3,181	-2,229	-1,576	-1,056	-953	-1,510

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, FY2020/21-2027/28[1]

(Percent of GDP, unless otherwise indicated)

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
		Act.				Proj.		
Current account	-10.6	-8.1	-8.3	-8.2	-7.3	-6.8	-4.2	-4.2
Trade balance	-7.5	-7.2	-6.9	-6.7	-7.0	-4.0	-0.1	-0.7
Exports, f.o.b.	13.0	8.4	11.1	12.5	12.1	15.5	17.7	15.4
Of which: oil	0.0	0.0	0.0	0.0	0.2	3.9	6.5	5.5
Imports, f.o.b.	20.5	15.7	18.0	19.3	19.1	19.5	17.8	16.1
Of which: oil	2.0	2.7	3.3	2.7	2.3	2.2	1.2	0.1
Services (net)	-4.6	-2.6	-3.1	-3.4	-2.8	-3.4	-3.1	-3.0
Credit	3.7	3.9	3.9	3.9	4.3	4.0	3.8	3.7
Debit	-8.2	-6.6	-7.0	-7.3	-7.1	-7.4	-7.0	-6.7
Primary income (net)	-2.6	-2.5	-2.5	-2.1	-2.0	-3.8	-5.1	-4.3
Of which: interest on public debt (debit)	-0.4	-0.4	-0.5	-0.6	-1.0	-1.0	-0.9	-0.8
Secondary income (net)	4.1	4.2	4.2	4.0	4.5	4.3	4.1	3.8
Private transfers	3.6	3.7	3.8	3.4	4.1	4.0	3.8	3.6
Of which: workers' remittances (credit)	2.5	2.8	3.0	2.7	3.4	3.3	3.2	3.0
Official transfers	0.5	0.5	0.4	0.5	0.4	0.4	0.3	0.2
Of which: budget support (including HIPC)	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Capital account	0.4	0.3	0.4	0.8	0.7	0.5	0.4	0.3
Of which: project grants	0.4	0.3	0.4	0.8	0.7	0.6	0.5	0.4
Financial account	-7.9	-7.2	-7.7	-7.2	-8.3	-8.1	-3.9	-4.5
Direct investment (net)	-3.5	-5.0	-7.7	-7.3	-7.5	-7.4	-6.3	-5.9
Portfolio investment (net)	-0.4	0.6	1.3	0.2	0.0	0.1	0.1	0.1
Other investment (net)	-4.0	-2.8	-1.2	-0.1	-0.8	-0.8	2.3	1.3
Loans (net)	-3.7	-2.1	-1.3	-1.2	-0.9	-1.0	2.0	1.6
Government (net)	-3.6	-2.3	-1.6	-1.6	-1.5	-2.2	-2.7	-3.1
Disbursements	-4.4	-3.2	-2.9	-2.7	-3.0	-3.8	-4.4	-4.6
Budget support	-1.7	-1.2	-1.5	-1.0	0.0	0.0	0.0	0.0
Project support	-2.6	-2.0	-1.4	-1.7	-3.0	-3.8	-4.4	-4.6
Of Which: non concessional	-0.7	-0.7	-0.4	-0.8	-1.7	-1.8	-1.6	-1.3
Amortization	0.7	0.9	1.3	1.1	1.4	1.7	1.7	1.5
Deposits taking corporations	0.0	0.0	0.2	-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	0.0
Net errors and omissions	2.8	0.7	-0.7	0.2	0.0	0.0	0.0	0.0
Overall balance	0.6	0.2	-0.9	0.0	1.7	1.8	0.1	0.6
Financing	-1.2	-0.4	0.2	-0.5	-1.7	-1.8	-0.1	-0.6
Central bank net reserves (increase = –)	-1.2	-0.4	0.2	-0.5	-1.7	-1.8	-0.1	-0.6
Use of Fund credit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional Financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.6	0.3	0.7	0.5	0.0	0.0	0.0	0.0
Non-concessional project loans	1							
ECF	0.6	0.3	0.7	0.5	0.0	0.0	0.0	0.0
Memorandum items:								
Gross international reserves								
In US$ billions	4.2	4.1	4.1	4.3	5.3	6.4	6.5	7.0
In months of next year's imports of goods and services	4.9	4.0	3.4	3.3	3.7	4.5	4.5	4.5
In months of next year's imports of goods and services (excl. oil project financing and investment related imports)	4.9	4.5	4.3	4.0	4.6	5.2	4.8	4.5
Donor support								
Of which : budget support (loans and grants)	750	605	741	537	8	8	0	0
Of which : project support (loans and grants)	1,254	1,064	856	1,380	2,162	2,817	3,389	3,776
Current account balance (excl. oil project financing and investment related imports)	-10.6	-8.1	-6.5	-4.1	-2.7	-1.6	-1.4	-2.0

Sources: Ugandan authorities and IMF staff estimates and projections.

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

Table 5. Uganda: Banking Sector Indicators, March 2020-June 2023

(Percent)

	2020				2021				2022				2023	
	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23
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	23.9	25.5	26.1
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	22.4	24.2	24.8
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	5.8	5.7
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	3.5	3.2
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	47.0	46.2
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	72.8	70.8
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	35.2	32.1	32.6
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	80.7	72.8	70.9
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	2.9	3.0
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	15.9	16.8
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	10.8	11.1
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	2.5	2.6
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	72.4	72.3
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	47.5	46.6
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	45.3	49.4
Liquid assets to total assets	34.3	34.9	34.3	35.4	33.3	35.9	34.1	33.0	34.5	32.4	26.8	29.8	31.6	35.0
Liquid assets to short-term liabilities	49.6	50.9	50.5	51.0	49.3	51.9	50.6	48.8	50.6	47.4	40.5	49.7	53.3	59.4
Liquidity coverage ratio	327.3	279.6	285.5	229.6	266.9	240.3	232.9	297.2	301.7	184.5	184.6	223.3	305.4	373.4
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)	(2.2)	(1.4)
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	57.7	55.3
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	92.2	92.7

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 21, 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, FY2020/21-2027/28
(Millions of U.S. Dollars)

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Financing needs	**4,783**	**3,903**	**3,966**	**4,687**	**5,331**	**5,543**	**3,026**	**3,670**
Current account deficit	4,286	3,713	4,066	4,433	4,315	4,402	2,951	3,210
Net payment to the IMF	0	0	0	0	0	0	0	0
Reserve accumulation (+=increase)	497	190	-101	254	1,016	1,141	75	460
Financing sources	**-3,387**	**-3,458**	**-3,954**	**-4,319**	**-5,331**	**-5,543**	**-3,026**	**-3,670**
Capital account	180	158	176	444	408	342	285	231
Financial account	-3,210	-3,302	-3,778	-3,875	-4,923	-5,201	-2,741	-3,439
FDI (net)	-1,420	-2,300	-3,784	-3,951	-4,419	-4,738	-4,416	-4,531
Public sector (net)	1,088	1,015	1,445	1,471	1,654	1,888	1,790	1,629
Exceptional financing	-3	-1	0	0	0	0	0	0
Errors and omissions	**1,153**	**329**	**-353**	**125**	**0**	**0**	**0**	**0**
Financing gap	**243**	**116**	**365**	**243**	**0**	**0**	**0**	**0**
Prospective financing	**243**	**116**	**365**	**243**	**0**	**0**	**0**	**0**
ECF	243	116	365	243	0	0	0	0
Residual financing gap	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Sources: Ugandan authorities and IMF staff estimates and projections.

Table 8. Uganda: Quantitative Performance Criteria

	2023											2024	
	End-Jun IT				End-Sept QPC				End-Dec IT			End-Mar QPC	
	Target	Adjusted target	Actual	Status	Target	Adjusted target	Actual	Status	Target under the 4th review	Actual	Status	Target under the 4th review	Revised target
Quantitative performance criteria													
Fiscal targets													
Primary budget balance of the central government (- = deficit; floor, in billions of USh) 1/	-3,435	-1,783	-4,108	Not met	-2,067	-1,798	1,459	Met	-2,740			-1,913	-2,112
Monetary targets													
Net claims on the government by the central bank (ceiling) 1/	-1,185		1,957	Not met	2,815		-1,276	Met	1,877	520	Met	806	662
Target for international reserves													
Stock of net international reserves (floor, in millions of US$) 2/	2,503	2,055	2,859	Met	2,687	2,685	2,689	Met	2,794	2,518	Not met*	2,844	2,725
Continuous PCs													
Stock of external payment arrears incurred or guaranteed by the public sector (ceiling)	0		0	Met	0		0	Met	0			0	0
PV of newly contracted external public and publicly guaranteed debt (ceiling, millions of US$) 1/	2,319		1,352	Met	3,522		453	Met	3,522			3,522	3,522
Monetary policy consultation clause													
Outer band (upper limit)	8				8				8			8	8
Inner band (upper limit)	7				7				7			7	7
Core inflation target 3/	5		7.4	Met	5		6.4	Met	5	4.7	Met	5	5
Inner band (lower limit)	3				3				3			3	3
Outer band (lower limit)	2				2				2			2	2
Indicative targets													
Support to vulnerable households (floor, billions of USh) 1/	226		221	Not met	81		30	Not met	163			191	191
Social spending (floor, billions of USh) 1/ 4/	6,847		6,850	Met	1,849		1,365	Not met	3,698			5,376	5,002
Tax revenues (floor, in billions of USh) 1/	23,458		23,733	Met	6,149		5,622	Not met	13,288			19,949	19,177
Repayment of outstanding domestic arrears (floor, in billions of USh) 1/	662		769	Met	100		100.4	Met	200			206	216

Note: The September 2023 and March 2024 PCs are for the 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.

* Preliminary assessment.

1/ PCs are cumulative flows (i) from July 1, 2022 to 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

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).

Table 9. Uganda: Structural Benchmarks Between June 2023 and June 2024			
Measures	**Rationale**	**Deadline**	**Comments**
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.
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	Not met. Completed in January 2024 with delay owing the backlog the Board had to attend to.
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	Not met. See paragraph 26 and Table 10. Reformulated and elevated as a prior action.
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 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	Met. The assessment report and annual report for FY2022/23 are published.

Table 9. Uganda: Structural Benchmarks Between June 2023 and June 2024 (concluded)			
Measures	**Rationale**	**Deadline**	**Comments**
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	Not met. In Progress.
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	Met - Budget Information - Ministry of Education and Sports
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 noncompliance with AML/CFT requirements by banks.	Strengthen financial sector governance and financial stability	End-March 2024	Staff proposes to drop this SB. An IMF TA identified inconsistencies between the AMLA and the implementing regulations which needed to be addressed first.
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	

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

Table 10. Uganda: Prior Actions and Proposed New Structural Benchmark

Measures	Rationale	Deadline
In consultation with IMF staff, a review of regulations to the PFM Act to include a definition of BoU advances to government inclusive of redemption of securities and its passage.	Enhance BoU governance and independence	A prior action for the completion of the 5th review. The authorities adopted the necessary PFM regulations on February 12, 2024.
Identify expenditure and revenue measures to be implemented as needed during the FY2023/24 year to reach the primary budget deficit target.	Ensure a credible fiscal adjustment to strengthen fiscal and debt sustainability	A prior action for the completion of the 5th review. The authorities have identified contingency measures worth 0.5 percent of GDP that include postponing or putting on hold non-priority spending, both current (new recruitment, travel, workshops) and capital (incl. recapitalization of the Uganda Deposit Corporation and the Uganda Development Bank).
Finalization and approval of the Cash Management Framework by the MOFPED Permanent Secretary / Secretary to the Treasury.	Improve budgetary planning and execution	A prior action for the completion of the 5th review. In consultation with FAD experts, the authorities have finalized the Cash Management Framework on January 22, 2024. Please see the following link: CASH MANAGEMENT FRAMEWORK | Ministry of Finance, Planning and Economic Development
Ahead of the adoption of supplementary budgets by the Parliament, the authorities will share an assessment of the fiscal cost, financing sources, debt impact, revenue measures and any relevant data/information with IMF staff.	Improve budgetary execution	A continuous structural benchmark.

Table 11. 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	153.4	180.5	144.4
Charges and interest	0.0	0.6	0.0	11.2	14.9	14.9	14.9	14.9	14.9	14.9
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	198.6	180.5
Charges and interest	0.0	0.6	0.0	11.2	14.9	14.9	14.9	14.9	14.9	14.9
Total IMF obligations based on existing and prospective credit										
In millions of SDRs	0.0	0.6	0.0	11.2	51.0	105.2	132.3	168.4	213.5	195.4
In millions of U.S. dollars	0.0	0.8	0.0	15.6	71.7	147.8	185.8	236.5	299.9	274.6
In percent of GDP	0.0	0.0	0.0	0.0	0.1	0.2	0.3	0.3	0.4	0.3
In percent of exports of goods and services	0.0	0.0	0.0	0.2	0.7	1.2	1.2	1.6	2.0	1.8
In percent of government revenue	0.0	0.0	0.0	0.2	0.8	1.4	1.5	1.7	1.9	1.6
In percent of gross international reserves	0.0	0.0	0.0	0.4	1.3	2.3	2.8	3.4	4.8	5.1
In percent of IMF quota	0.0	0.2	0.0	3.1	14.1	29.1	36.6	46.6	59.1	54.1
IMF credit outstanding based on Existing and Prospective Drawings (end-of-period)										
In millions of SDRs	631.8	812.3	992.8	1,083.0	1,046.9	956.7	839.3	685.9	487.4	306.9
In millions of U.S. dollars	877.9	1,132.4	1,387.4	1,518.6	1,473.2	1,346.2	1,181.1	965.2	685.8	431.8
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	13.0	20.1	18.8	17.1	15.2	10.7	7.8	6.6	4.5	2.8
In percent of government revenue	16.2	18.5	20.4	19.5	16.7	12.4	9.4	6.8	4.4	2.5
In percent of gross international reserves	21.1	27.5	34.0	35.4	27.7	20.9	18.1	13.8	10.9	8.0
In percent of IMF quota	175.0	225.0	275.0	300.0	290.0	265.0	232.5	190.0	135.0	85.0
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	2.2	6.8	1.4	-0.5	-1.0	-1.1	-1.5	-1.9	-1.6
In percent of government revenue	4.6	2.1	7.4	1.6	-0.6	-1.2	-1.3	-1.5	-1.9	-1.5
In percent of gross international reserves	6.0	3.1	12.4	2.9	-1.0	-2.0	-2.5	-3.1	-4.7	-4.7
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)	40,529	45,565	49,269	53,946	59,134	64,309	70,146	76,491	83,408	90,205
Exports of goods and services (in millions of U.S. dollars)	6,761	5,629	7,388	8,868	9,698	12,536	15,128	14,643	15,090	15,488
Government revenue (in millions of U.S. dollars)	5,421	6,112	6,813	7,787	8,826	10,850	12,528	14,100	15,574	17,147
Gross international reserves (in millions of U.S. dollars)	4,154	4,117	4,075	4,293	5,309	6,450	6,525	6,984	6,277	5,399
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.

Annex I. Risk Assessment Matrix[1]

Source of Risks	Likelihood/ Time Horizon	Expected Impact on Economy	Policy Response
Potential Domestic Risks			
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.
Deterioration of security conditions. Spillovers from crises in the region and domestic terrorist attacks could worsen security, and give rise to financing pressures	Low **Short term**	Medium Economic activity would be disrupted. Investor confidence would decline.	- Formulate credible medium-term fiscal path to support investor confidence.
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

[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.

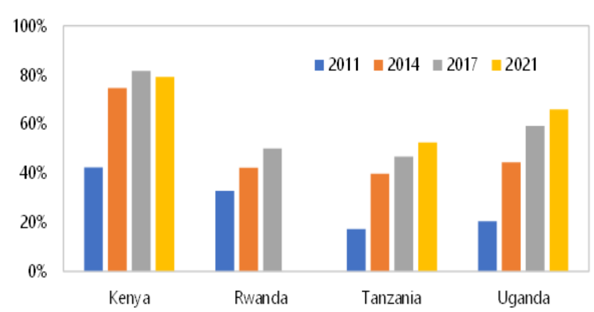
Source of Risks	Likelihood/ Time Horizon	Expected Impact on Economy	Policy Response
Potential External Risks			
Systemic financial instability. Sharp swings in real interest rates and risk premia, and asset repricing amid economic slowdowns and policy shifts trigger insolvencies in countries with weak banks or non-bank financial institutions, causing market dislocations and adverse cross-border spillovers.	**Medium** **Short Term**	**Medium** Lower availability of external commercial loans; 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, FDI and financial flows, and payment systems, and lead to refugee flows.	**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, uncertainty, and export restrictions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, contagion effects, and social and economic instability.	**High** **Short to Medium Term**	**Medium** Poor households would be particularly vulnerable to the rising commodity prices. Renewed 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.	- Provide targeted fiscal support to vulnerable households - Formulate credible medium-term fiscal path to support investor confidence - Adjust monetary policy in view of the inflationary pressure

Source of Risks	Likelihood/ Time Horizon	Expected Impact on Economy	Policy Response
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 market fragmentation causing sudden stops in EMDEs.	**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.
Cyber threats. Cyberattacks on physical or digital infrastructure (including digital currency and crypto assets ecosystems) or misuse of AI technologies trigger financial and economic instability.	**Medium** **Short to Medium Term**	**Low** It could disrupt economic activities, and put financial stability at risk, although the financial sector is small.	- Step up efforts to strengthen cyber security - Preemptively, carry out regular testing of the resilience of computer systems and address vulnerabilities.

Annex II. Financial Inclusion in Uganda

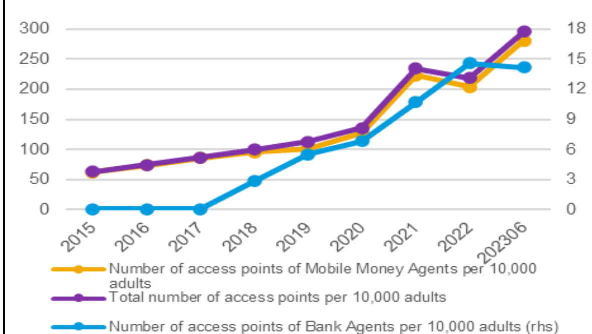
1. Uganda has made significant strides to improve financial inclusion since the implementation of the first National Financial Inclusion Strategy (NFIS I). In 2017, MOFPED and BoU jointly launched NFIS I (2017-2022) with five pillars, identifying 21 key gaps that needed to be closed to achieve the desired level of financial inclusion in Uganda. Since then, many initiatives and reforms have been undertaken through efforts of both the public and private sector (See Table 1). Aligning with the second National Development Plan, NFIS I provided a framework for the enforcement of several government projects such as the Presidential initiative on wealth and job creation (Emyooga) and the financial inclusion pillar in the Parish Development Model (PDM). Implementation of NFIS I has notably improved access to financial services. In 2021, 66 percent of adult population reported having an account or using a mobile money service, 20 percentage point higher than the EAC average. These achievements are largely attributed to the surge of agent banking and mobile money, which have created new opportunities to better serve financially excluded population. The access points at the national level reached 309.5 per 10,000 adults by September 2023, far surpassing the target of 61.5 set by NFIS I.

Figure 1. Account Ownership
(Percent of Respondents, age 15+)



Source: Global Findex Database 2021

Figure 2. Financial Access Points, Uganda

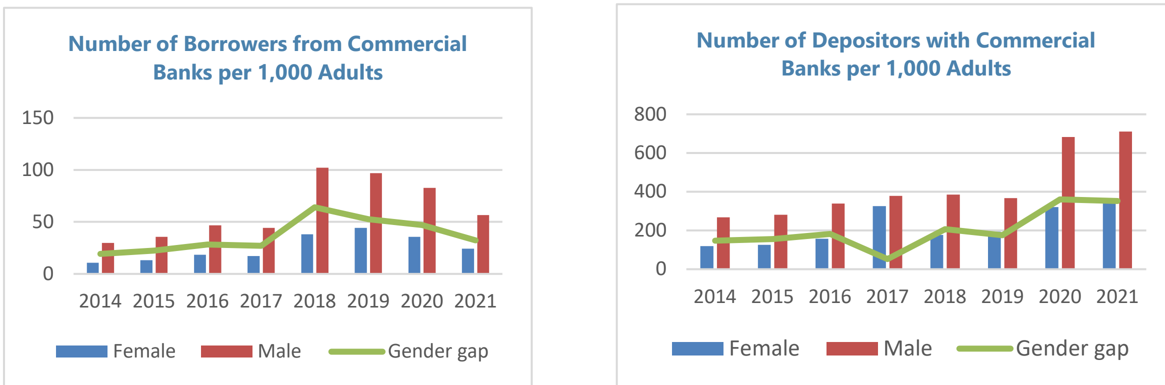


Source: BoU

2. Although Uganda has made outstanding progress in women's financial inclusion, it continues to face significant gender gap in the usage of formal financial services. Thanks to the rapid expansion of digital technology, 65 percent of women (versus 67 percent of men) owned a bank account in 2021, an exceptional growth from only 15 percent in 2011.[1] Moreover, the female ownership of mobile money account remarkably increased from 29 percent in 2014 to 53 percent in 2021. However, the Financial Access Survey (FAS) reveals that only 35.8 percent of adult females (versus 71 percent of adult males) had deposits with commercial banks in 2021 and the gap between male and female has increased since 2014. Furthermore, only 2.4 percent of adult female (versus 5.7 percent of adult male) borrowed from the commercial banks in 2021.

[1] World Bank Findex. 2021. The Global Findex Database 2021: Financial Inclusion, Digital Payments, and Resilience in the Age of COVID-19.

Figure 3. Access to Commercial Banks



Source: Financial Access Survey

3. **The collaboration between public and private sector played a critical role in enhancing financial inclusion.** To commercialize agriculture in Uganda through provision of medium and long-term financing, the authorities, in partnership with Participating Financial Institutions, set up the Agricultural Credit Facility (ACF) in 2009. Under ACF, the government guarantees 50 percent of the credit disbursed, thus providing credit at a relatively lower cost to projects on farm activities, grain trade, agro processing, and post-harvest management. In particular, ACF introduced Block Allocation model in 2018 to target the micro borrowers, especially the disadvantaged group like smallholders and women, who cannot access commercial bank credit due to inadequate financial information or collateral. By June 2023, UGX 818.3 billion was disbursed to 3,455 farmers, which is approximately 32 percent of the UGX 2.5 trillion total value of outstanding loans to the agriculture sector. To promote utilization and uptake of agricultural insurance, the authorities collaborate with private insurance companies to establish the Uganda Agriculture Insurance Scheme (UAIS). Under UAIS, the government provided a subsidy of UGX 5 billion for farmers, whereby large-scale farmers and small-scale farmers receive 30 percent and 50 percent insurance premium subsidy, respectively. As a result, the number of farmers insured grew from 45,703 in 2017 to 74, 825 in 2021.

Table 1. Uganda: Key Initiatives and Reforms Achieved under NFIS I
Pillar 1 Reduce financial exclusion and barriers to access financial services - Roll out the Agent Banking Shared Platforms - Amend Microfinance Deposit-taking Institution Act to allow MFIs to use agent banking network to deliver financial services - Issue operational guidelines for Self-Help Groups (SHGs)
Pillar 2 Develop the credit infrastructure - Extend credit lines to critical sectors with the expansion of government-run funds, such as Agricultural Credit Facility, Emyooga, Parish Revolving Fund, Small Business Recovery Fund, etc. - Pass the Security Interest in Movable Property Act 2019 to enlarge the range of collateral assets - Amend Credit Reference Bureau (CRB) regulations to allow all regulated and unregulated credit providers to contribute data to the CRBs - Establish the Uganda Warehouse Receipt System (UWRS) Authority to improve the oversight of UWRS
Pillar 3 Build the digital infrastructure - Pass National Payment System (NPS) Act 2020 to regulate Fintechs - Implement the Government e-Payment Gateway to facilitate electronic payments for government services - Launch the e-verification of National Identity Cards

Table 1. Uganda: Key Initiatives and Reforms Achieved Under NFIS I (concluded)
Pillar 4 Deepen and broaden formal savings, investment and insurance usage
- Operationalize Uganda Microfinance Regulatory Authority to license and regulate Tier IV institutions
- Establish the Uganda Agriculture Insurance Scheme
- Develop the mobile insurance and micro insurance regulations
- Introduce Retirement Benefits Regulatory Authority Regulations
- Pass the National Social Security Fund Act (Amendment) 2021
Pillar 5 Protect and empower individuals with enhanced financial capability
- Enact NPS Consumer Protection Regulations
- Launch and implement the second financial literacy strategy (2019–2024)
- Enhance financial inclusion data collection
- Implement Financial Capacity Survey and Finscope Survey
- Develop the second Strategy for Financial Literacy (2019–2024)
- Establish Financial Consumer Empowerment Mechanism (FCEM) to facilitate consumer protection

4. **Despite phenomenal achievement, Uganda still faces outstanding barriers to further advance financial inclusion.** The surge of banking agent network is mainly concentrated in urban and greater Kampala region, and hence doesn't translate to increased access to financial services for rural communities as envisaged. In 2021, only 32 percent of rural adult residents have an account with financial institutions, compared with 42 percent of urban adult residents. The use of formal channels for savings and uptake of credit is limited, especially for women, youth and low-income individuals who still rely heavily on informal saving clubs such as Savings and Credit Cooperatives (SACCOs), Microfinance Institutions (MFI), Village Savings and Loan Associations (VSLAs) and Rotating Savings and Credit Associations (ROSCAs) for financial services. Low financial literacy remains a key constraint to access financial services. The Financial Capacity Survey shows that only 50 percent of Uganda's adult population were financially capable or financially literate in 2020.

5. **The objectives under the second National Financial Inclusion Strategy (NFSI II) are aimed at overcoming these barriers.** The NFSI II (2023-2028) launched in November 2023 will continue to reduce financial exclusion and access barriers, deepen and broaden the usage of quality and affordable formal financial products and strengthen financial consumer protection and financial literacy. Furthermore, two new objectives are prioritized—developing an inclusive green finance market and promoting gender-inclusive finance. Besides promoting sustainable development practices, an inclusive green finance aims to enhance access to financial services among the marginalized groups, particularly women and smallholder farmers. Women often face various social and economic barriers that impede their usage of financial services, including biased gender norms, narrow economic opportunities, lack of acceptable collateral, limited legal protection, weak financial infrastructure, and low financial and digital literacy. Promoting gender-inclusive finance policies and products can play a key role in expanding financial access to women and empowering them to participate meaningfully in economic activities.

Appendix I. Letter of Intent

Kampala, February 13, 2024

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

Dear Ms. Georgieva:

Ugandan economy has recovered well from the COVID-19 pandemic despite external shocks. Recent high frequency indicators point to accelerating growth, and robust industrial and services activity is expected to solidify the recovery going forward. Thanks to the prompt and active policies and declining global commodity prices, inflation has decelerated.

Our macro policies will continue to focus on achieving price stability and debt sustainability. In line with our commitments under the ECF-supported program, we are persevering on the fiscal consolidation path, containing the fiscal deficit by eliminating non-priority and unproductive spending and increasing revenue through implementation of the Domestic Revenue Mobilization Strategy. This will help ensure that the public debt remains on a declining path over the medium term. Monetary policy has secured a decline of inflation to below the central bank target and will continue to safeguard price stability. Going forward, a tighter fiscal policy, a data-driven monetary policy, and continued exchange rate flexibility will solidify macroeconomic stability and strengthen our international reserves.

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. We are implementing several programs, including the Parish Development Model, to create wealth and support incomes for the poorest. To generate a 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 seven of the ten end-June 2023 indicative targets (ITs) and all end-September 2023 Quantitative Performance Criteria (QPC). For end-June 2023, we missed the ITs on the primary budget balance adjusted for lower-than-anticipated project loans, net credit to the government, and support to vulnerable households, while for end-September 2023, we missed the IT floors on social spending, support to vulnerable households, and tax revenues. Because of higher-than-projected debt services and tight financing conditions, we missed the December 2023 net international reserves (NIR) target.

We are implementing our structural reform agenda with determination, focusing on governance, revenue mobilization, financial stability and inclusion, public sector efficiency, and human capital development. Out of seven structural benchmarks with deadlines between June and December 2023, two were met ahead of the fourth review, two were completed on time; one was implemented with a delay, and one is in progress. While we missed the SB on the Bank of Uganda Act amendment, we instead implemented a corrective prior action.

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 it will take any additional measures that may become appropriate for the purpose of achieving the program goals. 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. 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 Technical Memorandum of Understanding or at the IMF's request.

We have completed all three prior actions for the fifth review. Considering domestic and external developments since the conclusion of the fourth review, such as a lower nominal GDP, higher-than-anticipated debt service payments, persistent absorption capacity constraints for social spending and the desire to repay central bank advances faster, we request modifications to the following end-March 2023 QPCs and ITs: floors on the primary budget balance and tax revenues, NIR and social spending, and the ceiling on net credit to government from the central bank. We request the completion of the fifth review under the ECF arrangement and the related disbursement of SDR 90.25 million and agree to the publication of this Letter of Intent and its attachments, as well as the related Staff Report, on the IMF's website.

Sincerely yours,

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

Attachments:

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

Attachment I. Memorandum of Economic and Financial Policies

A. Introduction

1. **Macroeconomic developments have been favorable, but there are near-term downside risks.** Economic activity was boosted by robust industrial activity and services, despite the less supportive external environment. Declining inflation has helped support domestic demand, although borrowing costs remained high and credit growth low. A strong outturn for GDP growth in the second half of FY22/23 helped us achieve 5.2 percent annual growth. Our projection for FY23/24 remains 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. However, uncertainty around the duration and impact of the war in Ukraine and the conflict in Gaza and Israel, unfavorable weather conditions, lower global growth, lower capital inflows, and tight global financial conditions could weigh on our recovery in the near term with negative repercussions on growth and poverty alleviation.

2. **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 in 2024 through the duration of 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

3. **The Ugandan economy has recovered well from the COVID-19 pandemic despite external shocks.** Economic growth was 5.2 percent in FY22/23, up from 4.6 percent in FY21/22. High frequency indicators point to continued steady growth, lifted by robust new orders, purchases, and rising employment. The Purchasing Manager's Index was 54.8 in December 2023 (against the breakeven value of 50) and the Composite Index of Economic Activity increased by 6.5 percent growth y-o-y in November 2023. The difficult external environment is, however, affecting the economy through elevated prices of imported fuel while high interest rates abroad and at home are contributing to rising financing costs.

4. **Inflation has continued to decelerate sharply, benefiting from a sustained period of policy tightening and a relatively stable exchange rate.** Headline inflation was 2.8 percent and core 2.4 percent in January 2024. Food inflation was 2.6 percent. Core inflation is expected to remain below the central bank's target of 5 percent in the near term and converge to the target over the medium term.

5. **The current account has shown improvement in the first three quarters of 2023,**

although the overall deficit remains elevated and external financing conditions continue to be challenging. The improvement reflects increased export revenues in excess of the increase in expenditure on imports and a strong rebound in tourism. FDI was strong, mostly reflecting oil-related investment. Nonetheless, foreign holdings of domestic debt are yet to recover, and other investment flows were constrained in 2023Q3 given the tight global financial conditions. FX reserves stood at US$3.7 billion in December 2023, however, limited portfolio inflows and elevated government debt service continue to put pressure on further FX reserves accumulation.

6. **Monetary policy continues to strike a balance between supporting price stability and economic recovery.** In response to rising inflation, the Bank of Uganda (BoU) increased the policy rate by a cumulative 350 bps between July 2022 and October 2022 to 10 percent. Reserve requirements were also tightened resulting in an interbank rate 200 bps above the policy rate. As pressures abated, the BoU reduced both the policy rate and the reserve requirement ratio by 50 basis points each in August 2023 and has held both constant since in light of uncertainties and tepid portfolio flows. The 7-day interbank rate has eased to 10.6 percent in December 2023 from a peak of 12.1 percent in February 2023. Private sector credit grew by 8.1 percent in December 2023 (y-o-y), below the average of 12 percent in the two years prior to the pandemic as banks remain risk averse.

7. **The FY22/23 fiscal deficit, at 5.5 percent of GDP, was higher than the 5.1 target agreed at the time of the 4th review.** The larger deficit reflected higher current spending and lower grants, partially offset by higher tax revenues and lower capital expenditures. Higher spending was needed to secure resources for (i) an increase in pensions and gratuities following an ongoing audit and digitalization of records, (ii) financial support for two ailing state-owned companies, (iii) classified expenditures, and (iv) co-financing for WB projects for local government (UGIFT and USMID). Because of difficulties to secure financing for these expenditures – due to a delay in drawing SDRs and a shortfall in commercial loans –we postponed the planned repayment of BoU advances, originally planned for FY22/23, to the current and next fiscal years.

8. **The banking sector is profitable and well-capitalized.** Profitability increased, with the rise in the return on assets (from 2.8 percent in September 2022 to 3.1 percent in September 2023). As of end-September 2023, 18 out of 25 banks complied with the new paid-up capital requirement of UGX 120 billion. Of the remaining seven (representing 5.1 percent of the banking sector assets), three applied to downgrade to Tier II license, three are in the process of onboarding a new shareholder, while one bank is still pursuing its shareholders for recapitalization. The ratio of Tier I capital to risk-weighted assets—at 24.1 percent in September 2023—is well above the minimum prudential requirement of 10 percent. The liquidity coverage ratio increased from 185 to 268 percent over the year to September 2023 boosted by increased holdings of treasury securities, as private sector lending remained low. All banks were above the prudential minimum LCR of 100 percent. The aggregate NPL ratio increased marginally to 5.3 percent in September 2023, and the ratio of specific provisions-to-NPLs increased from 44.8 to 45.6 percent.

C. Program Performance

9. We met six of the ten indicative targets (ITs) for end-June 2023. We met the floors on net international reserves (NIR), social spending and tax revenues, the ceiling on the present value (PV) of newly contracted external public and publicly guaranteed (PPG) debt, inflation, the repayment of domestic arrears and the non-accumulation of external arrears. We missed the IT on the primary budget balance adjusted for lower-than-anticipated project loans, BoU net credit to the government (NCG), and support to vulnerable households.

10. We met all six end-September 2023 Quantitative Performance Criteria (QPCs), but we missed three ITs and the end-December 2023 IT on NIR (Table 1). We met end-September 2023 QPCs on the PV of newly contracted external PPG debt, net international reserves, primary fiscal balance, inflation, NCG and external arrears. We missed the end-September 2023 ITs on social spending, support to vulnerable households, and tax revenues. We also missed the end-December 2023 IT on NIR (preliminary assessment) but met the ITs on NCG and core inflation.

11. Our structural reform agenda is progressing albeit with some delays (Table 2). Out of seven structural benchmarks (SBs) with test dates between June and December 2023, two—on development of a financial inclusion module in the Parish Development Management Information System and on publication of decisions arising from investigations that led to sanctions—were met ahead of the fourth review, the SB on publication of two reports related to the objectives of the National Anti-Corruption Strategy and the SB on finalizing entries of learners' data into EMIS and publication of diagnostics by local government were met on time. The SB on issuing a resolution on the ownership structure for data collected by the Central Data Hub as a prerequisite for the use of Credit Registration Bureau—was implemented with a delay while the SB on adopting amendments to the Financial Institutions Regulations is in progress. We missed the SB on the BoU Act amendment and have instead implemented a prior action (PA for the completion of the 5th review, see paragraph 26).

D. Economic Policies

Fiscal Policy and Debt Management

12. We will continue with fiscal consolidation in FY23/24 as envisioned under the ECF-supported program. We will target a headline deficit of 3.8 percent, which strikes the right balance between providing support to the economy and ensuring that debt remains on a sustainable path over the medium term.

- The fiscal deficit is expected to decline by the same amount as envisaged in the 4th review (1.7 percentage points of GDP), though starting from a higher base.

- Revenue measures agreed during the 4th review, consisting of tax exemptions rationalization and administrative measures, are being implemented and will help deliver an increase in the tax revenue/GDP ratio of 0.6 percentage points relative to FY22/23, in line with our Domestic Revenue

Mobilization Strategy (DRMS).

- We will decrease the current expenditure as a share of GDP relative to FY22/23, while maintaining the share of social spending at 21.2 percent of total expenditure. We will allow for an increase of UGX 300 bn in the non-wage primary recurrent spending relative to FY22/23 to include one-off spending on two national projects (the population census, for UGX 343 bn; and a renewal of national IDs, for UGX 367 bn).

- We plan to increase the domestically financed development spending measured in percent of GDP relative to the framework agreed upon during the 4th review.

13. In case of underperformance, we have identified additional expenditure measures to be implemented as needed during FY23/24 to ensure the primary budget deficit is on target (PA for the completion of the 5th review):

- freeze planned recruitments in FY23/24 for all MDAs except in the health and education;
- reduce expenditure of government officials on travel abroad (workshops and seminars), inland (monitoring and evaluation), training and consultancy;
- slow down execution of non-priority capital expenditure;
- delay recapitalization of extra-budgetary institutions, such as the Uganda Development Corporation and the Uganda Development Bank.

For any supplementary budget for FY23/24, we will share an assessment of the cost, financing sources and debt impact of supplementary expenditures, revenue measures in addition to any relevant data and information—with the IMF staff ahead of its adoption by the Parliament to ensure that its parameters are in line with the priorities of the program (a new continuous structural benchmark).

14. We conducted a review of the DRMS to evaluate implementation status and its trajectory going forward. Our medium-term revenue strategy is being continuously updated and costed to reflect changes in policies and the economic environment. We are considering making the DRMS a rolling strategy, to maintain a record of activities added after approval and follow implementation across planning periods. We will enhance the income tax system, improve the excise duty regime, and strengthen VAT productivity. The focus of tax administration reforms will be increasing taxpayer registrations, tax administration processes, including payment systems, enhancing voluntary compliance, and improving arrears management. We will step up implementation of the new e-tax system, lower the backlog of unpaid VAT refunds and move aggressively to reduce tax arrears and prevent further accumulation. We are on track to formulate a compliance improvement plan for the large taxpayers' office with a focus on specialized sectors and taxation of multinational enterprises (SB, end-March 2024). We will seek technical assistance (TA) to strengthen customs administration of the extractive industries sector ahead of oil production and will procure the Integrated Tax Administration System.

15. Streamlining tax expenditures (TEs) with the help of the newly adopted tax expenditure rationalization framework, remains a key priority. This is a critical component of the DRMS as corporate income tax and VAT regimes are characterized by numerous tax expenditures. With capacity development from the IMF and the World Bank, we have made progress in TE reporting, having established benchmarks and inventories for each major tax category and produced regular annual TE reports for all years since 2015/16. We are now implementing recommendations on four fronts: (i) putting in place the institutional arrangements and capacity to assess and evaluate TEs, including a new fiscal governance framework for TE; (ii) reviewing and rationalizing TEs on direct income; (iii) ceasing granting discretionary provisions under the tax procedures code; and (iv) rationalizing the costliest and most inefficient TEs under the VAT and excise taxes. We have announced sunset clauses on some TEs and will accompany this work with a cost-benefit analysis to assess the impact of TEs on growth, exports, and our import-substitution strategy. This will provide us with criteria for eliminating ineffective TEs, and a basis for refraining from granting new TEs. Reform priorities include:

- requiring all companies receiving tax incentives to file complete annual tax returns;
- taxing non-business capital gains (or enforcing the stamp duty on company share trades);
- taxing gambling, and tourism outside of Kampala, and narrowing broad exemptions for agriculture/raw foods; and
- aligning the benchmark system for calculating excise TEs with prices that fully reflect the social cost of excisable goods and services and rationalizing excise tax rates toward those prices.

16. We will target a continuous increase in priority social spending. Due to absorptive capacity constraints in line ministries and agencies, and availability of off-budget donor support for this sector, released funds for social spending have not been deployed in a timely manner, leading to the missed IT in September 2022, March 2023, and September 2023. Despite the limited fiscal space, we are committed to keeping the share of social spending at 21.2 percent in FY23/24 and increase it to 21.5 percent in FY24/25. To address the absorptive capacity constraints in social sectors (education, health, social development) we will conduct necessary diagnostics and, if needed, 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 have finalized registration of all primary and secondary schools' learners' data into the Education Management Information System (EMIS) and have published diagnostics by local governments to inform decisions on funding needs for the educational system (SB, end-December 2023). Going forward, as the national registration process continues, learners currently not captured due to absence of identification numbers will also be included. We will expand coverage of the EMIS to include teachers in public schools countrywide and issue a report showing pupil-teacher ratios by district (SB, end-April 2024).

17. We will continue strengthening support for the vulnerable. To improve targeting of beneficiaries, we are expanding our national identification database and unified national registry of all social assistance programs. 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. We have requested the Ministry of Gender to submit information on arrears to beneficiaries from previous years for verification and inclusion in the stock for clearance.

18. The Parish Development Model (PDM) is our strategy for organizing and delivering public and private sector interventions to boost income and welfare of Ugandans. In the first phase of the PDM implementation, in FY22/23, 10,585 SACCOs were established and fully capitalized. Implementation guidelines were also developed, communities were mobilized and sensitized, and households were organized into Enterprise Groups. Out of the 10,594 parishes, PDM SACCOs were established in 10,585 parishes (99 percent) and have received the full (100 million shillings per SACCO) dedicated revolving fund as of end-June 2023. About 877 billion shillings in loans were disbursed (83 percent of target) reaching 880,000 households (88 percent of targeted beneficiaries). As the pillar continues to support the rest of the country to fully disburse the funds, there has been good progress in several districts: Kisoro and Kumi districts have for instance disbursed funds to all targeted beneficiaries through the PDM Information System.

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

- **Improving the budget preparation process.** We will continue to ensure that ministries, departments and agencies 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. For the preparation of the FY24/25 budget, a review has been undertaken to identify the baseline costs and critical expenditures required to meet current government obligations and commitments. In the exceptional case where a supplementary budget is necessary, we will ensure that requests are costed, financing sources are identified, and the debt impact is assessed, and the assessment shared with the IMF before adoption. To improve the budget preparation, the Auditor General has conducted 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. The report was finalized in December 2023 and will form the basis for a strategy to improve payroll systems and budgeting.

- **Reducing the outstanding stock of domestic arrears.** We are undertaking efforts to limit accumulation of domestic arrears to penalties and fees imposed by courts and verification of old arrears. We will continue to make provisions for the clearance of domestic arrears in the current and subsequent fiscal years; however, our ability to clear the existing stock is constrained by availability of financial resources. When clearing the arrears, we will prioritize pensions, salaries, utilities, rent, and payments for provision of goods and services, while adhering to the "first in, first out" principle. As of end-June 2023, the total validated arrears stood at 2.7 trillion UGX (1.5 percent of GDP), largely from the 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 Integrated Financial Management System (IFMS) and available to all government budget entities. Support is being provided to complete the recording and verification of historical arrears and their payment through IFMS on an annual basis. We have implemented a form to document verified arrears at the conclusion of the fiscal year, and any arrear payments must be associated with previously recorded and approved arrears.

- **Strengthening cash management.** We have finalized and approved the Cash Management Framework (PA for the completion of the 5th review). We have obtained IMF TA to support cash management reforms, which will include:

  i. the extension of the Treasury Single Account (TSA) to all remaining extra budgetary units and agencies: the TSA model has been converted to a traditional TSA, where payments are made centrally, without any sub-accounts. All local governments (LGs) are now included in the Integrated Financial Management System (IFMS) and TSA arrangements. Most recently, at least one Extrabudgetary Unit (EBU) has been included in the IFMS and TSA arrangements. A pilot for the incorporation of remaining Externally Funded Projects (EFPs) and EBUs is expected to be introduced in July 2024 and the final roll-out for all EFPs and EBUs is expected by July 2025.

  ii. the operationalization of an online module to all ministries, departments, and agencies for reporting of spending projections: the Program Budgeting System online module has been developed for Central Government and has been tested with some big spending ministries/agencies and awaits full roll out in FY23/24. Development of local government model is also underway, although this will require additional funding and training of local government personnel.

  iii. the preparation of an aggregate borrowing plan that considers the government's consolidated cash position within and outside the TSA by FY23/24. 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 FY2024/25. A technical committee has been convened by the PS/ST to assess the practicability of implementing recommendations from recent IMF technical assistance.

- **Strengthening performance, accounting, and utilization of fixed and financial assets.** We are stepping up the transition from modified to full 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.

- **Improving public investment management.** The 2022 Public Investment Management Assessment (PIMA) 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 and improving the interface of different IT systems to ensure the accurate 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, iv) clearly identifying projects at risk and actions that will be required to resolve the risk, and focusing this monitoring on major projects; and v) strengthening the policy framework for effective PIM, including a new National Public Investment Management Policy which is currently under consideration by Cabinet.

- **Implementing our new debt and public investment financing strategies.** 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 have introduced a Public Investment Finance Strategy that will support our commitment to seek additional donor financing. 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. We are finalizing the third five-year Public Debt and Financial Liabilities Management Framework FY23/24–FY28/29 which includes debt management principles, thresholds and benchmarks emphasizing sustainability, risk management, financing source diversification, and heightened transparency and accountability in public debt administration.

Monetary and Exchange Rate Policies

20. 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. Headline inflation decelerated and core inflation is below the 5 percent target and projected to remain below target in the near term. 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 and are refining our output gap estimates. We are also upgrading our high frequency indicators of economic activity. We are establishing partnerships with other central banks to enhance our inflation expectation questionnaire and approach and collaborating with the IMF to evaluate the transmission of monetary policy by utilizing micro-level data. We are strengthening our external communication, including through IMF TA.

21. We are committed to maintaining our reserve cover at an adequate level and strengthening it over time. Amid tight and uncertain global financial conditions, we believe that maintaining a robust reserve coverage is essential to anchor investor confidence, and we remain committed to the goal of reaching reserves coverage of 4 months of next year's imports of goods and services (excluding oil project related imports) by the end of the program (June 2024). We will continue with fiscal consolidation and exchange rate flexibility. In the medium-term, we aim to strengthen the reserve coverage to the East Africa Community's target of 4.5 months.

22. We will ensure continued exchange rate flexibility. We are committed to achieving a market-determined exchange rate and have stayed away from FX intervention since May 2022. Following the World Bank announcement on the Anti-Homosexuality Act, despite a temporary increase in market volatility, we did not intervene in the FX market and allowed the exchange rate to adjust. We will continue to ensure exchange rate flexibility by limiting FX interventions and reducing government imports financed by FX reserves. Exchange rate adjustment will contribute to the correction of any external imbalances and facilitate adjustment to shocks. We will also step-up FX purchases to build up reserves as markets conditions permit.

Financial Sector Policies

23. Strengthening macroprudential regulation remains a key priority. The BoU has fully implemented BASEL II principles and several aspects of BASEL III. We transformed the implementation of a systemic risk buffer for systemically important domestic banks, capital conservation buffer, countercyclical capital buffer, and leverage ratio, into regulatory requirements since January 1, 2022. Other aspects of BASEL III, such as the liquidity coverage ratio and net stable funding ratio (NSFR) have been included in the Financial Institutions (Liquidity) Regulations 2023 which were gazetted in August 2023. The BoU has issued guidelines on the supervisory review process and the minimum disclosure requirements under Pillar 3.

24. 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).

- **Enhancing AML/CFT risk-based supervision for banks, forex bureaus, money remitters and other higher risk sectors.** With the new RBS manual and risk matrix developed, the BoU is running a pilot for supervising institutions based on the new RBS manual, operationalizing the enhancements in the manual and completing the deliverables in the Project Charter. Since June 2023, we have conducted three onsite inspections of higher-risk banks, five forex bureaus and money remitters, and four follow-up examinations, resulting in two enforcement actions on banks. To enhance risk awareness and improve the compliance of financial institutions, the

BoU issued three circulars on beneficial ownership obligations, application of targeted financial sanctions, and common AML/CFT deficiencies. In line with the commitment to reinforce the efficacy of AML/CFT supervision across all regulated institutions, the BoU has hired four new supervisory personnel in the AML unit who possess specialized AML/CFT expertise and will continue increasing staffing over time in line with growing number and complexity of financial system institutions and flows. Furthermore, acknowledging the current period of structural realignment within the BoU, we will optimize resource allocation by redeploying qualified supervisory staff from the Non-Bank Financial Institutions Division to the AML unit.

- **Strengthening banks' resilience.** Through the Financial Institutions (Liquidity) Regulations, issued in August 2023, the BoU has updated the list of eligible liquid assets cognizant of the developments in the financial system, and specified the requirements under the liquidity management framework including a liquidity management strategy, contingency plan and stress testing requirements. We will issue guidelines on requirements, computation and treatment of the liquidity coverage ratio and net stable funding ratio, and guidance on the minimum requirements for the bi-annual Internal Liquidity Adequacy Assessment Process. 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 was established in May 2022 to 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. However, none of the banking institutions has used the window so far.
    - **Continuing to strengthen our stress testing capabilities.** With IMF TA, the BoU developed an FX liquidity stress testing model focused on liquidity linkages across sectors and the resilience of each sector to liquidity stress. The model was recently used to simulate a deposit run scenario followed by training provided to institutions on how to strengthen their liquidity in line with the new Regulation. The BoU is compiling data to support FX stress tests and address information gaps that limit the implementation of the wider FX stress testing including households and non-financial corporates.
    - **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 conditions and higher energy and commodity prices. As of September 2023, the banking sector's exposure to government debt amounted to 29.8 percent of total assets, compared to 27 percent in September 2022, respectively. However, the risk of sovereign exposure remains low as most securities are 'Held-to-Maturity' and are highly liquid. Going forward, the 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

25. 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 under the 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

26. We remain committed to strengthening BoU governance. We missed the SB requiring Parliamentary adoption of the BoU Act Amendments to strengthen governance and autonomy which was reprogrammed from September 2022. In consultation with IMF staff, we have adopted the PFM regulations that include a comprehensive definition of the BoU advances inclusive of redemption of government securities (PA for the completion of the 5th review). To address broader weaknesses identified in the 2021 safeguards assessment, we remain committed to amending the BoU Act at a future date.

27. We are building public trust in the asset declaration regime by enhancing transparency. We 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 three annual reports, for FY20/21, FY21/22, and FY22/23 on the LCT web site. The LCT expeditiously processed 27 cases received from the IG in FY22/23. The report includes the nature of breaches and penalties as well as the names of public officers in breach of asset declaration requirement under law. Going forward we will engage with relevant government agencies and the public to raise awareness and comprehension of the LCT's function and mandate, thereby fostering support and cooperation in carrying out its duties.

28. 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). The Directorate of Ethics has completed and published (i) an assessment report against the agreed indicators and targets, and (ii) the annual report for FY22/23 on the prevalence of corruption and anti-corruption efforts, as guided by the NACS' monitoring and evaluation framework (SB, end-November 2023). The reports underscore that Uganda's institutional and legal anti-corruption framework is strong, but implementation needs strengthening to address the high corruption perception not corroborated by evidence-based surveys. Going forward, we intend to leverage the role of civil society actors and citizens to identify and report potential corruption, increase uptake of automation and e-services at URA, local governments and in public recruitment and procurement. We are also establishing formal engagement mechanisms with CSOs and subnational communities to improve coordination and partnership in the fight against corruption.

29. 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 second EITI report (FY20/21) was published in June 2023 (EITI Reports – UGEITI) and covers payments made by extractive entities and revenues received by government agencies. The process of reconciliation of payment flows resulted in a small unexplained discrepancy on inflows of 0.3 percent of total. Going forward, any identified data gaps will be addressed under the new legal regime that provides for strengthening of the regulation of the mining sector.

Financial Integrity

30. We are continuing with our efforts to exit the FATF grey-list and demonstrate sustained implementation of AML/CFT measures. As of September 2023, we successfully completed our action plan with the FATF. We have taken measures to enforce legal persons' beneficial ownership declaration obligations, enable competent authorities' direct access to this information online, and to keep this information accurate. We conducted several training courses for financial institutions, designated non-financial businesses and professions, and competent authorities on targeted financial sanctions obligations and have strengthened financial investigations. We published our second National Risk Assessment in May 2023 and a risk assessment of the non-profit organization sector in August 2023. A December 2023 onsite visit by the FATF confirmed high-level political commitment to sustain our reforms and continue strengthening our AML/CFT system, which represents a crucial step towards exiting the grey-list in 2024.

31. We are continuing to ensure timely access and accuracy of beneficial ownership information in our registry. In July 2023, the Uganda Registration Services Bureau enabled competent authorities' real-time access to the beneficial ownership registry, while also responding to manual information requests. We are also conducting ongoing reviews and have struck off 298,572 non-compliant or inactive companies as of August 2023. As a result of our efforts to date, beneficial ownership information is now available for over 98 percent of companies on the register. We will continue to implement these measures and hope to be compliant soon.

32. Our efforts to formulate policies and procedures to guide consistent implementation of supervisory sanctioning power have suffered some setbacks. The plan to adopt supervisory sanctions for non-compliance with AML/CFT requirements by banks provided under the Anti-Money Laundering (Amendment) Regulations 2023 (SB, end-March 2024) will have to be postponed to a later date. An IMF TA identified in August 2023 inconsistencies between the Anti-Money Laundering Act and the implementing regulations. We were thus advised to revise the Regulations ahead of developing supervisory sanctions' implementing policies and procedures. We have adopted an MoU between the BoU and the Financial Intelligence Authority outlining their respective responsibilities regarding sanctioning procedures for non-compliance with AML/CFT requirements that will guide us in the interim.

Financial Inclusion

33. We are implementing the National Financial Inclusion Strategy II, aligning with the NDPIII and supporting the PDM framework. Key priorities under our new strategy include:

- **Reducing financial exclusion and access barriers to formal financial services** by establishing more physical access points in underserved areas, promoting the uptake of digital financial services, and creating an enabling environment through effective policy and efficient financial infrastructure that fosters growth of formal accounts.

- **Deepening and broadening the usage of quality and affordable formal financial services by** providing subsidized credit through existing (e.g., Agricultural Credit Facility and the Emyooga program) and new credit facilities, advancing customer-centric business models and products, increasing usage of alternative collateral arrangement, and by developing efficient credit information markets.

- **Promoting gender inclusive finance** by developing and implementing gender-sensitive regulations and policies, offering tailored financial training and services, addressing socio-cultural barriers, and collecting gender-disaggregated data for monitoring progress.

- **Developing an inclusive green finance market** by enhancing awareness of green finance among financial service providers, industry stakeholders and consumers and promoting the uptake and usage of green finance products

- **Modernizing the financial infrastructure** by improving financial institutions' data sharing infrastructure for credit and by allowing financial institutions to accept movable collateral for lending. 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 obstacles to access. We have defined the ownership structure of data collected by Central Data Hub to which the CRBs will submit the credit information. The new structure was approved by the Board in January 2024. We are encouraging Tier 4 micro financial institutions to utilize CRB data to lower the lending rate of microcredit.

- **Promoting digital finance** by digitalizing government-to-person payments, strengthening consumer empowerment and confidence in digital financial services, and launching a national payment switch to improve digital finance efficiency and reduce the costs of digital financial services. 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 (SB, end-April 2024). This model has the unique ability to distribute income daily, allowing investors to pull out their investment at any time. We will utilize digital platforms to facilitate the registration, licensing, and regulation of Tier 4 micro financial institutions.

- **Strengthening consumer protection** by implementing a comprehensive consumer protection legal framework and designing the third strategy for financial literacy (2025–29). We will implement cybersecurity guidelines for Payment Service Providers which outline the minimum requirements that SFIs shall benchmark against in the development of their own customized cyber risk management frameworks (SB, end-April 2024).

Climate

34. We are committed to enhancing the economy's resilience to climate change. Uganda is prone to natural disasters that are becoming more frequent and impactful. The key sectors most affected include agriculture, water, infrastructure, and energy. We have updated the Nationally Determined Contributions with an expanded adaptation component, and the accreditation to the Green Climate Fund and the Adaptation Fund. We are working with development partners to scale-up capacity to leverage these accreditations to access financing. The main priorities are strengthening our water catchment ability and increasing forest coverage from 14 percent to 21 percent by 2030. We are also expanding our renewable energy generation capacity to achieve at least 3,200 MW of renewable electricity generation by 2030.

35. Our capacity to quantify fiscal risks from climate change was ramped up and the roadmap for operationalizing an effective climate-sensitive approach to public investment planning and implementation was clarified. Thanks to the recent IMF TA, we are able to integrate fiscal risks analysis and disclosure into our budgeting and public investment. The climate public investment management assessment (C-PIMA) underscored significant strengths in our institutional design of the PIM framework resulting from multiple reforms and measures implemented since 2015. Actions are being taken to strengthen its effectiveness and overall impact. Going forward, and in line with recommendations, we plan to: (i) update the project appraisal and selection framework to include an analysis of the impacts of climate change for both traditionally procured and PPP projects; (ii) strengthen information on climate-related spending by reviewed the tagging structure to ensure the budget codes allow to properly identify climate-related current and development expenditure; (iii) pool information on natural hazards across sectors and (iv) develop an asset register to determine risks to public infrastructure and inform the development of a disaster risk management strategy.

F. Other Program Modalities

36. We have continued to implement recommendations of the 2021 safeguards assessments. Two safeguards assessment recommendations on revising investment policy and guidelines and on follow-up of Internal Audit recommendations were closed. Given high currency printing costs, a report was prepared by the Statistics Department, leading to the Bank's decision to replace the low denomination banknotes of UGX1000 with coins fully. A roadmap was approved to guide this process. 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. The new BoU Board took office in July 2023 and will review and approve the proposed amendments to the Audit and Governance Committee of the Board Charter to require membership of only independent Board members in accordance with the Board resolution. The Internal Audit department continues to conduct periodic reviews of program monetary data submitted to the IMF following definitions in the Technical Memorandum of Understanding.

37. 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 May 10, 2024, we are conducting the mapping exercise to update boundaries, facilities, features, and households to establishing enumeration areas, with the help of community leaders. We are currently aligning the Balance of Payments with National Accounts by unifying definitions, extending the labor survey to quarterly frequency reporting, mapping forests, wetlands, and land use, which will feed into the Sustainable Development Goals.

38. 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 sixth review is scheduled to be completed on or after June 1, 2024, based on test dates for periodic performance criteria of end-March 2024.

Table 1. Uganda: Quantitative Performance Criteria

	2023											2024	
	End-Jun IT				End-Sept QPC				End-Dec IT			End-Mar QPC	
	Target	Adjusted target	Actual	Status	Target	Adjusted target	Actual	Status	Target under the 4th review	Actual	Status	Target under the 4th review	Revised target
Quantitative performance criteria													
Fiscal targets													
Primary budget balance of the central government (- = deficit; floor, in billions of USh) 1/	-3,435	-1,783	-4,108	Not met	-2,067	-1,798	1,459	Met	-2,740			-1,913	-2,112
Monetary targets													
Net claims on the government by the central bank (ceiling) 1/	-1,185		1,957	Not met	2,815		-1,276	Met	1,877	520	Met	806	662
Target for international reserves													
Stock of net international reserves (floor, in millions of US$) 2/	2,503	2,055	2,859	Met	2,687	2,685	2,689	Met	2,794	2,518	Not met*	2,844	2,725
Continuous PCs													
Stock of external payment arrears incurred or guaranteed by the public sector (ceiling)	0		0	Met	0		0	Met	0			0	0
PV of newly contracted external public and publicly guaranteed debt (ceiling, millions of US$) 1/	2,319		1,352	Met	3,522		453	Met	3,522			3,522	3,522
Monetary policy consultation clause													
Outer band (upper limit)	8				8				8			8	8
Inner band (upper limit)	7				7				7			7	7
Core inflation target 3/	5		7.4	Met	5		6.4	Met	5	4.7	Met	5	5
Inner band (lower limit)	3				3				3			3	3
Outer band (lower limit)	2				2				2			2	2
Indicative targets													
Support to vulnerable households (floor, billions of USh) 1/	226		221	Not met	81		30	Not met	163			191	191
Social spending (floor, billions of USh) 1/ 4/	6,847		6,850	Met	1,849		1,365	Not met	3,698			5,376	5,002
Tax revenues (floor, in billions of USh) 1/	23,458		23,733	Met	6,149		5,622	Not met	13,288			19,949	19,177
Repayment of outstanding domestic arrears (floor, in billions of USh) 1/	662		769	Met	100		100.4	Met	200			206	216

Note: The September 2023 and March 2024 PCs are for the 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.

* Preliminary assessment.

1/ PCs are cumulative flows (i) from July 1, 2022 to 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

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).

Table 2. Uganda: Structural Benchmarks between June 2023 and June 2024

Measures	Rationale	Deadline	Status	Comments
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.
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	Not met	Completed with a delay (January 2024) owing to the backlog the Board had to attend to.

Table 2. Uganda: Structural Benchmarks Between June 2023 and June 2024 (continued)

Measures	Rationale	Deadline	Status	Comments
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	Not met	Reformulated and elevated as a prior action.
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 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	Met	The assessment report and annual report for FY2022/23 are published.
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	Not met	In progress.
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	Met	Budget Information - Ministry of Education and Sports

Table 2. Uganda: Structural Benchmarks Between June 2023 and June 2024 (concluded)				
Measures	**Rationale**	**Deadline**	**Status**	**Comments**
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	On track	
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 noncompliance with AML/CFT requirements by banks.	Strengthen financial sector governance and financial stability	End-March 2024	Fund staff proposes to drop this SB	An IMF TA identified inconsistencies between the AMLA and the implementing regulations which needed to be addressed first.
Operationalize a BoU platform, with requisite safeguards, that enables the purchase of government securities using mobile money.	Promote financial inclusion	End-April 2024	In progress	Procurement of the system vendor was completed in June, and system development has started.
Develop and implement cybersecurity guidelines for financial services.	Strengthen financial stability	End-April 2024	On track	Draft cybersecurity guidelines were reviewed internally in October 2023. Draft will be sent to MCM department for review.
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	On track	

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

Table 3. Uganda: Prior Actions and Proposed New Structural Benchmark

Measures	Rationale	Deadline
In consultation with IMF staff, a review of regulations to the PFM Act to include and operationalize a definition of BoU advances to government inclusive of redemption of securities and its passage.	Enhance BoU governance and independence	A prior action for the completion of the 5th review. We adopted the necessary PFM regulations on February 12, 2024.
Identify expenditure and revenue measures to be implemented as needed during the FY2023/24 year to reach the primary budget deficit target.	Ensure a credible fiscal adjustment to strengthen fiscal and debt sustainability	A prior action for the completion of the 5th review. We have identified contingency measures worth 0.5 percent of GDP that include postponing or putting on hold non-priority spending, both current (new recruitment, travel, workshops) and capital (incl. recapitalization of the Uganda Deposit Corporation and the Uganda Development Bank).
Finalization and approval of the Cash Management Framework by the MOFPED Permanent Secretary / Secretary to the Treasury.	Improve budgetary planning and execution	A prior action for the completion of the 5th review. In consultation with FAD experts, we finalized the Cash Management Framework on January 22, 2024. Please see the following link: CASH MANAGEMENT FRAMEWORK | Ministry of Finance, Planning and Economic Development
Ahead of the adoption of supplementary budgets by the Parliament, the authorities will share an assessment of the fiscal cost, financing sources, debt impact, revenue measures and any relevant data/information with IMF staff.	Improve budgetary execution	A continuous structural benchmark.

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 27, 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-November 2023)[1]

US Dollar (US$)	1.00000
Australian Dollar/US$	1.51400
Canadian Dollar/US$	1.35610
Euro/US$	0.91844
British Pound/US$	0.79214
US$/Japanese Yen	0.00675
US$/Ugandan Shilling	0.00026
US$/SDR	1.33329

1/ For the currencies not listed in this table, the cross-exchange rates to the U.S. dollar at end-Nov 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 27, 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 BoU 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 into 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 into 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 IMF Executive Board Decision No. 16919-(20/103), adopted October 28, 2020 (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 nonresidents, 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 2. Uganda: Schedule A: Budget Support[1]
(UGX. billions)

	2023							2024
	End-Mar		End-Jun		End-Sep		End-Dec	
	2nd-3rd Review Target	Actual	Target	Actual	4th Review Target	Actual	4th Review Target	End-Mar
Budget support grants	58	28	77	32	8	0	32	44
Budget support loans	3,041	1,415	4,128	2,515	0	0	34	363

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, and end-March 2024.

Text Table 3. Uganda: Schedule B: Recapitalization of the Bank of Uganda[1]
(UGX. billions)

	2023							2024
	End-Mar		End-Jun		End-Sep		End-Dec	
	2nd-3rd Review Target	Actual	Target	Actual	4th Review Target	Actual	4th Review Target	End-Mar
Recapitalization of BoU	0	0	0	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, and end-March 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 4. Uganda: Schedule C: External Financing Tied to Projects[1]

(UGX. billions)

	2023							2024
	End-Mar		End-Jun		End-Sep		End-Dec	
	2nd-3rd Review Target	Actual	Target	Actual	4th Review Target	Actual	4th Review Target	End-Mar
Project loans	2,987	1,811	3,937	2,330	1,309	1,049	3,488	2,820

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, and end-March 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 5. Uganda: Schedule E: Direct Support to Vulnerable Households Under SAGE and Emyooga[1]

(UGX. billions)

	2023							2024
	End-Mar		End-Jun		End-Sep		End-Dec	
	2nd-3rd Review Target	Actual	Target	Actual	4th Review Target	Actual	4th Review Target	End-Mar
DSSI relief	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, and end-March 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 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 non concessional 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**	**Submission 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:

Text Table 6. Uganda: Number of Leaders Who Did Not Timely Submit Asset Declaration		
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		
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

Text Table 7. 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.

Statement by Mr. Willie Nakunyada and Ms. Gonaya Basutli
on Uganda
March 6, 2024

Introduction

1. Our Ugandan authorities appreciate the candid dialogue with staff during the fifth review under the Extended Credit Facility (ECF) arrangement. They broadly share staff's appraisal and policy priorities.

2. The post-pandemic growth recovery in Uganda continues to firm up, despite headwinds from conflict spillovers and tight global financial conditions. The recovery has benefitted from the decisive disinflation efforts that enhanced business and investor confidence. More importantly, the authorities view the ECF as a key policy anchor whose priorities are well aligned with the objectives of the Third National Development Plan (2021–2025). Accordingly, they are pressing ahead with the implementation of a congruent package of reform measures geared to entrench price stability and maintain fiscal and debt sustainability while strengthening support to vulnerable households. At the same time, they have advanced structural reforms to enhance resilience to shocks, promote private sector development, and ensure an inclusive and durable growth. Against this background, the authorities' performance under the ECF program has remained broadly satisfactory.

Program Performance

3. All Quantitative Performance Criteria (QPCs) for September 2023 and seven out of ten Indicative Targets (ITs) for end-June 2023 were met. Preliminary data for December indicates that the IT for net credit to government (NCG) and inflation were met but the IT for net international reserves (NIR) was missed.

4. Five out of seven structural benchmarks (SBs) falling due between June and December 2023 were met; two were met well-ahead of the deadline, two on time and one with a delay. Of the remaining two SBs, the authorities are making notable progress on adopting amendments to the Financial Institutions Regulations and the other (amendment of the Bank of Uganda Act) was transformed into a prior action, which the authorities have since met. There were three corrective actions prescribed for the fifth ECF review,

including identifying fiscal contingency measures for FY23/24 and finalizing the cash management framework. All prior actions have been met. In view of the satisfactory program performance and corrective measures to address outstanding SBs, our authorities seek Executive Directors' support in completing the fifth review under the ECF arrangement, and associated request for modifications.

Recent Economic Developments and Outlook

5. Real GDP firmed up from 4.6 percent in 2021/22 to 5.2 percent in 2022/23, reflecting better performance in agriculture, service, and industrial sectors. Furthermore, growth is projected to accelerate further to 6 percent in 2023/24, on the back of positive domestic factors, including favorable weather conditions, investments in the oil sector and progress on implementation of the Parish Development Model, which is expected to bear fruit. Going forward, medium-term growth projections are brighter with a return to the pre-pandemic growth levels of 6 -7 percent, buoyed by the onset of oil production, expected to commence in 2025, improved business confidence, more efficient and productive government spending, and higher private sector participation. Meanwhile, headline inflation declined significantly, from 10.2 percent in December 2022 to 2.4 percent in October 2023, before increasing slightly to 2.8 percent in January 2024. The deceleration in inflation was mainly driven by moderating food prices, tight monetary conditions, and a relatively stable exchange rate.

6. The current account deficit remained elevated, at 8.3 percent of GDP in 2022/23, reflecting oil related FDI imports that outweighed export earnings. Furthermore, elevated government debt service and limited inflows continue to weigh on foreign exchange reserves accumulation. As a result, international reserves declined to 3.1 months of imports in December 2023, lower than the EAC target of 4.5 months of imports.

Fiscal Policy and Debt Management

7. The authorities remain committed to fiscal consolidation efforts aimed to ensure fiscal and debt sustainability. As such, they consider their fiscal adjustment efforts as a central pillar of their ECF-supported program. In that vein, they remain committed to the implementation of their Domestic Revenue Mobilization Strategy (DRMS) and envisage an increase of 0.6 percentage points increase in their tax revenue/GDP ratio relative to the previous fiscal year. This largely reflects the positive effects of their tax exemptions rationalization and tax administration measures. The authorities also aim to improve the income tax system and excise duty regime, as well as strengthen VAT productivity through the medium-term strategy. In this regard, they continue to count on Fund TA to enhance the customs administration of the extractive industries sector prior to the beginning of oil production.

8. The authorities also attach a high premium on enhancing expenditure prioritization, particularly as a backstop, should revenue shortfalls materialize. To prevent fiscal slippages, they plan to reduce the share of expenditure in GDP compared to FY2022/23 but are determined to maintain the ratio of social spending to total expenditure. While they work to continuously increase priority social spending, their efforts remain challenged by attendant absorptive capacity constraints in social sectors including health and education. To address this, the authorities will conduct deeper diagnostics and enlist

Fund TA support as needed. Furthermore, to better-target social support, the authorities are expanding the national identification database and unifying the national registry of all social assistance program.

9. The authorities' medium-term fiscal strategy prioritizes strengthening public financial management. In this regard, they will direct their efforts towards improving the budget preparation process, while reducing the outstanding stock of domestic arrears and strengthening cash management practices. In this connection, the Cash Management Framework was approved and finalized as a prior action for this review. Our authorities also plan to strengthen performance, accounting, and utilization of fixed and financial assets; and improve public investment management.

10. To maintain debt sustainability, the authorities are pressing ahead with implementing their new debt and public investment financing strategies. Alongside efforts to broaden the scope of potential creditors and financing sources for concessional funding, they have introduced a Public Investment Finance Strategy to support their quest for additional donor financing. The key elements of 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.

Monetary and Exchange Rate Policies

11. The Bank of Uganda (BoU) attaches prominence to the achievement of medium-term price stability. As such, they continue to monitor price developments and stand ready to make appropriate monetary policy adjustments, while adhering to the inflation consultation clause as a key pillar of the ECF program. Their concerted efforts to bring inflation down through a tight monetary policy stance have yielded fruit, with inflation now firmly below the target. The central bank is also enhancing their forecasting and policy analysis system (FPAS) capability to guide monetary policy formulation.

12. The authorities are committed to maintaining the reserve cover at adequate levels and strengthening reserves over time towards the program target of 4 months of import cover. Furthermore, they remain committed to allow exchange rate flexibility to absorb external shocks and would confine interventions to addressing disorderly market conditions. Thus far, the authorities have refrained from intervening in the forex market, including in the aftermath of the fallout from the Anti-Homosexual Act (AHA) and associated pressures.

Financial Sector Policies

13. The banking sector demonstrated remarkable resilience to shocks, reflecting the ample capital and liquidity buffers. Nevertheless, the authorities remain attentive to emerging pockets of vulnerabilities. In that regard, they place a high premium on enhancing macroprudential regulation. Thus far, the BoU has fully implemented Basel II principles and some aspects of Basel III in line with the evolution of the banking sector. At the same time, the authorities are pressing ahead with supervisory and governance reforms, prioritizing adoption of new regulations on corporate governance to address identified weaknesses and mitigate financial stability risks. They also continue to strengthen their stress testing capabilities, benefitting from Fund TA. Additionally, they are closely monitoring the sovereign-bank nexus as well as corporate and households' balance sheets

to assess the extent of credit and concentration risks faced by the financial system. At the same time, they are evaluating new risks arising from tightening global financial conditions and higher energy and commodity prices.

14. The authorities' efforts to complete all the actions agreed under the FATF's International Cooperation Review Group action plan to facilitate the exit from the FATF's grey list have paid dividends. Consequently, Uganda exited the FATF grey list in February 2024. That said, the authorities continue with efforts to further strengthen the AML/CFT regime.

Structural Reforms and Governance

15. Structural reform efforts remain focused on generating higher and more inclusive growth, through enhanced private sector participation and human capital development, while addressing governance concerns and corruption. To this end, the authorities continue to prioritize governance reforms to support private sector development. Further, they seek to advance governance and anti-corruption policies by, among others, strengthening Bank of Uganda's governance and autonomy. Additionally, by enhancing transparency in the implementation of the asset declaration regime, the authorities are building further public trust in the regime and plan to intensify efforts aimed to improve good governance and tackle corruption, in line with the strategic objectives provided under the National Anti-Corruption Strategy (NACS) 2019–2024. Further, as part of their commitment to the Extractive Industries Transparency Initiative (EITI), the authorities will disclose contracts and licenses for oil and gas production and beneficial owners of corporate entities that hold a legal interest. They released the second EITI report in June 2023 and seek to address data gaps going forward.

16. To further encourage private sector activity, the authorities plan to continue to improve the business environment and boost financial inclusion. Under their National Financial Inclusion Strategy II, they have identified key focus areas, including reducing financial exclusion and barriers to access formal financial services; deeper and broader usage of quality and affordable formal financial services and promoting gender inclusive finance. Moreover, by entrenching awareness of green finance among service providers, they are promoting an inclusive green finance market. The authorities also aim to modernize the financial infrastructure and have established a Central Data Hub for credit information. They have also identified measures to promote digital finance, including by digitalizing government-to person payments and launching a national payments switch to improve efficiency and reduce costs associated with digital finance.

17. To bolster the economy's resilience to shocks, the authorities are attaching importance to climate adaptation and mitigation efforts. They have expanded the adaptation component of their Nationally Determined Contributions and are working with development partners to secure additional funding, following accreditation with the Green Climate Fund and Adaptation Fund. Benefiting from technical assistance from the Fund, they are now able to integrate fiscal risks analysis and disclosure into their budgeting and public investment and will continue to implement other recommendations.

Conclusion

18. Our Ugandan authorities remain committed to the program's objectives designed to ensure macroeconomic stability and support sustainable growth and an inclusive recovery. They greatly appreciate Fund policy and technical support, which they view as instrumental in the achievement of program objectives. In this regard, they look forward to Executive Directors support in completion of the fifth review under the ECF arrangement.