INTERNATIONAL MONETARY FUND

IMF Country Report No. 19/125

UGANDA

May 2019

2019 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR UGANDA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2019 Article IV consultation with Uganda, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its May 1, 2019 consideration of the staff report that concluded the Article IV consultation with Uganda.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 1, 2019, following discussions that ended on February 12, 2019, with the officials of Uganda on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on April 16, 2019.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staff of the IMF and International Development Association (IDA).
- A **Statement by the Executive Director** for Uganda.

The documents listed below have been or will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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COMMUNICATIONS DEPARTMENT

Press Release No. 19/148
FOR IMMEDIATE RELEASE
May 9, 2019

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700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2019 Article IV Consultation with Uganda

On May 1, 2019, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Uganda.

Uganda needs to create over 600,000 jobs per year to match annual population growth of over 3 percent. After two decades of formidable gains on poverty reduction, progress has stalled in the last available household survey for 2016/17. Growth needs to become more inclusive again, and prospects are closely linked to the growth dividend from public investment and investments in human capital.

Uganda's economy continues its recovery. The economy grew by 6.1 percent in FY17/18, with a strong services sector and a rebound in agriculture from the previous year's drought. Investor surveys suggest that business conditions and sentiment are strong, while credit to the private sector has improved, helped by an accommodative monetary policy stance. Growth could reach 6.3 percent in FY18/19, though slow rainfalls and regional tensions are a risk to the outlook. Over the medium term, growth could range from 6 to 7 percent if infrastructure and oil sector investments proceed as planned.

Macroeconomic policies are supportive of economic activity. The government continues its policy of scaling up infrastructure investment. Investment reached 8.9 percent of GDP in FY17/18 and is envisaged to increase further this year and next. As a result, public debt grew further to 41.3 percent of GDP at end-FY17/18. Headline inflation stood at 3 percent and core inflation at 4.6 percent year-on-year in March. The monetary policy stand remains accommodative, even with the 100 bps policy rate increase last October that ended the previous easing cycle. Inflation is projected to converge to Bank of Uganda's 5 percent target over the next 1½ years mainly driven by food prices and fiscal spending.

Vulnerabilities are increasing. Uganda remains at low risk of debt distress, even though debt metrics have deteriorated and one in five Ugandan shillings collected in revenue will be spent on interest in FY19/20. The current account deficit widened to 6.1 percent of GDP in FY17/18,

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

(continued…)

somewhat weaker than desirable. With gross international reserves of $3.4 billion (4.2 months of next year's imports) at end-February, Uganda has a sound buffer against external shocks. The main risks to the outlook are unfavorable weather conditions, domestic and regional political tensions, and further delays in the start of oil production.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They commended Uganda's macroeconomic performance and development gains over the last three decades, including halving its poverty rate. Noting Uganda's growing population and job creation needs, Directors encouraged further progress towards poverty reduction and shared prosperity, through strong macroeconomic policies, human capital development, and improvements in institutions and governance with continued IMF capacity development support.

Directors welcomed the authorities' intention to develop a fiscal rule to manage future oil revenues and encouraged the authorities to consider adopting an interim debt ceiling to guide fiscal policy. Directors also stressed the need to improve fiscal policy formulation and implementation including through a more binding approach to the annual budget process and encouraged the authorities to promptly adopt and implement the Domestic Revenue Mobilization Strategy given Uganda's still low revenue collection.

Directors noted that a more balanced expenditure composition between infrastructure and social development (especially for the youth, women and low-skilled workers) would better support inclusive growth and highlighted the need for spending prioritization, addressing domestic arrears and continued efforts to strengthen public finance and investment management practices.

While Uganda's debt level remains at low risk of debt distress, Directors cautioned that debt metrics had weakened, some investment projects may not generate the envisaged return, and interest payments are rising. Directors thus called on the authorities to keep debt below 50 percent of GDP in nominal terms over the medium term to safeguard the hard-earned favorable debt sustainability rating.

Directors agreed that inflation targeting continues to serve Uganda well under the central bank's stewardship. They indicated that monetary policy could remain supportive for now and agreed on building reserves opportunistically under a flexible exchange rate regime given external vulnerabilities. Directors also urged the authorities to strengthen the Bank of Uganda's financial position through recapitalization and expenditure measures.

[2] 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.

Directors concurred that bank supervision and regulation are generally sound and noted the importance of a more favorable business environment and greater access to finance for a private sector-led growth.

Finally, Directors welcomed the improvements in Uganda’s compliance with the AML/CFT standards and its decision to begin accession to the Extractive Industries Transparency Initiative. They called for further efforts to strengthen governance and reduce corruption, including addressing weak implementation of the relevant legal framework.

Uganda: Selected Economic and Financial Indicators, FY2016/17–2023/24[1]

	2016/17	2017/18 Est.	2018/19 Proj.	2019/20 Proj.	2020/21 Proj.	2021/22 Proj.	2022/23 Proj.	2023/24 Proj.
	(Annual percentage change, unless otherwise indicated)							
Output, prices, and exchange rate								
Real GDP	3.9	6.1	6.3	6.3	6.2	6.1	6.0	6.6
GDP deflator	6.3	3.3	3.0	4.2	5.2	5.2	4.9	4.9
CPI (period average)	5.7	3.4	3.2	4.0	4.8	5.0	5.0	5.0
Core inflation (end of period)	5.1	2.7	3.9	4.8	4.9	5.0	5.0	5.0
Terms of trade ("-"= deterioration)	0.0	0.7	-2.7	1.1	0.5	0.3	0.5	0.2
Exchange Rate (Ugandan Shilling/US$)[2]	2.5	3.0	1.3	…	…	…	…	…
Real effective exchange rate ("-"= depreciation)[2]	-1.4	-2.8	-1.2	…	…	…	…	…
Money and credit								
M3/GDP (percent)	21.7	22.4	23.1	23.6	24.1	24.8	25.3	26.0
Credit to non-government sector	5.7	10.5	13.6	11.2	10.2	13.7	13.0	10.4
Bank of Uganda policy rate[2]	10.0	9.0	10.0	…	…	…	…	…
NPLs (percent of total loans)[2]	6.2	4.4	4.7	…	…	…	…	…
	(Percent of GDP, unless otherwise indicated)							
General government budget								
Revenue and grants	15.2	15.3	16.1	17.6	17.5	17.6	17.9	19.0
of which: grants	1.0	0.8	1.1	1.6	1.2	0.9	0.7	0.6
Expenditure	19.0	20.1	21.5	24.8	24.9	23.6	21.9	22.5
Current	10.9	10.9	11.5	12.0	12.5	12.3	12.2	12.6
Capital[3]	7.8	8.9	9.6	12.1	11.9	10.8	9.3	9.5
Overall balance	-3.5	-5.0	-5.4	-7.2	-7.4	-6.0	-4.0	-3.6
Public debt								
Public gross nominal debt	38.0	41.3	42.2	45.7	49.0	50.7	50.4	49.7
of which: external public debt	24.3	27.8	27.7	29.9	32.2	33.9	33.8	33.5
Investment and savings								
Investment	24.4	25.8	26.9	29.5	29.8	29.0	27.0	26.9
Public	7.8	8.9	9.6	12.1	11.9	10.8	9.3	9.5
Private	16.6	16.9	17.3	17.5	17.9	18.2	17.7	17.3
Savings	20.5	19.5	18.9	19.8	19.6	19.6	19.7	21.9
Public	3.2	3.6	3.4	4.0	3.9	4.4	4.9	5.7
Private	17.3	15.8	15.5	15.8	15.7	15.2	14.7	16.2
External sector								
Current account balance (incl. grants)	-3.7	-6.1	-7.2	-8.9	-9.6	-8.9	-7.0	-4.7
Exports (goods and services)	19.0	19.5	19.3	19.1	19.1	19.0	19.0	20.5
Imports (goods and services)	25.9	28.7	29.6	30.5	30.5	29.2	27.0	26.2
Gross international reserves								
In billions of US$	3.4	3.2	3.3	3.5	3.7	4.0	4.2	4.6
In months of next year imports	5.2	4.5	4.1	4.0	4.0	4.2	4.3	4.6
Memorandum items:								
GDP at current market prices								
Ush. billion	91,718	100,531	110,048	121,892	136,159	151,942	168,955	188,940
US$ million	26.0	27.5	…	…	…	…	…	…
GDP per capita (Nominal US$)	704	724	742	784	840	888	935	991
Population (million)	36.9	37.8	…	…	…	…	…	…

Sources: Ugandan authorities and IMF staff estimates and projections.

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

[2] Latest available data as of April 16, 2019.

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

INTERNATIONAL MONETARY FUND

UGANDA

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION

April 16, 2019

KEY ISSUES

Context. This is Uganda's first stand-alone Article IV consultation after an extended period of program engagements. During this time, Uganda has made impressive development gains and achieved the Millennium Development Goal on halving poverty ahead of schedule. Going forward, Uganda must create over 600,000 jobs per year to keep up with its growing population, while making further progress on poverty reduction and the Sustainable Development Goals.

Outlook and risks. The authorities' development strategy centers on infrastructure and a nascent oil sector. If investments proceed as planned, growth could range between 6 and 7 percent over the next five years (3 to 4 percent in per-capita terms). Investments would contribute to rising public debt and a widening current account deficit until oil production starts. Risks to the outlook are tilted to the downside, including from weather-related shocks, the regional security situation, shocks from the global economic environment, and the political and security situation in the run-up to the 2021 general elections.

Key Policy Recommendations.

- Adopt an effective fiscal anchor and strengthen the budget process to become more binding for fiscal outcomes. Consider setting a debt ceiling of 50 percent of GDP supported by an overall fiscal deficit target, while developing a fiscal rule for managing oil revenues.
- Finalize and implement with the FY19/20 budget the Domestic Revenue Mobilization Strategy aimed at raising ½ percent of GDP annually over five years.
- Support human capital development and make growth more inclusive by improving the efficiency of public services and providing adequate budget allocations for social sectors.
- Maintain inflation targeting and flexible exchange rate regimes. Continue purchasing reserves opportunistically as a buffer against heightened external vulnerabilities.
- Strengthen implementation and institutions of the governance and anti-corruption framework. Ensure that the Anti-Money Laundering / Countering the Financing of Terrorism regime is brought in line with international standards.

Approved By
Annalisa Fedelino and Vitaliy Kramarenko

Mission dates: January 29—February 12, 2019.
Staff team: A. Schimmelpfennig (head), A. Abdychev, A. Toure, A. Viseth (all AFR), and K. Wang (SPR). C. Mira (resident representative) and L. Samula (local economist) also participated.
Ms. G. Gasasira-Manzi (OED) joined the mission. M. Attey, J. Delcambre, and Y. Kalfa provided administrative and research support.
The mission met with Minister Kasaija, Permanent Secretary and Secretary to the Treasury Muhakanizi, Governor Tumusiime-Mutebile, Deputy Governor Kasekende, senior government officials, financial sector regulators, representatives of civil society, the private sector, academia, and development partners.

CONTENTS

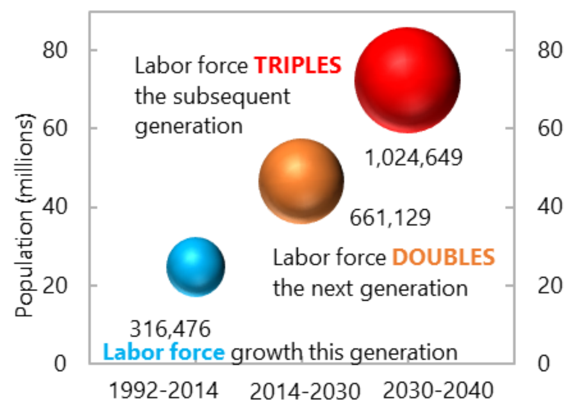
TABLES

ANNEXES

CONTEXT

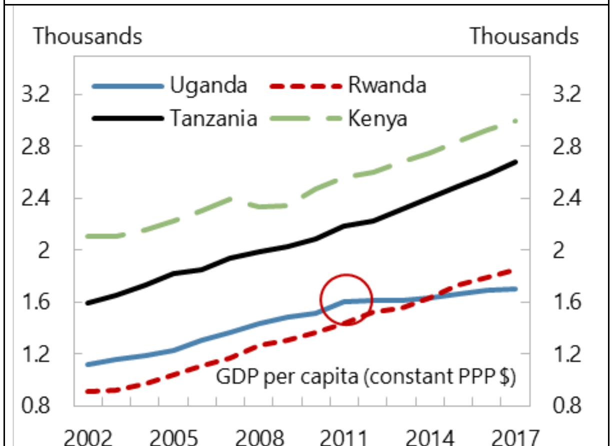
1. **Uganda must create over 600,000 jobs per year, given its rapidly growing population.** The authorities' development strategy continues to focus on agriculture, industrialization, tourism, and developing Uganda's nascent oil sector to secure high rates of growth. To that end, Uganda embarked on scaling up infrastructure investment, starting in FY2012/13.[1] The Karuma and Isimba power generation projects are about to be completed, some newly constructed major roads are operational, and investment for the oil sector is about to ramp up. At the same time, after growing faster than peers, Uganda's trend growth slowed around 2011. As a result, the poverty rate nudged up to 21 percent—from 19 percent in 2012/13 (national definition, US$1/day), after impressive progress on poverty reduction over the previous two decades. A growth recovery is now under way.[2] Reform implementation from the last Policy Support Instrument (PSI) and the 2017 Article IV consultations has been slow (Box 1).

Text Figure 1. Population Growth Pushes Demand for New Jobs



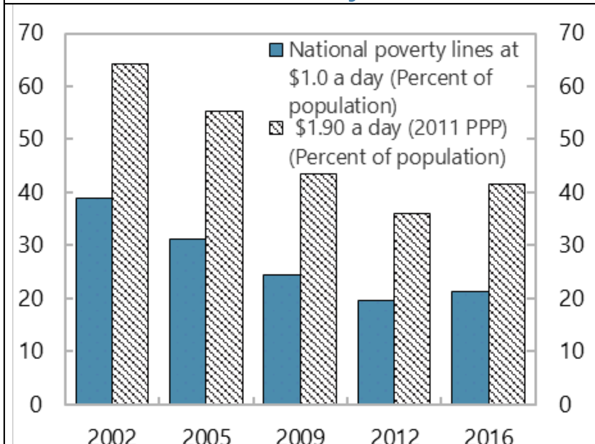
Source: World Bank Uganda Jobs Diagnostic and Strategy

Text Figure 2. Per Capita Real Growth Slowed



Source: World Development Indicators.

Text Figure 3. Poverty Has Picked up Recently



Source: World Development Indicators.

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[1] The fiscal year runs July–June.

[2] 600,000 jobs per year would keep the employment rate broadly unchanged. The poverty impact depends on how inclusive growth is.

Box 1. The Authorities' Response to the 2017 Article IV Recommendations

Fiscal policy. Public debt is projected to peak at 50.7 percent of GDP, compared to 42 percent of GDP in the 2017 Article IV consultations. The authorities raised domestic revenue by 0.3 percent of GDP in FY17/18, lower than the targeted ½ percent. Government is finalizing their domestic revenue mobilization strategy aimed at increasing revenue by 2.5 percent of GDP over five years. The authorities have started the cleanup of the public investment database. The domestic arrears strategy has been adopted, though accumulation of new arrears remains an issue.

Monetary and exchange rate policy. BoU effectively implemented its inflation targeting framework, with inflation in the target range. Uganda maintains a flexible exchange rate regime.

Financial sector. The authorities made progress in strengthening financial sector oversight and supervision. Work is ongoing to bring mobile money providers under BoU's supervision and regulation.

Governance. Uganda made progress in bringing its Anti-Money Laundering / Countering the Financing of Terrorism (AML/CFT) framework in line with international standards, and the Financial Action Task Force (FATF) removed Uganda from its "grey" list in 2017.

2. **The 2021 general elections are casting an early shadow.** Parliament adopted a constitutional amendment to remove the presidential age limit, paving the way for President Museveni to seek reelection in 2021. Youth unemployment and a weakening of the security situation have become important topics in the national debate. Opposition demonstrations have picked up, increasingly driven by the youth and new leaders. Protests have been met with a firm security response. Government spending is likely to be ratcheted up in the context of the next election. Uganda hosts over a million refugees from neighboring countries—the financing of the aid operation was marred by a corruption scandal in 2018.

3. **IMF capacity development (CD) supports the authorities' development strategy and macroeconomic management.** In the fiscal sector, CD focuses on public financial and investment management in the context of infrastructure investment scaling up and domestic arrears prevention. The IMF, with other development partners, supports the authorities' Domestic Revenue Mobilization Strategy, a key pillar for safeguarding debt sustainability, and provides advice on the fiscal regime and a fiscal rule for future oil revenues. In the monetary sector, the IMF continues to support Bank of Uganda (BoU) in strengthening its inflation targeting framework. In the financial sector, CD focuses on BoU's stress testing capacity and bank supervision. CD will continue assisting the authorities to improve national accounts, price statistics, government finance and national accounts statistics.

RECENT ECONOMIC DEVELOPMENTS

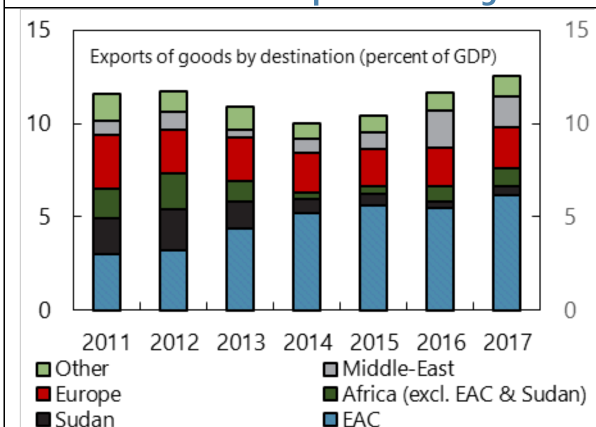
4. **Uganda's economy maintains momentum, while inflation is subdued.** The economy grew by 6.1 percent in FY17/18, with a strong services sector and a rebound in agriculture from the previous year's drought. Investor surveys suggest that business conditions and sentiment are strong. Credit to the private sector has improved, helped by an accommodative monetary policy stance. Headline inflation stood at 3 percent year-on-year in February—core inflation was

3.7 percent, below the BoU's target of 5 percent. Low food and energy price inflation, the decline in international oil prices, and a stronger exchange rate have been the main drivers.

5. **The fiscal deficit widened to 5 percent of GDP in FY17/18, driven by public investments.** Infrastructure investments increased by 1 percent of GDP, despite the chronic under-execution of externally-financed projects. Current expenditure exceeded the original budget. Although revenue collection increased by 0.4 percent of GDP, it fell short of the authorities' objective of ½ percent of GDP. External financing came mostly from concessional and non-concessional sources for public investment projects. Public debt increased by 4 percentage points to 41 percent of GDP.

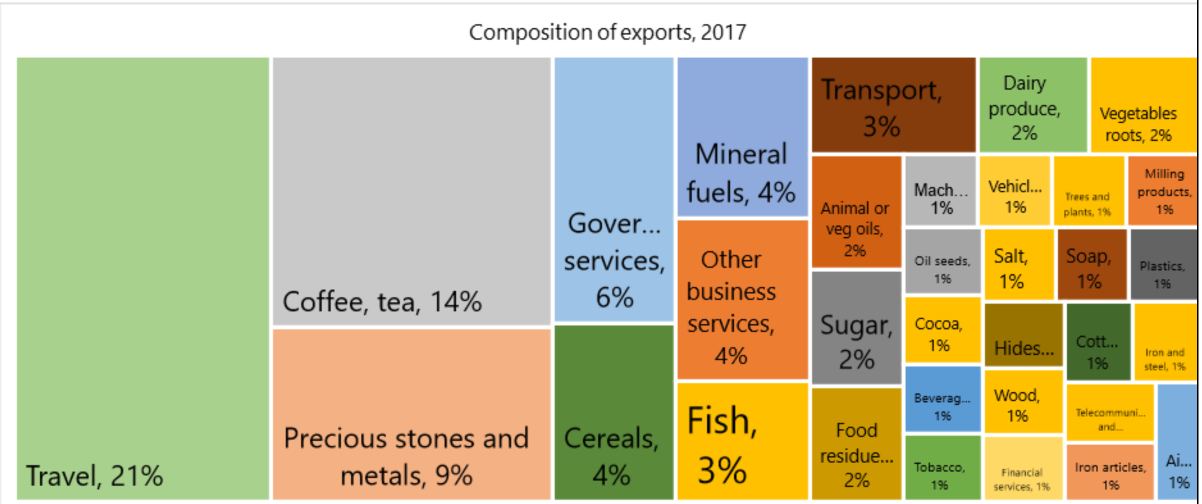
6. **The current account deficit has also increased to 6.1 percent of GDP in FY17/18.** Imports of goods and services grew by 17 percent—largely on account of capital goods related to the infrastructure projects. This outweighed the 9-percent growth of exports. Uganda has a diversified export base with predominantly regional export destinations. In FY18/19, the current account deficit is expected to further widen to 7.2 percent of GDP mostly due to increased imports of capital goods for public investment projects, oil projects, and FDI. International reserves stood at US3.2 billion at end-FY17/18—a decline by US$210 million—and are expected to remain stable at 4 months of imports in FY18/19.

Text Figure 4. Weight of Neighboring Countries in Exports is Rising



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

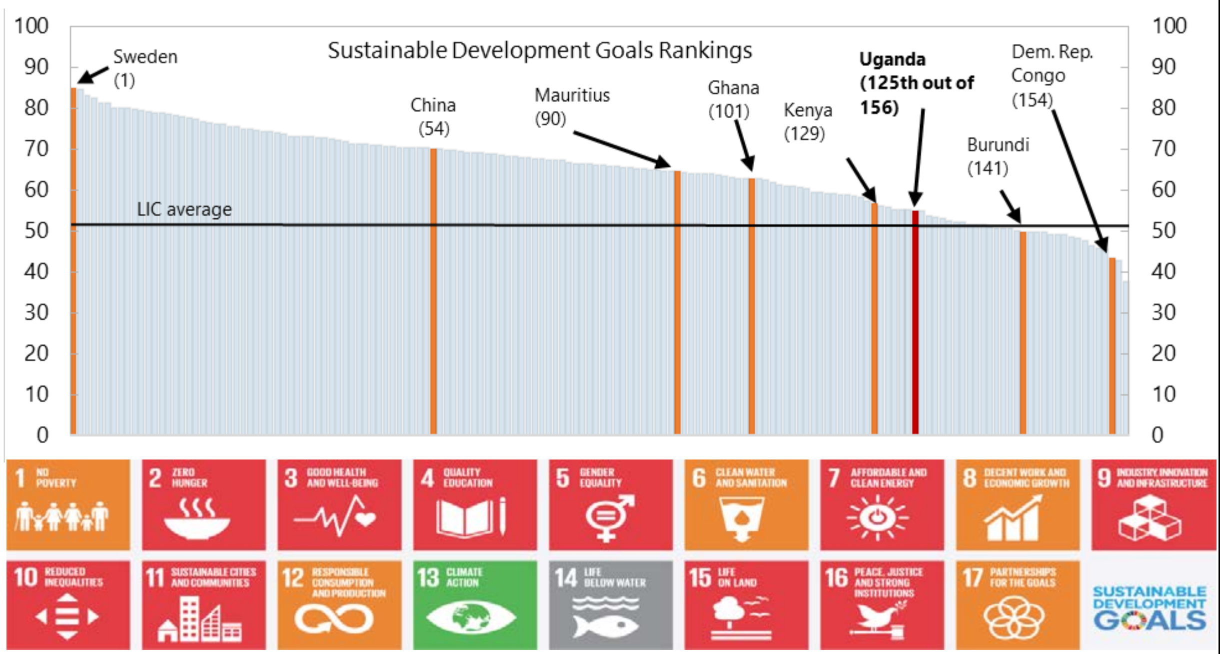
Text Figure 5. Exports are Well Diversified



Source: Bank of Uganda, and IMF staff calculations.

7. **Progress on social indicators has been mixed.** Uganda ranks 125 out of 156 countries in the UN Sustainable Development Goals index. On the positive side, child and maternal mortality rates have been reduced, and literacy and numeracy improved until 2010, but have stagnated since. Primary education completion rates have declined. After two decades of formidable gains, poverty reduction has stalled in the four years to the 2016/17 household survey. About 70 percent of the population depends on agriculture which registered negative per-capita growth over the same period. Women, the youth, and workers with limited skills struggle to find permanent employment in the formal sector.[3]

Text Figure 6. Uganda Ranks Low on SDG Progress



Green: Strong progress Orange: Moderate progress Red: Little progress

Source: Bertelsmann Stiftung and Sustainable Development Solutions Network.

POLICY DISCUSSIONS—SUPPORTING INCLUSIVE GROWTH AND STABILITY

8. **The 2019 Article IV consultation centered on Uganda's development strategy and what it takes to make growth more inclusive.** In the fiscal area, discussions focused on supporting inclusive growth through improved quality and composition of spending, while limiting debt vulnerabilities and continuing with domestic revenue mobilization. In the monetary area, discussions emphasized safeguarding BoU's independence and effectiveness, including through recapitalization and improving its profits and loss position. In the macro-financial area, discussions

[3] See Selected Issues Paper.

reviewed options for the financial sector to better support growth, while safeguarding stability and eliminating negative spillovers from fiscal policy. Lastly, the consultations engaged on how governance and anti-corruption efforts can better support economic development. The projections broadly reflect the authorities' policy intentions with additional staff refinements to account for public investment implementation capacity and a more conservative estimate of the revenue measures.

A. Outlook and Risks

9. **Macroeconomic policies in FY18/19 remain supportive.** FY18/19 growth is projected at 6.3 percent, with manufacturing, services and construction continuing to expand, while the base effect in agriculture fades. Inflation is expected to accelerate over the next 12-18 months mainly driven by food prices and fiscal spending, converging to BoU's 5 percent core inflation target. Fiscal expansion reflects a further increase in investment. Monetary policy also remains accommodative. The macroeconomic policy mix and stance are broadly appropriate. A further loosening could contribute to external vulnerabilities.

10. **Medium-term prospects are favorable, if infrastructure and oil sector investments proceed as planned.** Over the next 5 years, growth could reach up to 7 percent, supported by infrastructure and oil sector investments. Key decisions for the oil sector are expected for the second half of 2019 and would unlock public and private sector investment in the oil sector (Box 2). These investments would raise the budget deficit, public debt, and the current account deficit, until oil production commences. In addition, enhancing the business environment would facilitate the envisaged private-sector growth and diversification of the economy.[4]

Box 2. Uganda's Nascent Oil Sector

Uganda has approximately 1.7 billion barrels of recoverable oil reserves, the fourth largest in Sub-Saharan Africa, with ongoing exploration works for additional reserves. Oil production is projected to begin in 2023 and last for over 25 years. The government expects to receive between ½ percent to 4 percent of GDP in oil related revenue per year during this period. The Petroleum Regulatory Authority oversees the oil sector, while the Public Financial Management Act of 2015 requires all oil revenue to be deposited in a Petroleum Fund.

The project has three parts.

- Upstream oil extraction will be carried out by a joint venture between Total, Tullow, China National Offshore Oil Corporation (CNOOC), and Uganda National Oil Company (UNOC), a state-owned enterprise. The estimated development costs are US$10 billion.

- 1/3 of oil production will be exported via a pipeline to the port of Tanga (Tanzania)—construction costs are estimated at US$8 billion. Uganda and Tanzania concluded an Inter Government Agreement (IGA) on the pipeline. The host government agreements (HGAs) with the private sector consortium constructing and operating the pipeline are being finalized.

[4] See International Monetary Fund (2017). Uganda—Selected Issues. IMF Country Report No. 17/207.

Box 2. Uganda's Nascent Oil Sector (concluded)

- The remaining 2/3 of oil production will be processed domestically at a refinery—first in the region—including for export. The refinery will be built and operated by a consortium of U.S. and Italian companies with an estimated construction cost of US$3-4 billion.

The government, through UNOC, has stakes in all three parts, with an estimated financial contribution of US$725 million, though some key decisions on Uganda's equity stake in the pipeline and refinery have yet to be taken. The authorities have also committed to building the necessary road infrastructure with an estimated cost of US$1 billion.

The fiscal regime for the upstream project is regulated by Production Sharing Agreements (PSAs) and the Income Tax Act. The regime is a combination of royalties, production sharing linked to production volumes above the levels necessary for cost recovery, corporate income tax (30 percent rate), and dividends for the government's stake. The private partners, who cover fully the development costs, will recuperate the government's share from its share of profits (carried interest). The 2017 IGA establishes a special fiscal regime for the oil pipeline, providing a ten-year tax holiday and concessions on VAT and withholding tax for the pipeline operation. This is designed to reduce the pipeline tariff, thereby increasing the upstream profits. The HGAs will define the tax treatment of turnover and costs in Uganda and Tanzania as well as the pipeline tariff. No special tax regime for the refinery is currently being considered.

11. **Risks are tilted to the downside (Annex I)**. Domestically, further delays in the start of oil production, security concerns and political tensions could dampen confidence. The fiscal outlook could be undermined by revenue shortfalls and higher spending in the run-up to the 2021 elections. Weather conditions and climate change remain a risk. Inadequate donor financing for refugee aid could further strain provision of public services to communities with refugee presence. On the upside, private sector activity could gain further strength with supportive credit. Externally, improved regional security (South Sudan and DRC) could boost Uganda's exports, although recent border tensions with Rwanda and a potential spreading of Ebola from neighboring countries are risks. Globally, rising trade tensions could weigh on growth and put pressure on the shilling.

Text Table 1. Medium-Term Macroeconomic Outlook, FY2015/16–2023/24

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

Sources: Ugandan authorities and IMF staff

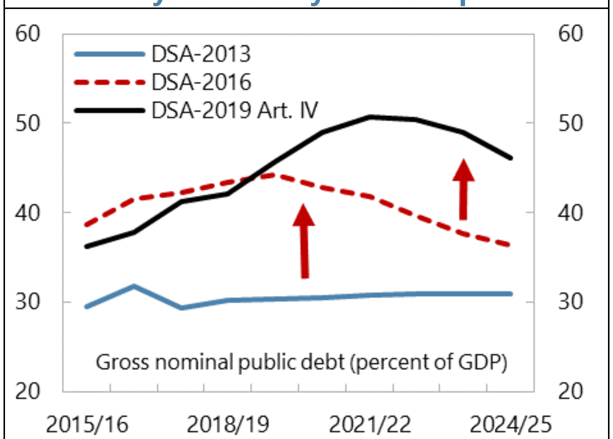
12. **The authorities broadly agree with the outlook and risks.** They see growth over the medium term slightly more favorable, including from the positive impact of unlocking new electricity generation capacity and the envisaged shift from subsistence farming to commercial agriculture. BoU remains concerned about the exchange rate, given rising external debt service payments, and unexpected changes in G7 policy rates. Ministry of Finance officials noted the many spending pressures that need to be managed.

B. Fiscal Policy

In Search of an Effective Anchor

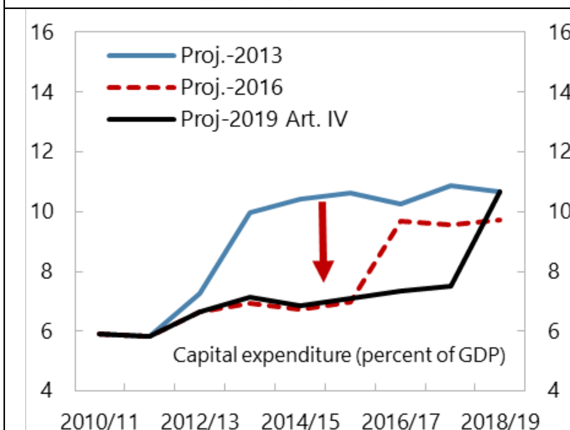
13. **The debt ceiling in the Charter for Fiscal Responsibility has not been an effective guide for fiscal policy.** The Charter requires public debt to stay below 50 percent of GDP in net present value and a fiscal deficit of 3 percent of GDP or less by FY20/21. These targets are consistent with the East African Community convergence criteria. The authorities acknowledge that the targets have not steered fiscal policy implementation in recent years. In 2013, debt was targeted to peak at 31 percent of GDP, in 2016 at 44 percent of GDP, and currently it is projected to peak at 50.7 percent in FY21/22, despite investment having fallen short of plans.

Text Figure 7. Debt Projections are Systematically Revised up



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

Text Figure 8. Investments Fell Short of Plans



Sources: Ugandan authorities and staff projections.

14. **The authorities recognize the importance of a strong fiscal anchor**. They intend to adopt a fiscal rule for managing oil revenues and their inherent volatility for which the IMF is providing CD (Box 3). Staff suggests that Uganda could adopt an interim debt ceiling of 50 percent of GDP in nominal terms, which should help contain spending pressures by setting a concrete and easily monitorable target. The ceiling would determine a fiscal deficit target and establish an expenditure envelope, given the revenue effort. In this regard, the authorities should finalize and adopt their five-year Domestic Revenue Mobilization Strategy which is being prepared with IMF

CD. The strategy is expected to include tax policy reforms, including a rationalization of exemptions, and tax administration reforms to improve compliance. While the authorities remain committed to finalizing and implementing their Domestic Revenue Mobilization Strategy, they did not see the need to adopt a debt ceiling in addition to their Charter of Fiscal Responsibility.

Box 3. Options for Fiscal Rule for Managing Uganda's Oil Revenues

The authorities plan to develop a fiscal framework to maximize the benefits from Uganda's oil wealth. The framework should promote a stabilizing role for fiscal policy in the face of revenue fluctuations due to oil price volatility and prevent procyclical policies resulting in boom-and-bust episodes. Current legislations only allow withdrawals from the Petroleum Fund for capital spending.

IMF technical assistance suggests adopting the non-oil primary fiscal balance (NOPB) as an appropriate operational target when oil production begins. Setting fiscal policy based on the NOPB would help delink expenditure policies from the volatile natural resource revenues. Targeting the NOPB allows policy to focus on the issues under the government's control and is a reliable indicator of the fiscal stance. This would help spending decisions be based on longer-term fiscal sustainability objectives. The specific choice of the NOPB target should be anchored by long-term fiscal and debt sustainability objectives.

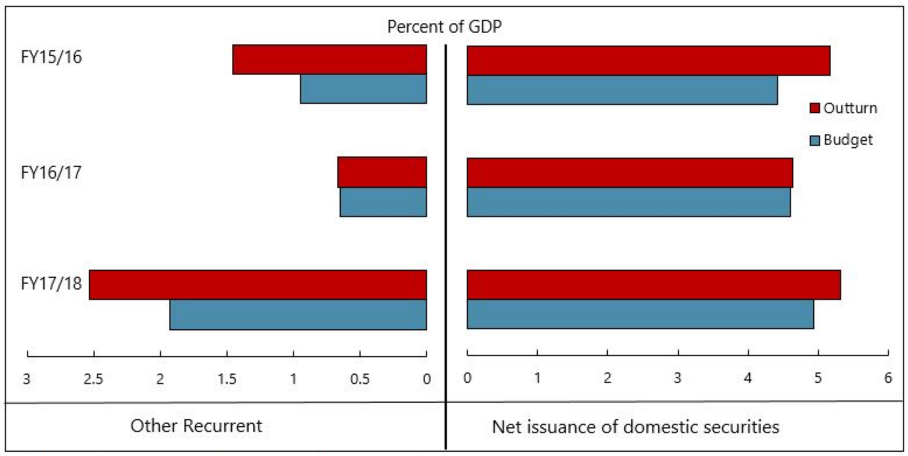
15. **The budget process has not been effective in providing guidance for top-down resource allocation and spending control.** The authorities recognized that fiscal outcomes typically deviate significantly from original budgets, largely due to higher current spending and poor preparation and implementation of public investment projects. The use of supplementary budgets late in the fiscal year has macrofinancial implications for borrowing costs (Box 4). Moreover, spending pressures have led to domestic arrears and contributed to non-performing loans. There are concerns over gaps in public investment planning. For example, the cost estimate of the required oil roads has been revised up by a factor of three, investment planning in the power sector still does not include all transmission lines considered necessary, and the business plan for the relaunch of Uganda Air envisages profitability, inter alia, by counting on capacity utilization above what competitors achieve.

16. **In response, the authorities are strengthening their public financial and investment management practices.** The authorities have introduced enhanced guidelines for costing of investment projects and are compiling an inventory of planned investment projects. They have adopted a domestic arrears strategy in 2018, though monitoring of arrears still occurs with significant lags. The IMF CD supports these reforms. The budget document would benefit from a high-level summary that clearly describes the binding quantitative budget targets. The budget document should also include specific and costed measures to achieve any targeted expenditure constraint.

Box 4. Fiscal Volatility and Interest Rates

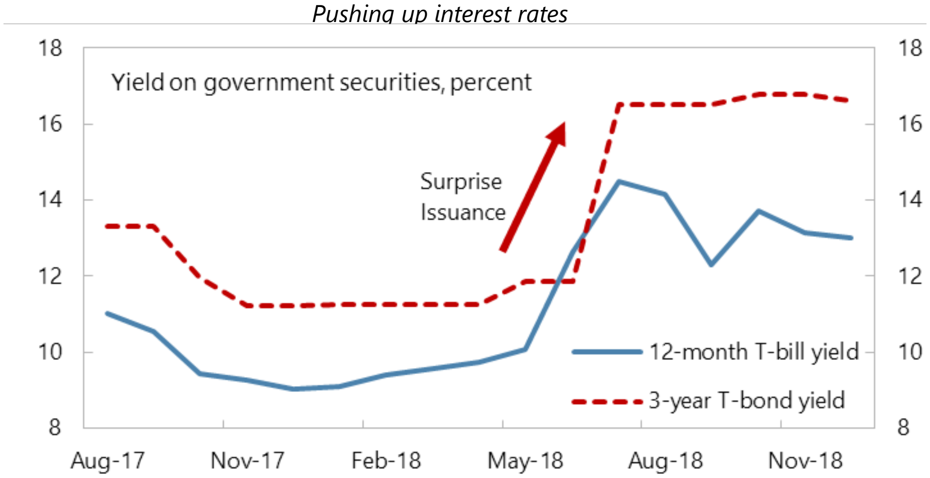
At the end of FY17/18, a supplementary budget raised current expenditure by 0.7 percent of GDP, requiring additional domestic financing of 0.5 percent of GDP. The large issuance surprised the market and led to jumps in yields. In addition to raising the government's borrowing costs, this put upward pressure on lending rates, some of which are benchmarked on government securities.

Unanticipated increase in fiscal spending required higher domestic financing



Source: Ugandan authorites, and IMF staff calculations.

Pushing up interest rates



Sources: Ugandan authorities and staff calculations.

Expenditure Composition for Inclusive Growth

17. **The authorities argue that infrastructure is the most pressing growth bottleneck, holding back agriculture, industrialization, and tourism.** Given Uganda's low revenue collection, this requires difficult choices and prioritization. Once the large infrastructure projects are completed, additional resources would become available for social sectors. In this context, the

authorities note that on-budget spending for health and education is complemented by support from development partners. They also emphasize that their labor market programs to support the youth and women are showing positive results as well as the income support for the elderly, despite limited funding. [5]

18. **While physical infrastructure is no doubt important, cross-country research shows that investment in human capital is equally imperative.** Raising productivity in agriculture would contribute to rising incomes and facilitate an employment shift towards other growing sectors, including light manufacturing and services. This requires infrastructure investment as well as investment in human capital. In particular, policies to close the education gap and promote gender equality would help to better translate aggregate growth into shared prosperity. This requires reversing the trend of declining budget allocations for education and health, while enhancing the effectiveness of this spending.

Fiscal Policy in FY18/19 and the FY19/20 Budget

19. **In FY18/19, the deficit is expected to widen further.** The authorities project a deficit of 5.4 percent of GDP, reflecting increased current and capital spending. This includes a planned supplementary budget that adds 0.8 percent of GDP in spending—including for Uganda Air plane purchases and security needs—and requires additional domestic borrowing. Tax revenue is projected to increase by 0.4 percent of GDP, below the target of ½ percent of GDP. A controversial new tax on mobile money transactions has been revised mid-year. Still, the 0.5 percent tax on withdrawals is likely to hit the rural poor disproportionally hard. A tax on popular social media apps could impact sentiment in the digital economy which can be an important contributor to growth.[6]

20. **The FY19/20 budget seeks to create space to further increase infrastructure investment.** Based on the Budget Framework Paper and discussions, staff projects the deficit to widen to 7.2 percent of GDP and public debt at 45.7 percent of GDP. The budget—to be considered by parliament in May—would target improved revenue collection by at least ½ percent of GDP. Specific measures have yet to be finalized. Current expenditure is to be contained to 12 percent of GDP, though the authorities acknowledge that this might be difficult. This

Text Table 2. Authorities' Proposed Revenue Measures for the FY19/20 Budget[1]

	Potential yield (in percent of GDP)
Revenue Administration	
Introduction of electronic fiscal devices	0.14
Introduction of digital tax stamps	0.12
Improving the rental income tax collection	0.14
Measures to reduce tax fraud	0.09
Other measures	0.12
Tax Policy	
Measures to revise and clarify existing tax provisions aiming at:	0.09
- improving tax compliance	
- expanding tax base	
- reducing exemptions and other tax incentives	

1/ Based on the list of measures approved by cabinet.

[5] Part of the national social protection system embodied in the Social Assistance Grants for Empowerment (SAGE) scheme.

[6] See Abdychev et al (2018): The Future of Work in sub-Saharan Africa.

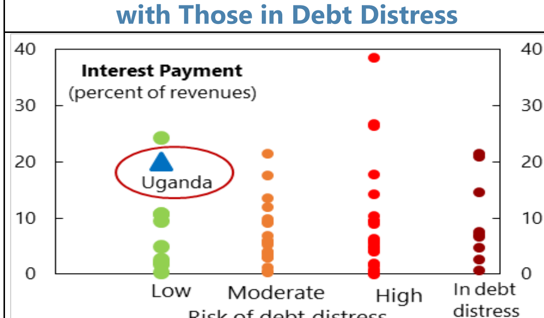
would allow capital spending to increase to 12.1 percent of GDP, including for the Karuma hydropower plant, a regional airport, oil-related projects, and the purchase of additional planes for Uganda Air. Moreover, the authorities intend to include an allocation for domestic arrears clearance and for recapitalizing BoU. The projected deficit is conditional on revenue gains and containing spending pressures, and still implies that debt would exceed the proposed ceiling of 50 percent of GDP in FY2021/22. Staff recommends additional measures to keep public debt below the ceiling, e.g. rephasing of the ambitious public investment program.

Debt Sustainability Analysis and Fiscal Space Assessment

21. **While Uganda remains at low risk of debt distress, significant vulnerabilities loom large** (see the accompanying Debt Sustainability Analysis). Uganda's debt carrying capacity has been raised to strong from medium. Even though debt burden indicators remain below their indicative thresholds, they have increased compared to the previous DSA. The assessment rests on four assumptions: (i) infrastructure investments yield the envisaged growth dividend; (ii) revenue collection improves by ½ percent of GDP per year over the next five years; (iii) oil exports commence in 2023; and (iv) infrastructure investment is reduced once the current projects are completed. Uncertainties around spending pressures, contingent liabilities, or a growth shock could push public debt above the authorities' ceiling in the Charter of Fiscal Responsibility (50 percent of GDP in net present value terms). The authorities broadly agreed with the DSA results and believe that the ongoing work to develop the 2019–24 Public Debt Management Framework will help keep debt at sustainable levels.

22. **Fiscal space is assessed to be at risk (Annex 2).** Uganda's external position is weaker than the level implied by fundamentals and desirable policies. Interest payments are projected to take up to 20 percent of revenue in FY19/20, a level typically only associated with countries at high risk of distress or in debt distress. Tax cuts and exemptions would run counter to the need to improve Uganda's revenue collection. Given limited administrative capacity, it would be challenging to increase spending further in an effective manner. The government relies on project financing and domestic issuance, constraining the scope for ad hoc additional borrowing.

Text Figure 9. Interest Payments on Par with Those in Debt Distress



Notes: Low income income countries. Data as of end-2018 for all countries except for Uganda which is for FY19/20.
Sources: Bank of Uganda. IMF staff calculations.

Text Table 3. Fiscal Space Indicators[1] FY17/18

Gross public debt	41.3
Debt service (percent of total revenue)	44.8
Projected Gross Public Debt in FY29/30	40
Primary balance	-2.6
Debt stabilizing primary balance	-0.9
Gross financing needs	9.7
Share of concessional loans in external portfolio (percent)	58.8
Average interest rate for new external borrowing (percent)	5.4
Yield for 1-year treasury bond (percent)	12.8

Source: Uganda authorities and IMF estimates and projections.
[1] in percent of GDP, unless otherwise indicated.

C. Monetary and Exchange Rate Policy

23. **The BoU has successfully balanced its inflation objective with supporting economic activity.** With growth gaining momentum and incipient pressures from international oil prices and shilling depreciation—which have since faded—BoU raised its policy rate by 100 bps in October 2018 and has appropriately maintained it since then. Given the current inflation outlook, staff believes that BoU can keep the policy rate on hold in the near future. The authorities emphasize that low inflation protects the purchasing power of Ugandans, importantly poor households. They note the continuous work to strengthen their modeling and forecasting toolkit to strengthen inflation targeting, supported by IMF CD.

24. **The central bank's deficit, if left unaddressed, could erode BoU's ability to effectively conduct monetary policy.** BoU's financial position is affected by low income due to the low global interest rates, necessary high costs to mop up excess liquidity in support of the monetary policy objective, rising operating expenditures, and also the Crane Bank resolution costs. The authorities agree that a prompt recapitalization in the FY19/20 budget would ensure that the central bank can continue pursuing its operations efficiently. The finalization of the pending Memorandum of Understanding between BoU and the Ministry of Finance, Planning, and Economic Development and a review of the bank's cost structure would also be welcome. An independent, efficient central bank is essential to maintaining Uganda's hard-earned macroeconomic stability.

25. **Uganda's external position is weaker than implied by medium-term fundamentals and desirable policies.** The current account deficit is expected to widen further during the preparation phase for oil production. Therefore, it is important to ensure Uganda maintains an adequate level of reserves. At present, international reserves are equivalent to 4.1 months of next year's imports, a sound buffer against potential shocks and above IMF's metrics and the rule of thumb. The flexible exchange rate regime continues to serve Uganda well. The authorities agree with this assessment and are committed to further diversifying and improving the quality of exports. BoU appropriately plans to build reserves opportunistically and maintain this reserve coverage.

Text Table 4. Reserve Adequacy

	2018, Actual	Metric/rule
IMF (months of imports)	4.1	2
Import Coverage (months of import)	4.1	3
Broad Money (percent)	73	20
Short-term Debt Coverage (percent)	318	100

Source: IMF staff

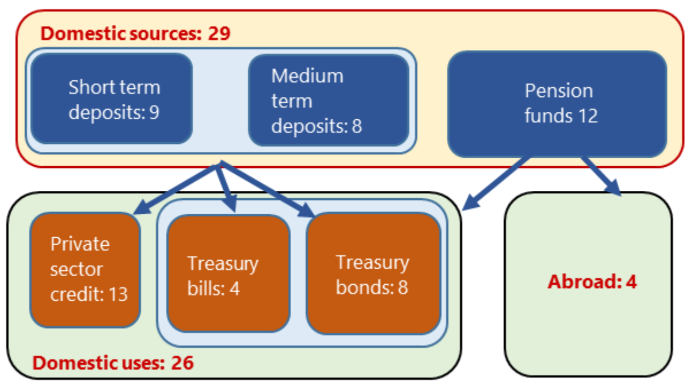
D. Financial Sector Stability and Financial Inclusion

26. **Banks are well capitalized, liquid, and profitable according to financial soundness indicators for September 2018.**[7] Improvements in asset quality have contributed to an easing of lending standards and credit recovery. BoU's latest stress tests found that the system can withstand shocks but pointed to a rising concentration risks and vulnerabilities to liquidity shocks. BoU has successfully ensured financial sector stability, including through resolving banks that posed systemic risks.

27. **As a new credit cycle starts, BoU remains appropriately focused on maintaining strong supervision.** Bank supervision and regulatory structures broadly follow international best practices, though at times BoU could rely less on regulatory forbearance (Box 5). Forthcoming IMF CD will assist BoU to further enhance bank supervision. A recent report by parliament points to some areas where supervision and bank resolution can be strengthened, but other recommendations could weaken BoU governance structures and violate Basel Core Principles. The authorities agree that strengthening banks' financial reporting, internal controls and governance need to be stepped up. Weaknesses in these areas were at the core of the most recent bank failure.

Text Figure 10. Uganda's Sources of Long-Term Capital are Limited and Largely Invested in Government Securities

(As of end-December 2018, percent of GDP)



Sources: Ugandan authorities and staff calculations.

28. **Private sector credit could play a bigger role in supporting growth.** Private sector credit remains low at 12 percent of GDP. Although large corporates have access to credit on more favorable terms, smaller firms in need of financing have limited options. They often do not meet financial accounting standards that would facilitate access to long-term capital. The authorities note that the two credit bureaus have started to reduce information asymmetry and facilitate access to financing. A law to allow movable assets as collateral has been passed. However, legal uncertainty over property rights and lengthy proceedings to recover collateral continue to weigh on banks' credit risks. The stock market remains largely untapped with only 9 listings of domestic companies. The authorities consider making it mandatory for specific foreign companies operating in Uganda to list on the local stock exchange to channel dividend payments to local investors. However, this could further curtail funding options for local businesses and may impact Uganda's reputation for foreign investors.

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[7] Six small banks continue to run losses, but shareholders have injected capital as needed.

Box 5. Financial Sector Stability Review

In February 2018, the IMF undertook a Financial Sector Stability Review of the Ugandan banking system, with a proposed reform agenda and recommendations for capacity building in support of financial stability, deepening and inclusion. This box summarizes the recommendations and implementation status.

Financial stability framework

- Enhance the stress testing and involve the BoU's research and financial markets departments. Enhance liquidity stress testing capacity with additional prudential reporting. Increase resources for financial stability modeling.
- *Status:* BoU has started increasing staffing. Improvements in the integrated stress testing framework are ongoing with IMF CD. BoU plans to start bottom-up stress testing by June 2019.

Supervision

- Strengthen the on-site supervisory approach and review the supervisory rating assignment process. Apply more rigorous and effective supervisory regime to address weaknesses in credit risk management.
- *Status:* Staff were trained on risk-based supervision and on assessing all risks inherent in banks' operations. A revised supervisory rating system emphasizing risk management and controls has been prepared, pending approval. A comprehensive corporate governance guidance note has been prepared, expected for issuance in Q1 2019.

Financial safety nets

- Provide for Emergency Liquidity Assistance (ELA) in BoU Act/Directives, increase supervisory reach and intrusion for banks in receipt of ELA, establish internal guidance and clarify parameters. Reinforce problem bank supervision and resolution and limit judicial review of BoU intervention and liquidation decisions to monetary compensation award.
- *Status:* Draft amendments to the BoU Act introducing an ELA legal framework are pending.

Crisis management

- The memorandum of understanding on crisis management should be operationalized, specifying the payout procedure of the Deposit Protection Fund.
- *Status:* The Financial Stability Review Committee memorandum of understanding has been operationalized and working groups are meeting.

Financial market infrastructure

- Further develop financial market infrastructure, enhance the credit information and collateral registry. Strengthen mobile money regulations to maximize its potential for financial deepening and inclusion while maintaining financial stability. Accelerate efforts to develop the National Payment Bill that addresses mobile money regulations.
- *Status:* Pending approval, the draft National Payment System Act has been finalized.

29. **Around 85 percent of Ugandans have access to financial services, including through mobile money.** The authorities are implementing a five-year financial inclusion strategy to improve financial literacy, develop the credit infrastructure and promote formal savings, investment, and insurance, while ensuring consumer protection. In 2018, access to financial services benefited from the introduction of agency banking. Uganda has recently issued regulations for Islamic banking and one bank has launched its first Islamic financial products. The authorities are working towards adopting the National Payments System Act, which will provide a legal basis for BoU to supervise the mobile money sector.

30. **A private crypto currency exchange has been set up, but cryptocurrencies schemes are unregulated.** The uptake has been very low to date. Still, cryptocurrencies could pose significant financial integrity risks. The authorities should implement the relevant FATF recommendations, including oversight of virtual assets service providers for AML/CFT compliance.

E. Governance and Corruption

31. **Uganda has the main elements of a legal framework to address corruption, but implementation needs to be strengthened** (Annex IV). At the end of 2018, President Museveni declared that corruption has reached alarming levels and encouraged the population to report incidences of corruption to the newly established anti-corruption unit under his office. Recent IMF studies suggest that corruption (weak governance) has a strong negative effect on economic growth and is also a factor in high poverty and inequality.[8] Uganda has a number of governance and accountability institutions dealing with anti-corruption. However, these institutions remain weak and enforcement of relevant laws has been lax. The authorities are encouraged to continue working on improving the effectiveness of anti-corruption institutions, including in the context of the 5-year program "Strengthening Uganda's Anti-Corruption Response Technical Advisory Facility" with the support of development partners.

32. **Efforts in strengthening public finance and AML/CFT regime would reduce vulnerabilities to corruption.** To enhance good governance and accountability, further improvements in public finance management, fiscal transparency, and management of public investment projects are necessary. In this regard, the authorities have started the accession process to the Extractive Industries Transparency Initiative which is welcome. Uganda has achieved important progress in addressing deficiencies in technical compliance with the AML/CFT standards. However, despite being removed from the FATF's grey list in 2017, serious issues identified in the 2015-16 assessment still remain. The authorities should continue their work to align their AML/CFT regime with international standards to ensure that Uganda's regime is effective in mitigating money laundering and terrorist financing risks. The authorities are committed to taking the necessary steps, including Uganda's application to the Egmont Group of Financial Intelligence Units.

[8] See Annexes 2 and 3 of Review of 1997 Guidance Note on Governance - A Proposed Framework for Enhanced Fund Engagement (IMF)

F. Other Issues

33. **Uganda's exchange system remains free of restrictions on the making of payments and transfers for current international transactions.** No new exchange restrictions or multiple currency practices were introduced since the last consultation.

34. **Data provision is broadly adequate for surveillance.** The authorities continue to improve statistics, including with IMF support. More timely monitoring of domestic arrears and contingent liabilities would facilitate fiscal sustainability analysis.

STAFF APPRAISAL

35. **Uganda has made impressive development gains over the last 2½ decades, while maintaining macroeconomic stability.** The authorities' prudent approach to fiscal and monetary policy has served the country well. The challenge is to build on this momentum and lay the foundation to create the necessary 600,000 plus new jobs per year, while making further progress towards poverty reduction and shared prosperity.

36. **Fiscal policy needs an effective anchor.** In the near-term, the authorities could consider adopting a debt ceiling of 50 percent of GDP. In parallel, the authorities should aim to have a fiscal rule for managing oil revenues in place before production starts. The rule should insulate spending from the inherent volatility of oil revenue. The annual budget must adopt a clear top-down approach and become more binding. Ultimately, for any fiscal anchor to be effective, sustained political buy-in is needed. Continued progress on domestic revenue mobilization—½ percent of GDP per year—is a pillar of debt sustainability.

37. **A more balanced expenditure composition would better support inclusive growth.** The authorities' emphasis on infrastructure investment is well placed, though public investment management can be enhanced to better achieve the envisaged growth dividend. In parallel, the authorities should ensure that budget allocations to social sectors are effective in improving health and education outcomes. Further enhancing the business environment and facilitating access to finance are also key to private sector-led growth.

38. **The FY19/20 budget should better reflect these considerations.** Staff suggests to target a lower deficit than the authorities have to keep debt below 50 percent of GDP over the medium term. This would require measures such as rephasing investment plans. Moreover, revenue and expenditure measures have yet to be finalized and adopted by parliament to ensure that the authorities' target is achievable. The budget should include an allocation for domestic arrears repayments and BoU recapitalization. A well communicated domestic issuance plan would help contain debt service costs and also lending rates.

39. **Inflation targeting continues to serve Uganda well.** Given current inflation projections, BoU should be able to maintain its policy rate in the near future. The authorities should address the

central bank's deficit by improving its income position, including by the government paying for services rendered, and reducing operational costs.

40. **Uganda's external position is weaker than implied by the medium-term fundamentals.** International reserves provide a welcome buffer considering Uganda's external vulnerabilities. BoU can continue purchasing reserves opportunistically to support the external buffers in the face of increasing imports while maintaining its flexible exchange rate regime.

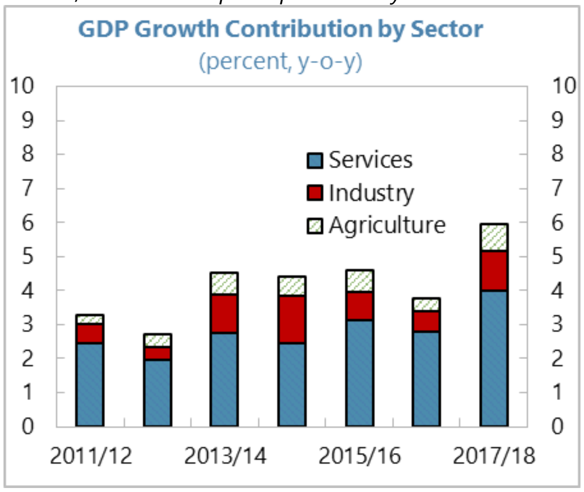
41. **Banking supervision and regulation are sound.** Supervision should continue working with banks to strengthen their financial reporting and governance structures. Ongoing efforts to enhance stress testing are welcome. Emergency liquidity assistance and bank resolution can be further improved, though the latest closure of a large bank with negative capital illustrates that BoU's practices were effective in protecting depositors and maintaining financial stability. The authorities should complete the necessary legal steps to put the mobile money sector under BoU's regulatory and supervisory authority.

42. **The authorities should continue efforts to strengthen governance and reduce corruption.** Although the country has established a legal framework to deal with corruption, implementation is weak. Strengthening public finance and AML/CFT regime would reduce vulnerabilities to corruption. Staff welcomes the authorities' decision to begin accession to the Extractive Industries Transparency Initiative.

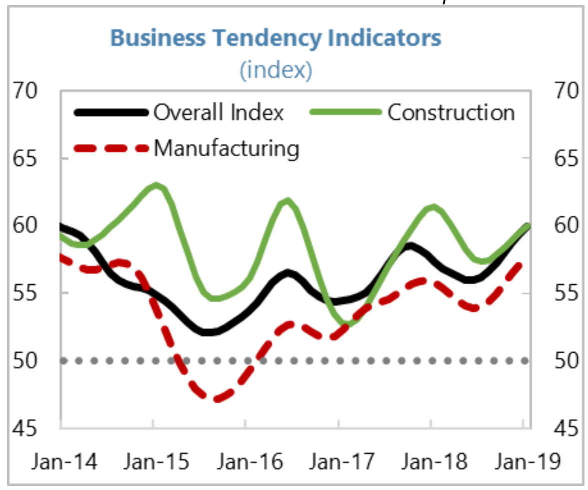
43. **It is proposed that the next Article IV consultation takes place on the standard 12-month cycle.**

Figure 1. Uganda: Real Sector Developments

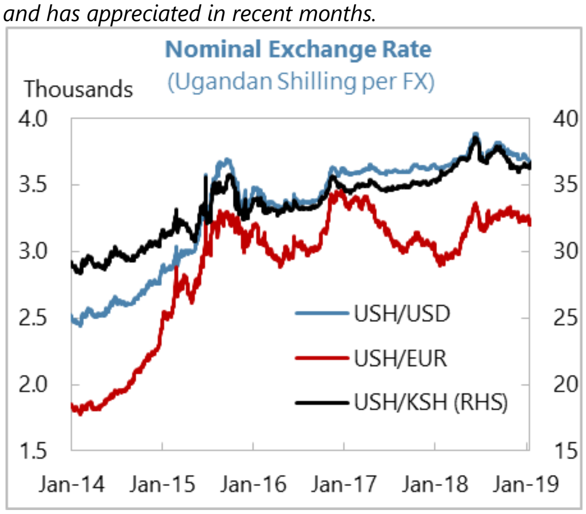
Strong growth continues to be driven by agriculture and services, with a recent pick-up in industry.



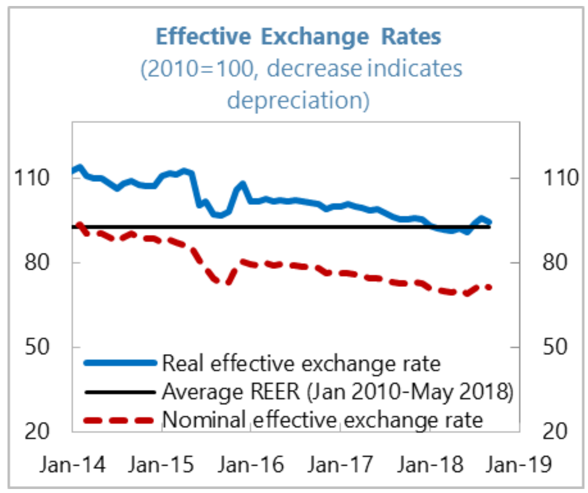
Construction and manufacturing have garnered momentum and business sentiment remains positive.



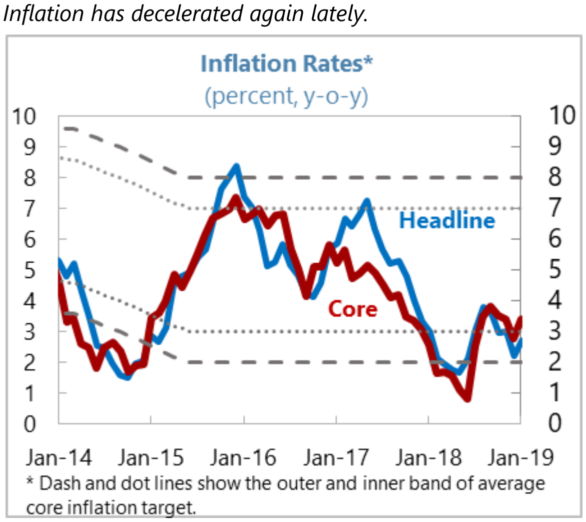
After a stable period, the shilling has been volatile in 2018, and has appreciated in recent months.



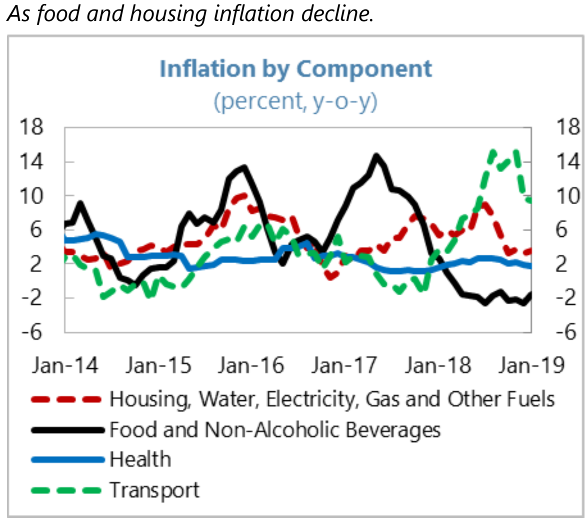
With some appreciation in real effective terms.



Inflation has decelerated again lately.



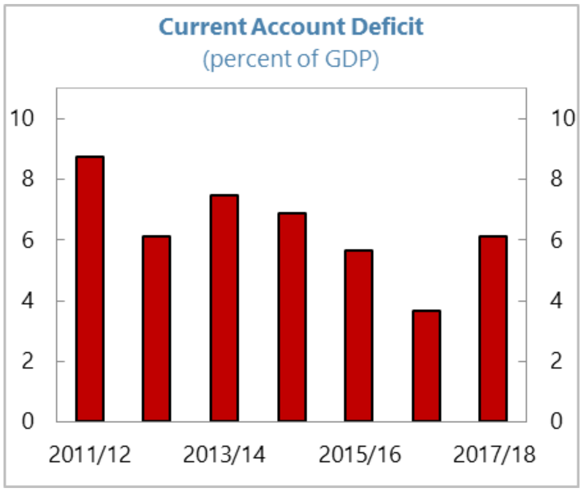
As food and housing inflation decline.



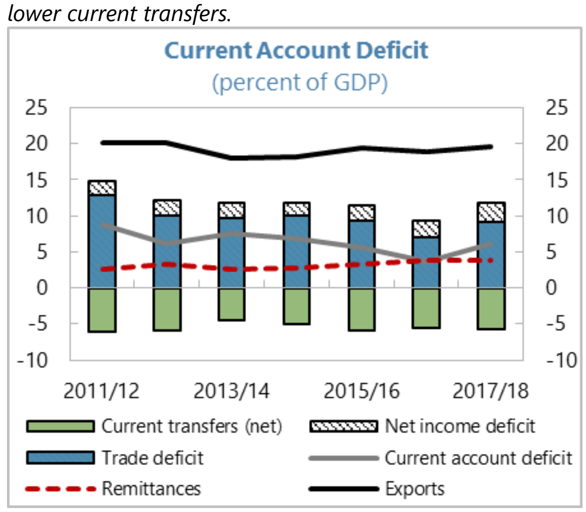
Sources: Ugandan authorities and IMF staff calculations

Figure 2. Uganda: External Developments

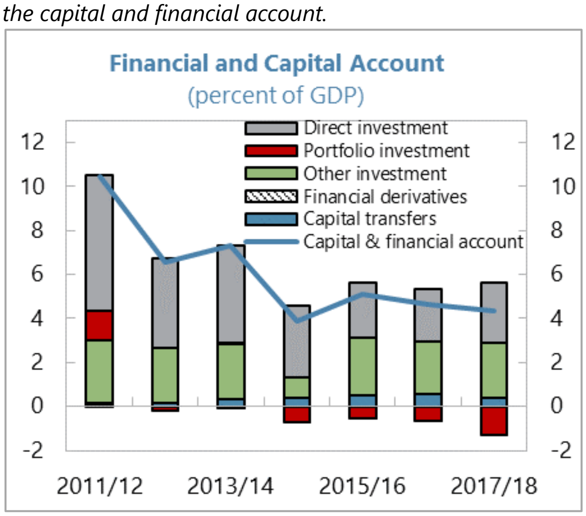
The current account deficit has widened in FY17/18



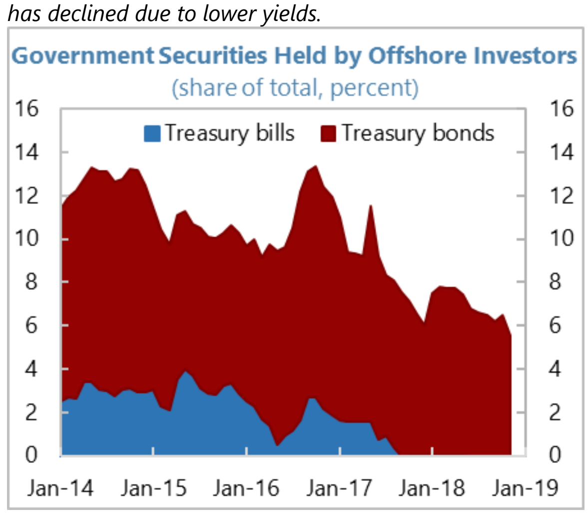
Driven mainly by higher imports of goods and services and lower current transfers.



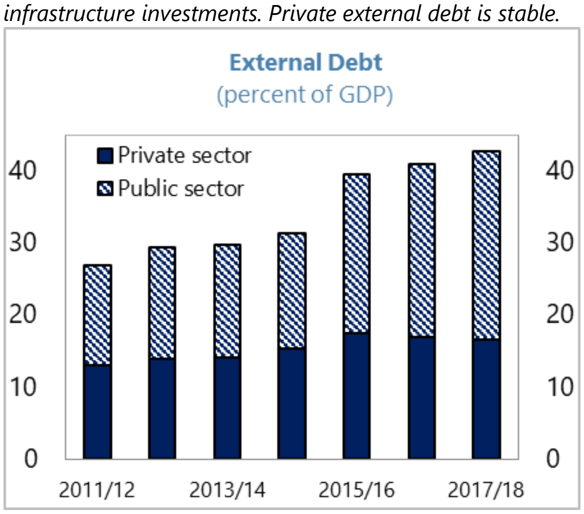
Portfolio and other investment outflows have weakened the capital and financial account.



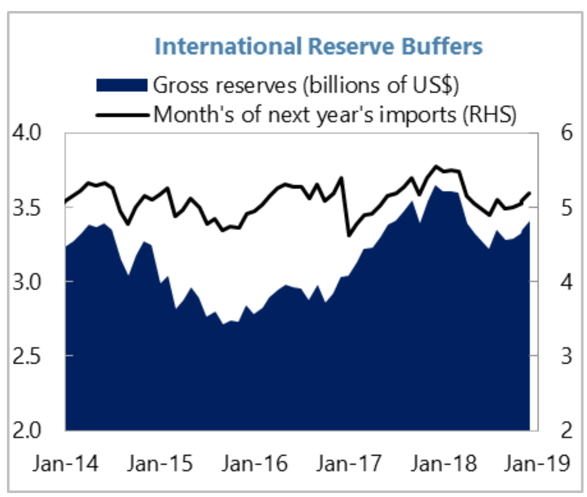
Foreign investors' participation in government securities has declined due to lower yields.



Public external debt continues to rise to finance infrastructure investments. Private external debt is stable.



Reserves buffer declined but remains at comfortable levels.



Sources: Ugandan authorities and IMF staff calculations

Figure 3. Uganda: Fiscal Developments

Domestic revenue continues to gradually increase.

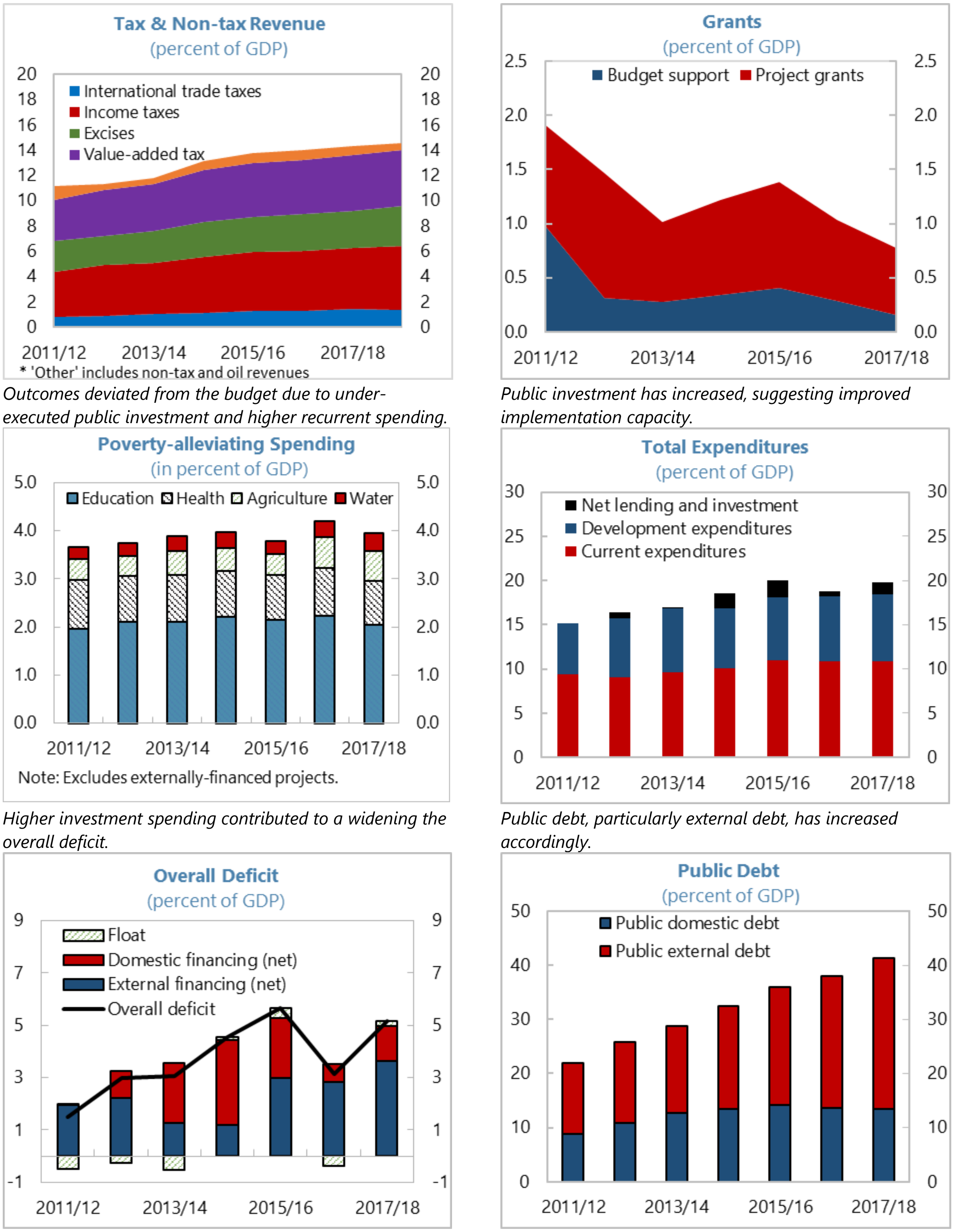
Grants have been declining recently.

Outcomes deviated from the budget due to under-executed public investment and higher recurrent spending.

Public investment has increased, suggesting improved implementation capacity.

Higher investment spending contributed to a widening the overall deficit.

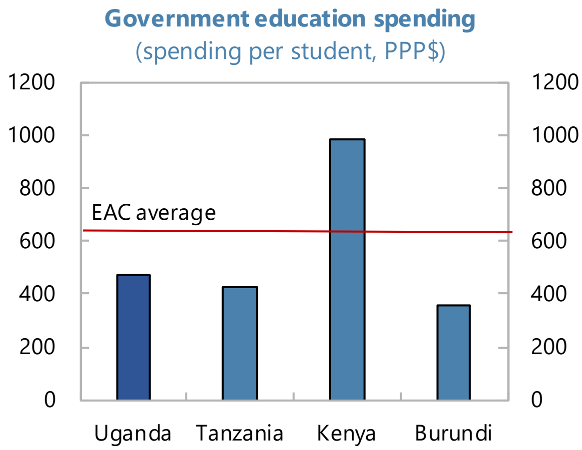
Public debt, particularly external debt, has increased accordingly.



Sources: Ugandan authorities and IMF staff calculations

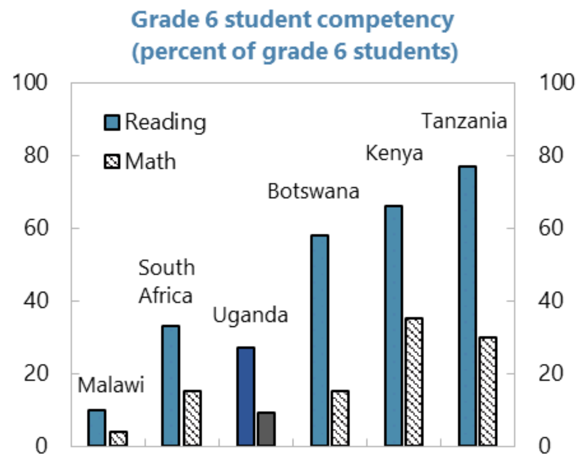
Figure 4. Uganda: Spending and Outcomes: Education and Health

Spending per students is below LIC average.



Sources: Ugandan authorities and staff projections.

While education outcomes are poor.



Source: SACMEQ 2007

Health spending per capita is relatively low and several countries with similar or lower spending achieve better results.

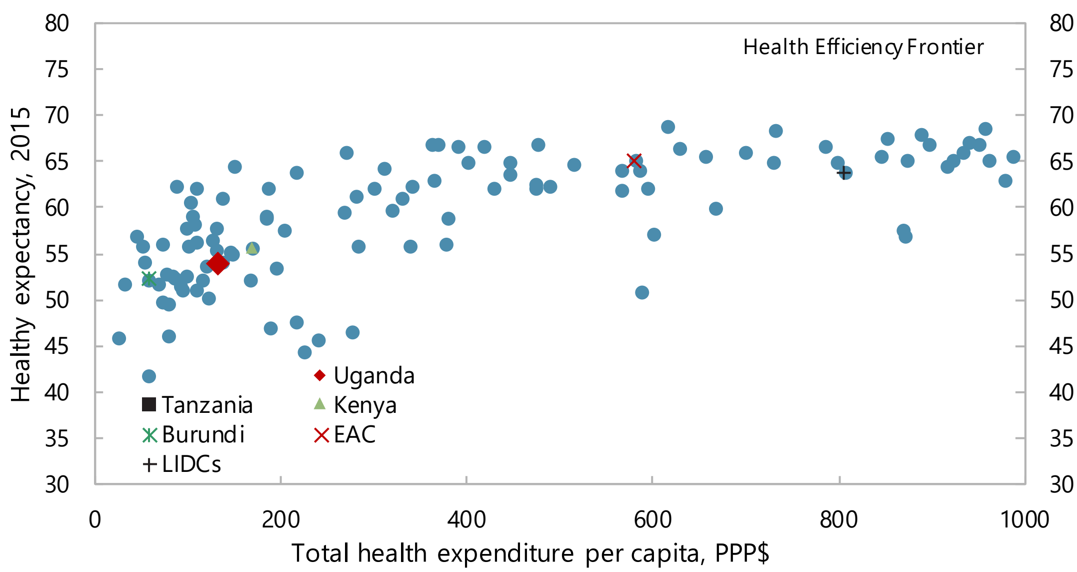
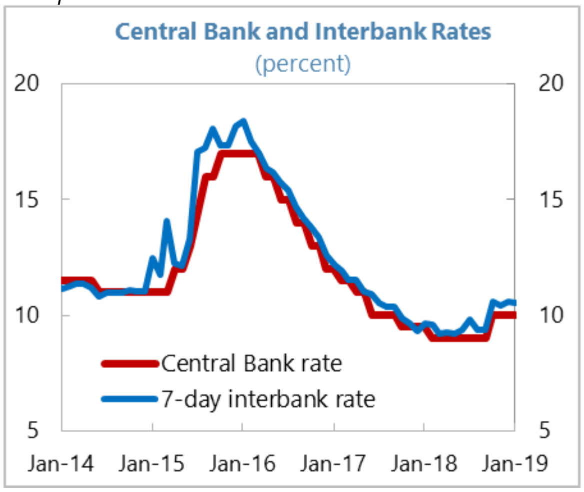
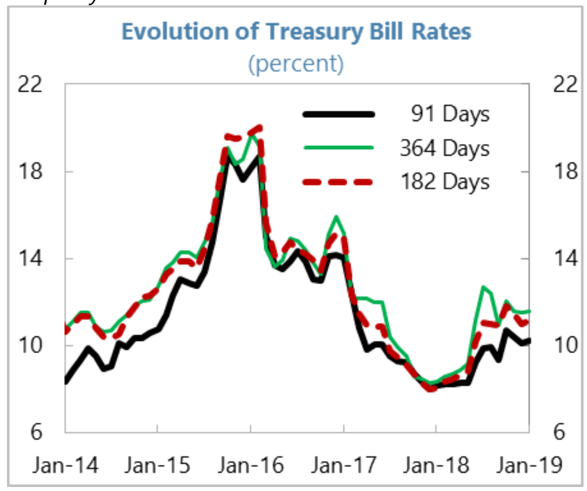


Figure 5. Uganda: Monetary Developments

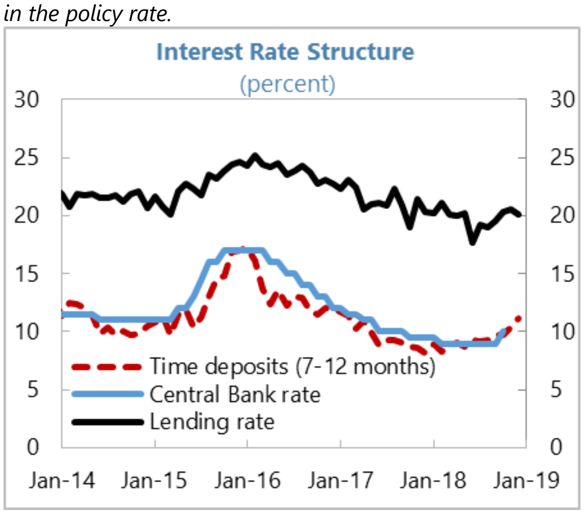
For the first time since 2015, the policy rate was raised by 100 bps in October 2018.



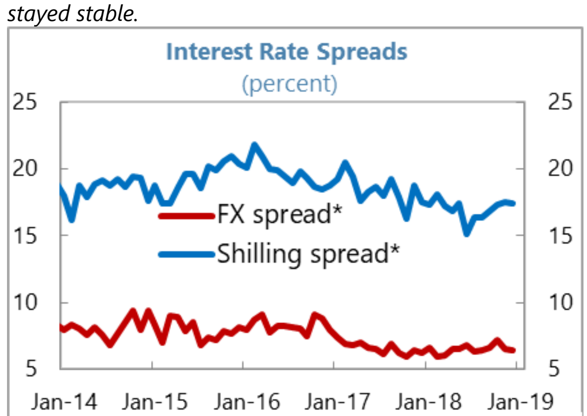
T-bill rates have increased with financing pressures and the policy rate.



Lending rates have responded to the increase in the policy rate.

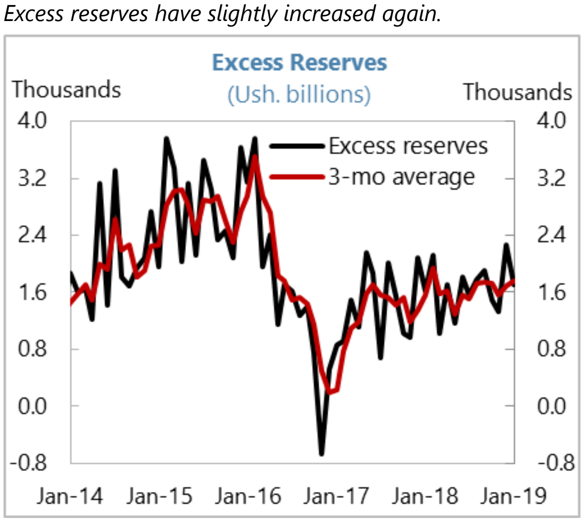


While the spread between FX and Shilling rates stayed stable.

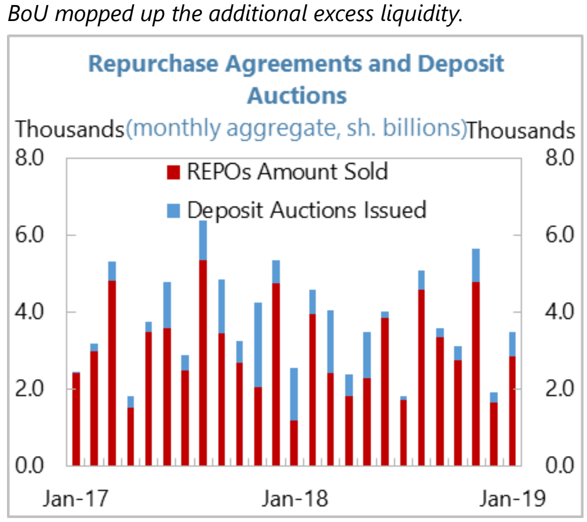


*Both FX and Shillings spreads are calculated as the weighted average lending rate minus the weighted average deposit rate.

Excess reserves have slightly increased again.



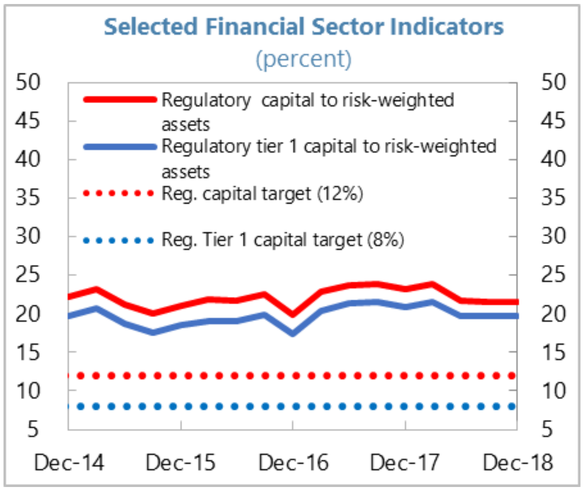
BoU mopped up the additional excess liquidity.



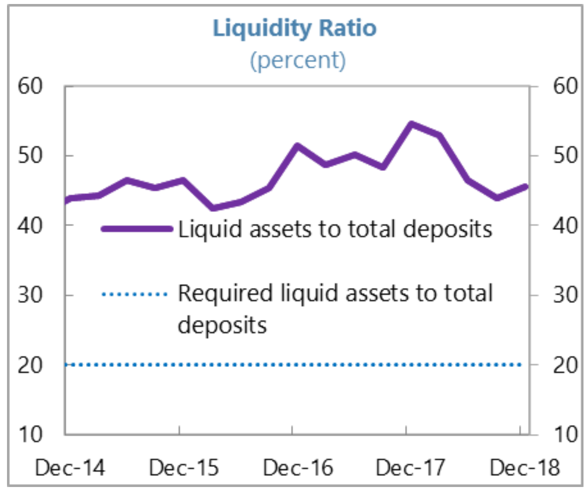
Sources: Ugandan authorities and IMF staff calculations

Figure 6. Uganda: Financial Sector Developments

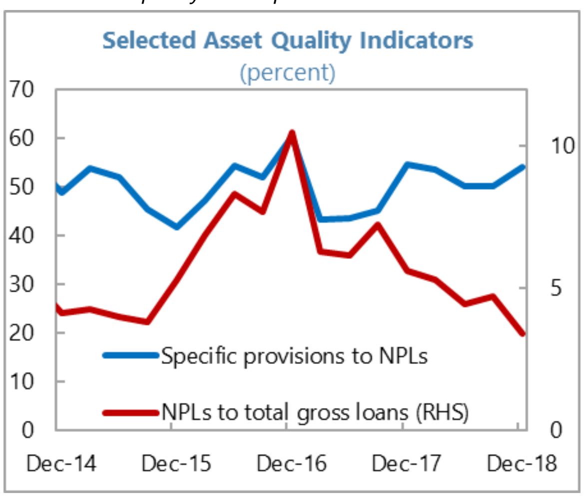
The banking sector remains well capitalized.



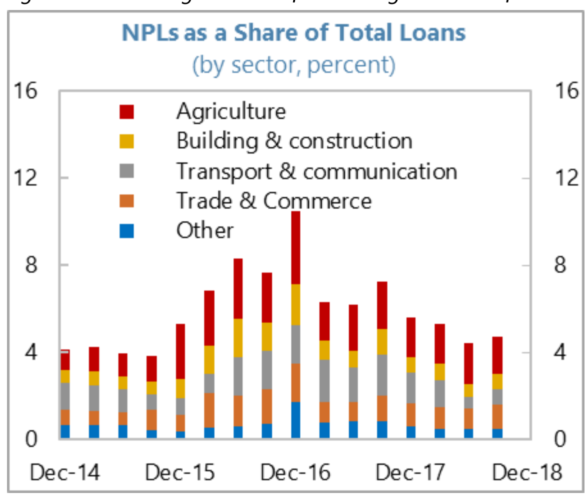
Liquidity has declined but remains comfortable.



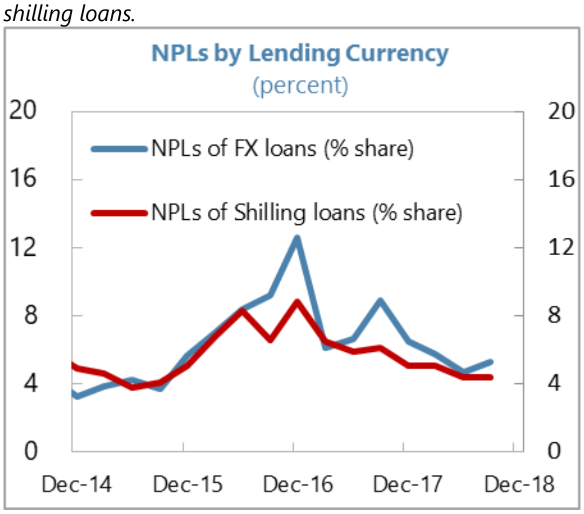
Overall asset quality has improved.



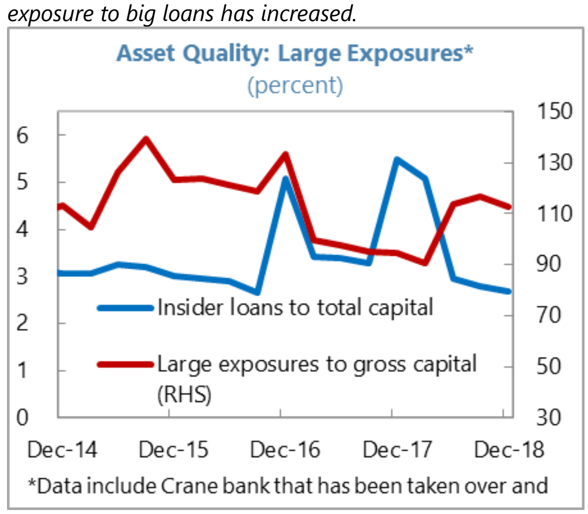
Agriculture lending accounts for the largest share of NPLs.



Share of NPLs in FX loans has declined, relative to that of shilling loans.



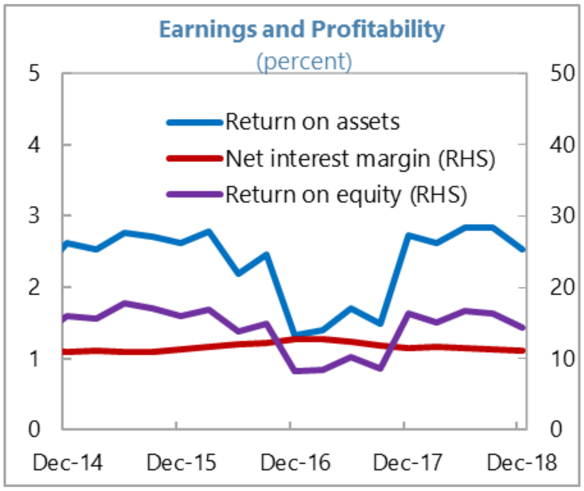
While share of insider loans has decreased, exposure to big loans has increased.



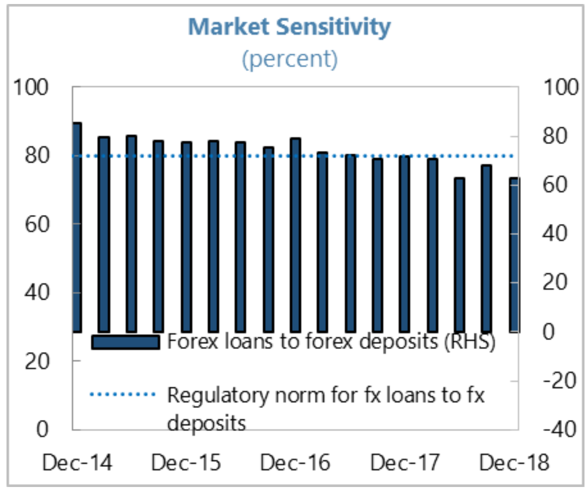
Sources: Ugandan authorities and IMF staff calculations

Figure 7. Uganda: Other Financial Sector Developments

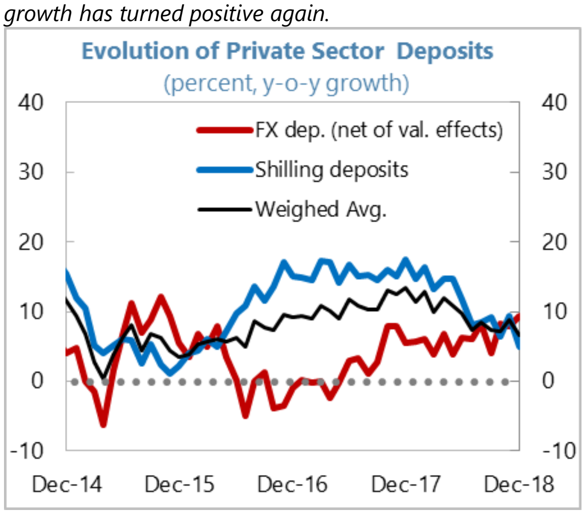
After a period of improvement, banks profitability has been stable.



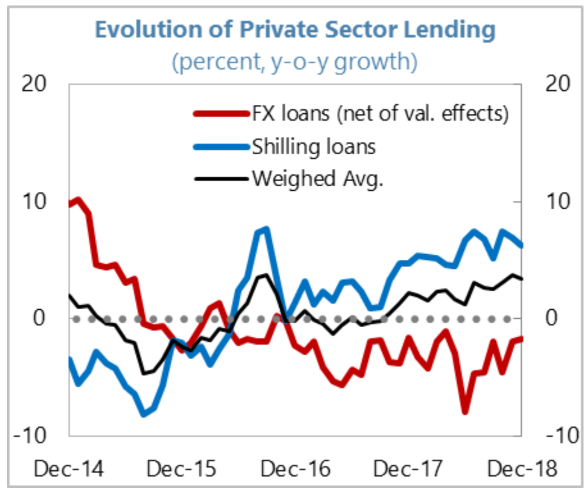
Banks keep their forex loans within the regulatory norms.



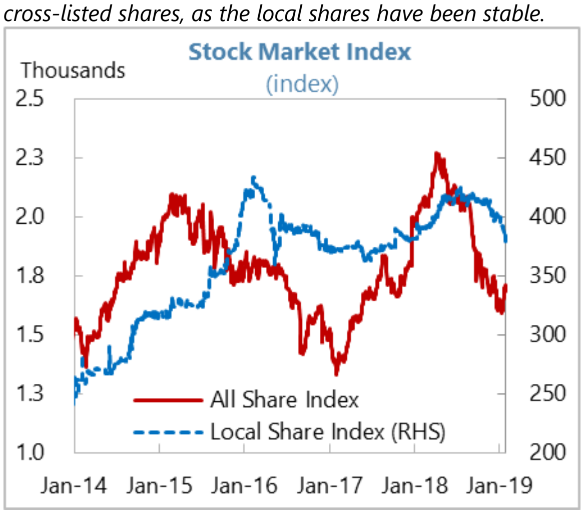
Shilling deposit growth has declined while forex deposit growth has turned positive again.



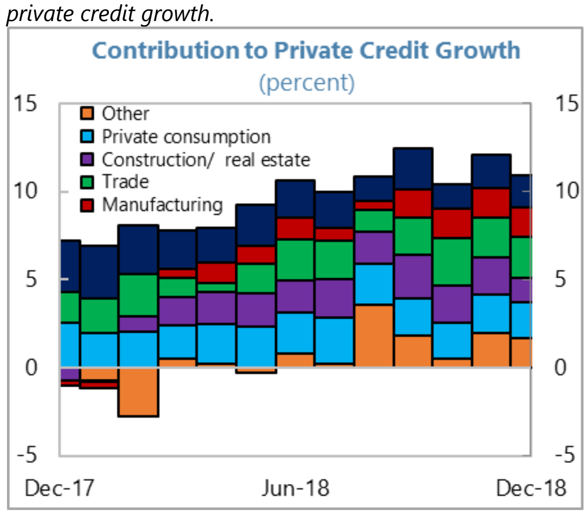
Private credit is growing, driven by shilling loans.



Stock market performance has been declining driven by cross-listed shares, as the local shares have been stable.



In addition to agriculture and trade, construction is driving private credit growth.



Sources: Ugandan authorities and IMF staff calculation

Table 1. Uganda: Selected Economic and Financial Indicators, FY2016/17-2023/24[1]

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
		Est.			Proj.			
	(Annual percentage change, unless otherwise indicated)							
Output, prices, and exchange rate								
Real GDP	3.9	6.1	6.3	6.3	6.2	6.1	6.0	6.6
GDP deflator	6.3	3.3	3.0	4.2	5.2	5.2	4.9	4.9
Headline inflation (period average)	5.7	3.4	3.2	4.0	4.8	5.0	5.0	5.0
Core inflation (period average)	5.1	2.7	3.9	4.8	4.9	5.0	5.0	5.0
Terms of trade ("–" = deterioration)	0.0	0.7	-2.7	1.1	0.5	0.3	0.5	0.2
Exchange Rate (Ugandan Shilling/US$)[2]	2.5	3.0	1.3	…	…	…	…	…
Real effective exchange rate ("–" = depreciation)[2]	-1.4	-2.8	-1.2	…	…	…	…	…
Money and credit								
Broad money (M3)	13.6	12.7	13.2	13.1	14.1	14.9	13.2	15.0
Credit to non-government sector	5.7	10.5	13.6	11.2	10.2	13.7	13.0	10.4
Bank of Uganda policy rate[2]	10.0	9.0	10.0	…	…	…	…	…
M3/GDP (percent)	21.7	22.4	23.1	23.6	24.1	24.8	25.3	26.0
NPLs (percent of total loans)[2]	6.2	4.4	4.7	…	…	…	…	…
	(Percent of GDP, unless otherwise indicated)							
Central government budget								
Revenue and grants	15.2	15.3	16.1	17.6	17.5	17.6	17.9	19.0
Of which: grants	1.0	0.8	1.1	1.6	1.2	0.9	0.7	0.6
Expenditure	19.0	20.1	21.5	24.8	24.9	23.6	21.9	22.5
Current	10.9	10.9	11.5	12.0	12.5	12.3	12.2	12.6
Capital[3]	7.8	8.9	9.6	12.1	11.9	10.8	9.3	9.5
Primary balance	-1.3	-2.5	-3.0	-4.7	-4.7	-3.2	-1.3	-0.6
Overall balance	-3.5	-5.0	-5.4	-7.2	-7.4	-6.0	-4.0	-3.6
Excluding grants	-4.9	-5.6	-6.5	-8.8	-8.6	-6.8	-4.7	-4.2
Of which: Net domestic borrowing	0.7	1.4	2.3	2.8	2.7	1.7	1.4	1.1
Public debt								
Public gross debt	38.0	41.3	42.2	45.7	49.0	50.7	50.4	49.7
External	24.3	27.8	27.7	29.9	32.2	33.9	33.8	33.5
Domestic	13.7	13.5	14.5	15.7	16.8	16.8	16.5	16.2
Investment and savings								
Investment	24.4	25.8	26.9	29.5	29.8	29.0	27.0	26.9
Public	7.8	8.9	9.6	12.1	11.9	10.8	9.3	9.5
Private	16.6	16.9	17.3	17.5	17.9	18.2	17.7	17.3
Savings	20.5	19.5	18.9	19.8	19.6	19.6	19.7	21.9
Public	3.2	3.6	3.4	4.0	3.9	4.4	4.9	5.7
Private	17.3	15.8	15.5	15.8	15.7	15.2	14.7	16.2
External sector								
Current account balance (including grants)	-3.7	-6.1	-7.2	-8.9	-9.6	-8.9	-7.0	-4.7
Current account balance (excluding grants)	-3.9	-6.3	-8.1	-9.7	-10.3	-9.4	-7.4	-5.0
Exports (goods and services)	19.0	19.5	19.3	19.1	19.1	19.0	19.0	20.5
Imports (goods and services)	25.9	28.7	29.6	30.5	30.5	29.2	27.0	26.2
Gross international reserves								
In billions of US$	3.4	3.2	3.3	3.5	3.7	4.0	4.2	4.6
In months of next year's imports of goods and services	5.2	4.5	4.1	4.0	4.0	4.2	4.3	4.6
Memorandum items:								
GDP at current market prices								
Ush. billion	91,718	100,531	110,048	121,892	136,159	151,942	168,955	188,940
US$ million	26.0	27.5	…	…	…	…	…	
GDP per capita (Nominal US$)	704	724	742	784	840	888	935	991
Population (million)	36.9	37.8	…	…	…	…	…	…

Sources: Ugandan authorities and IMF staff estimates and projections.

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

[2] Latest available data as of April 16, 2019.

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

Table 2a. Uganda: Fiscal Operations of the Central Government, FY2014/15-2020/21[1]

(Billions of Ugandan Shillings)

	2014/15	2016/17	2017/18	2018/19	2019/20	2020/21
			Est.		Proj.	
Total revenue and grants	11,045	13,896	15,369	17,695	21,405	23,855
Revenue	10,114	12,947	14,595	16,502	19,504	22,215
Tax	9,542	12,185	13,782	15,482	17,863	20,671
International trade taxes	838	1,208	1,434	1,524	1,862	2,140
Income taxes	3,402	4,335	4,850	5,544	6,287	7,313
Excises	2,128	2,669	2,963	3,465	3,982	4,478
Value-added tax	3,117	3,904	4,448	4,849	5,621	6,598
Infrastructure levy	57	69	88	99	111	142
Nontax	452	632	725	1,020	1,641	1,544
Oil revenue	120	130	0	0	257	0
Grants	931	950	774	1,194	1,901	1,640
Budget support[2]	258	259	155	102	100	91
Project grants	673	690	620	1,092	1,801	1,549
Expenditures and net lending[3]	14,379	17,437	20,183	23,662	30,240	33,962
Current expenditures	7,689	9,994	10,916	12,616	14,630	17,020
Wages and salaries	2,759	3,382	3,463	4,275	4,420	5,346
Interest payments	1,213	2,360	2,260	2,696	3,091	3,681
Other current	3,717	4,252	5,192	4,866	6,091	6,694
"Potential supplementaries"				779	1,028	1,299
Development expenditures	5,230	6,718	7,566	9,604	14,165	15,067
Externally-financed projects	1,933	2,477	3,268	4,269	6,908	7,884
Of which: Non-concessional borrowing		310	409	879	2,459	2,438
Government of Uganda investment	3,296	4,241	4,298	5,335	7,257	7,183
Net lending and investment	1,235	541	1,396	1,013	1,045	1,275
Hydro-power projects	985	441	1,396	1,013	561	1,175
Of which: Non-concessional borrowing	0	425	1,346	1,001	561	661
Recapitalization	250	100	0	0	484	100
Of which: Bank of Uganda[4]	250	100	0	0	484	100
Other spending	225	184	305	429	400	600
Float	68	-331	195	0	0	0
Overall balance	-3,402	-3,210	-4,814	-5,966	-8,835	-10,107
Underlying balance (excl. one-off spending)[5]	-2,287	-2,489	-3,203	-4,074	-5,588	-6,394
Financing	3,402	3,210	5,009	5,966	8,835	10,107
External financing (net)	919	2,609	3,635	3,471	5,393	6,370
Disbursement	1,177	2,983	4,448	4,365	6,050	7,381
Budget support	0	0	141	187	382	384
Concessional project loans	1,177	1,675	2,420	2,298	2,648	3,897
Non-concessional borrowing	0	736	1,746	1,880	3,020	3,099
Revolving Credit		573	141	…	….	…
Amortization (–)	-254	-371	-813	-894	-657	-1,011
Exceptional financing	-4	-4	0	0	0	0
Domestic financing (net)	2,483	602	1,374	2,495	3,441	3,737
Bank financing	1,288	-299	262	1,177	1,675	1,620
Bank of Uganda[6]	1,064	-10	-110	107	673	100
Of which: Petroleum revenues	-120	-130	-88	0	-257	0
Of which: Petroleum fund withdrawals	1,488	-176	-36	200	351	0
Of which: Energy fund withdrawals	558	0	0	0	0	0
Of which: Bank of Uganda repayments	-146	0	0	0	0	0
Of which: Government Securities[4]	250	100	0	0	484	100
Of which: MDRI	0	0	0	0		
Of which: Change in deposits	-1,003	258	118	-93		
Commercial banks	224	-289	372	1,070	1,002	1,520
Nonbank financing	1,195	901	1,112	1,318	1,767	2,117
Memorandum Items:						
Petroleum Fund (end-period stock)[7]	120	421	458	258	163	163
Energy fund (end-period stock)	190	0	0	0	0	0
Expenditures for poverty-alleviating sectors[8]	3,032	3,909	4,047	…	…	…

Sources: Ugandan authorities and IMF staff estimates and projections.

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

[2] Include mainly HIPC-related grants from FY 2013/14 onwards.

[3] Expenditure categories in FY2013/14 include

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

[5] The overall deficit excluding large infrastructure projects financed by nonconcessional external borrowing

[6] Net financing from the Bank of Uganda includes resources freed by MDRI relief.

[7] The balances of the Oil Fund were transferred to the UCF and in line with the PFM Act, a new Petroleum Fund was opened with balances from recent oil revenue deposits.

[8] Excluding externally financed spending.

Table 2b. Uganda: Fiscal Operations of the Central Government, FY2014/15-2020/21[1]

(Percent of GDP)

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
				Est.		Proj.	
Total revenue and grants	14.4	15.2	15.2	15.3	16.1	17.6	17.5
Revenue	13.2	13.8	14.1	14.5	15.0	16.0	16.3
Tax	12.5	13.0	13.3	13.7	14.1	14.7	15.2
International trade taxes	1.1	1.3	1.3	1.4	1.4	1.5	1.6
Income taxes	4.4	4.7	4.7	4.8	5.0	5.2	5.4
Excises	2.8	2.8	2.9	2.9	3.1	3.3	3.3
Value-added tax	4.1	4.2	4.3	4.4	4.4	4.6	4.8
Infrastructure levy	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Nontax	0.6	0.7	0.7	0.7	0.9	1.3	1.1
Oil revenue	0.2	0.1	0.1	0.0	0.0	0.2	0.0
Grants	1.2	1.4	1.0	0.8	1.1	1.6	1.2
Budget support[2]	0.3	0.4	0.3	0.2	0.1	0.1	0.1
Project grants	0.9	1.0	0.8	0.6	1.0	1.5	1.1
Expenditures and net lending[3]	18.8	20.1	19.0	20.1	21.5	24.8	24.9
Current expenditures	10.0	11.0	10.9	10.9	11.5	12.0	12.5
Wages and salaries	3.6	3.6	3.7	3.4	3.9	3.6	3.9
Interest payments	1.6	2.0	2.6	2.2	2.4	2.5	2.7
Other current	4.9	5.4	4.6	5.2	4.4	5.0	4.9
"Potential supplementaries"					0.7	0.8	1.0
Development expenditures	6.8	7.1	7.3	7.5	8.7	11.6	11.1
Externally-financed projects	2.5	2.9	2.7	3.3	3.9	5.7	5.8
Government of Uganda investment	4.3	4.2	4.6	4.3	4.8	6.0	5.3
Net lending and investment	1.6	1.8	0.6	1.4	0.9	0.9	0.9
Hydro-power projects	1.3	1.6	0.5	1.4	0.9	0.5	0.9
Recapitalization	0.3	0.0	0.1	0.0	0.0	0.4	0.1
Other spending	0.3	0.1	0.2	0.3	0.4	0.3	0.4
Float	0.1	0.4	-0.4	0.2	0.0	0.0	0.0
Overall balance	-4.4	-5.3	-3.5	-5.0	-5.4	-7.2	-7.4
Underlying balance (excl. one-off spending)[4]	-3.0	-3.3	-2.7	-3.2	-3.7	-4.6	-4.7
Financing	4.4	5.3	3.5	5.0	5.4	7.2	7.4
External financing (net)	1.2	3.0	2.8	3.6	3.2	4.4	4.7
Disbursement	1.5	3.4	3.3	4.4	4.0	5.0	5.4
Budget support	0.0	0.0	0.0	0.1	0.2	0.3	0.3
Concessional project loans	1.5	1.9	1.8	2.4	2.1	2.2	2.9
Non-concessional borrowing	0.0	1.5	0.8	1.7	1.7	2.5	2.3
Revolving Credit			0.6	0.1	…	…	…
Amortization (–)	-0.3	-0.4	-0.4	-0.8	-0.8	-0.5	-0.7
Exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing (net)	3.2	2.3	0.7	1.4	2.3	2.8	2.7
Bank financing	1.7	1.1	-0.3	0.3	1.1	1.4	1.2
Bank of Uganda[5]	1.4	0.4	0.0	-0.1	0.1	0.6	0.1
Of which: Petroleum revenues	-0.2	-0.1	-0.1	-0.1	0.0	-0.2	0.0
Of which: Petroleum fund withdrawals	1.9	-0.2	-0.2	0.0	0.2	0.3	0.0
Commercial banks	0.3	0.7	-0.3	0.4	1.0	0.8	1.1
Nonbank financing	1.6	1.2	1.0	1.1	1.2	1.4	1.6
Memorandum Items:							
Petroleum Fund (end-period stock)[6]	0.2	0.3	0.5	0.5	0.2	0.1	0.1
Energy fund (end-period stock)	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Expenditures for poverty-alleviating sectors[7]	4.0	3.9	4.3	4.0	…	…	…

Sources: Ugandan authorities and IMF staff estimates and projections.

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

[2] Include mainly HIPC-related grants from FY 2013/14 onwards.

[3] Expenditure categories in FY2013/14 include clearance of arrears totaling 0.8 percent of GDP, mainly in Government of Uganda investment and other current spending.

[4] The overall deficit excluding large infrastructure projects financed by nonconcessional external borrowing (e.g. HPPs), BOU recapitalization, and oil revenue.

[5] Net financing from the Bank of Uganda includes resources freed by MDRI relief.

[6] The balances of the Oil Fund were transferred to the UCF and in line with the PFM Act, a new Petroleum Fund was opened with balances from recent oil revenue deposits.

[7] Excluding externally financed spending.

Table 3. Uganda: Monetary Accounts, FY2014/15-2019/20[1]

(Billions of Ugandan Shillings unless otherwise indicated)

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
				Est.	Proj.	Proj.
			Depository Corporations Survey[2]			
Net foreign assets	9,656	10,329	12,897	14,959	14,096	14,981
Bank of Uganda	10,092	10,642	12,843	13,362	13,185	14,165
Commercial banks	-436	-313	54	1,597	911	816
Net domestic assets	6,733	7,228	7,039	7,516	11,346	13,798
Claims on public sector (net)[3]	1,911	2,841	2,561	2,778	4,510	5,438
Claims on central government (net)	1,827	2,750	2,451	2,712	4,440	5,368
Claims on the private sector	10,986	11,422	12,074	13,341	15,151	16,841
Other items (net)[4,5]	-6,163	-7,035	-7,595	-8,601	-8,315	-8,481
Money and quasi-money (M3)	16,389	17,557	19,936	22,475	25,442	28,779
Foreign exchange deposits	5,294	5,472	5,921	6,780	7,294	8,250
			Bank of Uganda			
Net foreign assets	10,092	10,642	12,843	13,362	13,185	14,165
Net domestic assets	-5,039	-4,991	-6,939	-7,146	-5,856	-6,369
Claims on public sector (net)[3]	-1,995	-1,686	-2,310	-2,420	-1,762	-1,836
Claims on central government (net)	-1,995	-1,686	-2,310	-2,420	-1,762	-1,836
Claims on commercial banks	-161	-461	-1,668	-1,241	-566	-467
Other items (net)[4,5]	-2,883	-2,844	-2,961	-3,485	-3,528	-4,066
Base money	5,053	5,651	5,904	6,216	7,329	7,796
Currency in circulation	3,232	3,392	3,866	4,315	5,075	5,477
Commercial bank deposits[6]	1,822	2,259	2,038	1,902	2,255	2,319
			Other Depository Corporations			
Net foreign assets	-436	-313	54	1,597	911	816
Net domestic assets	14,113	14,985	16,540	17,104	20,131	23,262
Of which Claims on central government (net)	3,830	4,436	4,761	5,132	6,202	7,204
Of which Claims on private sector	10,922	11,386	12,028	13,287	15,096	16,786
Deposit liabilities to the non-bank public	13,677	14,621	16,594	18,701	21,041	24,078
Shilling deposits	8,383	9,150	10,673	11,921	13,748	15,827
Foreign exchange accounts	5,294	5,472	5,921	6,780	7,294	8,250
Memorandum items:						
(Annual percentage change)						
Base money	23.5	11.8	4.5	5.3	17.9	6.4
M3	15.9	7.1	13.6	12.7	13.2	13.1
Credit to the private sector	20.4	4.0	5.7	10.5	13.6	11.2
Memorandum items:						
Base money-to-GDP ratio (percent)	6.6	6.8	6.4	6.2	6.7	6.4
M3-to-GDP ratio (percent)	21.4	21.1	21.7	22.4	23.1	23.6
Base money multiplier (M2/base money)	2.2	2.1	2.4	2.5	2.5	2.6
Credit to the private sector (percent of GDP)	14.4	13.7	13.2	13.3	13.8	13.8
Velocity (M3)	4.7	4.7	4.6	4.5	4.3	4.2
Exchange rate (Ush/US$, eop)	3,302	3,405	3,591	3,835	…	…

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, other financial corporations 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 4. Uganda: Balance of Payments, FY2015/16-2023/24[1]

(Millions of US dollars unless otherwise indicated)

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
			Est.			Proj.			
Current account	-1,362	-956	-1,683	-2,118	-2,825	-3,386	-3,410	-2,903	-2,115
Trade balance	-2,004	-1,494	-2,083	-2,332	-2,780	-3,045	-3,013	-2,614	-1,817
Exports, f.o.b.	2,688	3,274	3,537	3,768	4,087	4,549	4,953	5,372	6,555
Of which: coffee	352	491	492	550	624	722	786	852	930
Imports, f.o.b.	4,692	4,768	5,619	6,101	6,866	7,593	7,966	7,986	8,372
Of which: oil	646	694	911	1,002	998	1,050	1,098	1,154	1,259
Of which: government	612	418	595	699	887	909	949	896	971
Services (net)	-261	-314	-434	-702	-845	-974	-890	-680	-743
Credit	1,979	1,653	1,833	1,867	2,010	2,166	2,329	2,514	2,745
Debit	2,239	1,967	2,266	2,569	2,855	3,140	3,219	3,195	3,487
Primary income (net)	-512	-609	-737	-809	-984	-1,182	-1,345	-1,501	-1,528
Of which: interest on public debt (debit)	47	77	93	112	136	176	206	222	241
Secondary income (net)	1,414	1,460	1,570	1,725	1,783	1,815	1,838	1,892	1,972
Private transfers	1,176	1,277	1,439	1,488	1,522	1,591	1,665	1,743	1,825
Of which: workers' remittances (credit)	954	1,164	1,245	1,285	1,288	1,330	1,373	1,418	1,464
Official transfers	238	184	131	237	262	224	172	149	148
Of which: budget support (including HIPC)	95	56	53	92	26	23	0	0	0
capital gains tax	50	37	0	7	8	8	9	10	10
Capital account	120	151	105	152	243	208	177	150	149
Of which: project grants	120	151	105	152	243	208	177	150	149
Net lending (+) / net borrowing (–) (balance from current and capital accounts)	-1,243	-806	-1,578	-1,966	-2,583	-3,178	-3,234	-2,754	-1,966
Financial account	-1,245	-1,104	-1,072	-2,091	-2,770	-3,326	-3,502	-3,003	-2,406
Direct investment (net)	-681	-649	-738	-1,163	-1,556	-1,936	-2,257	-2,044	-1,687
Portfolio investment and financial derivatives (net)	143	184	347	265	221	235	248	261	277
Other investment (net)	-708	-639	-682	-1,193	-1,434	-1,624	-1,493	-1,221	-996
Public sector (net)	-859	-855	-1,013	-922	-1,409	-1,644	-1,618	-1,063	-1,139
SDR allocation	0	0	0	0	0	0	0	0	0
Build-up (-)/drawdown (+) of petroleum fund	-42	-45	-24	0	0	0	0	0	0
Loan disbursements (net incurrence of liabilities)	992	992	1,265	1,160	1,580	1,905	1,992	1,442	1,552
Project support (loans)	621	478	609	611	692	1,006	1,131	847	656
Budget support (loans)	0	144	41	50	100	99	98	49	41
Non-concessional borrowing	371	371	615	500	789	800	763	546	855
Amortization due	-90	-91	-229	-238	-172	-261	-374	-379	-414
Commercial banks (net)	40	107	397	-169	-30	-35	-28	-18	-15
Other private (net)	111	109	-65	-49	29	55	153	-140	158
Net errors and omissions	99	123	296	0	0	0	0	0	0
Overall balance	101	421	-210	125	187	149	268	250	440
Financing	-101	-421	210	-125	-187	-149	-268	-250	-440
Central bank net reserves (increase = –)	-100	-419	213	-125	-187	-149	-268	-250	-440
Use of Fund credit	-1	0	0	0	0	0	0	0	0
Exceptional Financing	-2	-2	-3	0	0	0	0	0	0
Memorandum items:									
Gross international reserves									
In US$ billions	3.0	3.4	3.2	3.3	3.5	3.7	4.0	4.2	4.6
In months of next year's imports of goods and services	5.3	5.2	4.5	4.1	4.0	4.0	4.2	4.3	4.6
Donor support									
Of which: budget support (loans and grants)	95	199	95	141	126	123	98	49	41
Of which: project support (loans and grants)	741	628	714	762	934	1,214	1,308	997	806
Current account balance (percent of GDP)	-5.6	-3.7	-6.1	-7.2	-8.9	-9.6	-8.9	-7.0	-4.7
Current account balance (excluding grants)	-6.0	-3.9	-6.3	-8.1	-9.7	-10.3	-9.4	-7.4	-5.0
Trade balance (percent of GDP)	-8.3	-5.7	-7.6	-8.0	-8.7	-8.7	-7.9	-6.3	-4.0
Exports of goods (percent of GDP)	11.1	12.6	12.9	12.9	12.8	12.9	13.0	13.0	14.5
Imports of goods (percent of GDP)	19.4	18.3	20.5	20.9	21.6	21.6	20.8	19.3	18.5

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 2015- December 2018

(In percent)

	2015				2016				2017				2018			
	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Capital adequacy																
Regulatory capital to risk-weighted assets	23.2	21.2	19.7	21.0	21.8	21.7	22.5	19.8	22.9	23.6	23.8	23.2	23.8	21.8	21.6	21.6
Regulatory tier 1 capital to risk-weighted assets[1]	20.8	18.8	17.3	18.6	19.1	19.0	19.8	17.3	20.4	21.4	21.5	20.9	21.5	19.7	19.8	19.8
Asset quality																
NPLs to total gross loans	4.2	4.0	3.9	5.3	6.9	8.3	7.7	10.5	6.3	6.2	7.2	5.6	5.3	4.4	4.7	3.4
NPLs to total deposits	3.1	2.9	2.9	3.9	4.9	5.8	5.4	7.4	4.1	4.0	4.6	3.6	3.4	2.8	3.1	2.3
Specific provisions to NPLs	53.7	51.9	45.4	41.6	47.2	54.3	51.8	60.4	43.4	43.6	45.0	54.9	53.4	50.1	50.1	54.1
Earning assets to total assets	70.4	69.5	69.6	69.2	70.1	68.0	69.2	67.3	67.5	69.2	70.9	71.9	72.2	68.2	69.0	69.1
Large exposures to gross loans	35.2	40.0	43.5	40.9	42.2	41.5	42.7	42.4	37.8	37.4	37.3	38.0	36.4	43.2	44.5	42.9
Large exposures to total capital	104.5	126.4	140.8	123.5	123.9	121.5	118.7	133.2	99.8	97.5	95.2	94.8	90.6	113.7	116.9	112.5
Earnings and profitability																
Return on assets	2.5	2.8	2.7	2.6	2.8	2.2	2.5	1.3	1.4	1.7	1.5	2.7	2.6	2.8	2.8	2.5
Return on equity	15.6	17.7	17.2	16.0	16.8	13.8	14.9	8.3	8.3	10.2	8.7	16.4	15.0	16.7	16.3	14.4
Net interest margin	11.0	10.9	11.0	11.3	11.6	11.9	12.3	12.8	12.7	12.3	11.8	11.6	11.6	11.5	11.3	11.1
Cost of deposits	3.4	3.3	3.3	3.3	3.4	3.4	3.4	3.5	3.3	3.1	3.0	2.8	16.2	2.5	2.4	2.3
Cost to income[2]	76.4	73.8	68.5	69.2	75.3	78.4	77.0	84.8	84.1	81.6	82.9	73.9	2.7	72.8	72.6	73.9
Overhead to income[2]	47.9	48.1	48.2	48.7	48.0	47.9	47.5	47.5	47.7	48.4	49.1	48.9	74.8	51.2	52.3	53.7
Liquidity																
Liquid assets to total deposits	44.2	46.4	46.0	46.4	42.5	43.4	45.4	51.5	48.8	50.1	48.3	54.6	52.9	46.6	43.9	45.5
Market sensitivity																
Foreign currency exposure to regulatory tier 1 capita	-5.4	-5.7	-3.4	-5.9	-7.6	-6.2	-7.1	8.5	-8.1	-7.0	-5.5	-5.4	-7.9	-5.2	-5.0	-7.5
Foreign currency loans to foreign currency deposits[2]	79.6	79.8	78.0	77.6	77.8	77.5	75.6	79.3	73.4	72.1	70.8	71.5	70.6	62.9	67.8	63.0
Foreign currency assets to foreign currency liabilities	102.9	101.4	102.0	101.8	97.4	96.7	96.0	99.2	96.7	91.8	90.6	92.4	98.3	99.9	98.4	94.1

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 respectively. 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.

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

Source of Risks	Likelihood / Time Horizon	Expected Impact on Economy	Policy Response
Potential Domestic Risks			
Weak implementation of public investment combined with tax revenue shortfalls, for example in the context of the 2021 elections	**High** **Short to Medium Term**	**High.** Would lower growth dividend and increase risk of debt distress	- Improve the quality of public spending - Define operational debt ceiling with annual budget deficit and a binding expenditure envelope
Follow-up to the parliamentary report undermines BoU's independence and effectiveness	**High** **Medium/ LongTerm**	**High.** Compromise inflation targeting regime and effective bank supervision. Loss of macro stability and potential for bank failures.	- Draw on IMF TA to design reforms - Clear political statement in support of BoU and immediate correction of false information in the public domain
Lower growth from regional insecurity or adverse weather shocks	**High** **Medium/ Long-term**	**High.** Lower growth, increase in poverty levels, worsened public debt sustainability	- Improve economic resilience to shocks, build fiscal and external buffers
Further delays in the start of oil production.	**High** **Medium to Long Term**	**Medium.** Would reduce growth and further weaken public debt metrics.	- Focus on revenue mobilization and refrain from tax exemptions - Rein in current spending and rephase investment
Potential External Risks			
Rising protectionism and retreat from multilateralism.	**High** **Short to Medium Term**	**Medium.** Would adversely impact exports foreign direct investment and portfolio inflows.	- Maintain exchange rate flexibility. - Accelerate reforms to enhance competitiveness. - Move forward with trade integration in the East African Community and on the continent.

Annex I. Risk Assessment Matrix (RAM)[1] (concluded)

Sharp tightening of global financial conditions: • Tighter global financial conditions. • Sustained rise in risk premium.	**Low** **Short Term** **Medium** **Short Term**	**Low.** Would reduce capital inflows—negative affect on the banking sector and credit growth due to already low portfolio investment in government securities; higher domestic borrowing costs; and reduced imports.	- Address bottlenecks in the banking sector and further strengthen financial sector supervision; - Improve macroeconomic fundamentals and business environment.
Weaker-than-expected global growth.	**Medium** **Short to Medium Term**	**Medium.** Would lower growth and widen current account deficit through reduced tourism, trade, and foreign direct investment and portfolio inflows. Could impact availability of Chinese project financing.	- Maintain exchange rate flexibility; - Accelerate reforms to address structural weakness affecting competitiveness.
Intensification of security risks in Africa	**High** **Short to Medium Term**	**High.** Deterioration of security situation in South Sudan and DRC, key trading partners, would directly affect exports. Spread of instability to Uganda would have widespread adverse effects on the economy.	- Maintain exchange rate flexibility; - Promote diversification of trading markets.
Cyber-attacks	**Medium** **Short to Medium Term**	**Low.** Would disrupt economic activities, put at risk financial stability, but financial sector remains small.	Step up efforts to strengthen cyber security

[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.

Annex II. Fiscal Space Assessment

Uganda's fiscal space is assessed to be at risk. The external position is weaker than the level implied by fundamentals and desirable policies. Uganda relies largely on project financing and domestic issuance, limiting the scope for ad hoc additional borrowing. Given Uganda's administrative capacity, the government is unlikely to be able to increase spending beyond current projections in an effective manner. Uganda's low revenue mobilization calls for increased revenue collection and does not allow for tax cuts and exemptions.

A. Background

1. **This annex assesses Uganda's fiscal space over the next 3–4 year, considering the macroeconomic and structural context**. Fiscal space is defined as the room for discretionary fiscal policy relative to existing plans without endangering market access and debt sustainability. The assessment by itself does not answer the question of whether and how fiscal space should be used.

B. Economic Context

2. **Cyclical state.** Uganda has a small negative output gap of -0.5 percent of GDP that is projected to close in the next few years. Economic activity has recently picked up, driven by favorable weather conditions, a recovery in private sector credit growth, FDI and public investment in oil-related infrastructure.

3. **Growth prospects.** Growth is projected between 6 and 7 percent over the next five years, if infrastructure and oil sector investments proceed as planned. Risks are tilted to the downside, and related to climate conditions, the regional security situation, delays in the start of oil production, and the global economic environment. Long-term growth prospects are closely linked to the growth dividend from ongoing public investment and investments in human capital.

4. **The monetary policy stance is appropriate.** Monetary policy has been successful in achieving low inflation while supporting economic activity. Given current projections for the shilling exchange rate, food and fuel prices, and the global interest rate environment, the recent decision by the Bank of Uganda to keep monetary policy stance on hold is appropriate.

5. **External vulnerabilities.** Uganda's external position at end-2018 was weaker than the level implied by medium-term fundamentals and desirable policies. However, international reserves remain well above standard rules of thumb and the IMF's metric of reserve adequacy (see Annex VI). The Herfindahl-Hirschman index indicates that Uganda's exports are relatively diversified.

C. Fiscal Space under the Baseline and Stress Tests

6. **Debt service.** Debt service to revenue is emerging as the key constraining factor. Public debt increased to 41.3 percent of GDP in FY17/18. The debt service to revenue reached 44.8 percent in FY17/18 and interest payments are projected to take up to 20 percent of revenue

in FY19/20. Gross financing needs, at 9.7 percent of GDP in FY17/18, are expected to increase with continued build-up of debt for the ongoing infrastructure investment.

7. **Financing mix.** Uganda relies primarily on project financing and domestic securities, mainly T-bills and treasury bonds. There is currently no budget support. The country has access to some commercial financing provided by China EXIM Bank and JBIC. While most of the outstanding external public debt remains on concessional terms, the share of semi-concessional component has increased, reflecting increased borrowing from China.

8. **Market access.** The authorities have decided to not tap the Eurobond market to minimize external vulnerabilities, in particular roll-over risk. However, the experience of peer countries suggests that Uganda could potentially access international markets if they chose to.[1] Fitch's credit rating for Uganda is B+, while S&P and Moody's respectively set it at B and B2.

9. **Public investment efficiency.** Expenditure and revenue multipliers are estimated to be in the low range, due to inefficiencies in public expenditure management and revenue administration. The authorities need to strengthen public financial management and adopt and implement their domestic revenue mobilization strategy.

10. **Debt Sustainability Analysis (DSA).** Even though the debt burden has increased compared to the previous DSA, Uganda remains at low risk of debt distress. The assessment rests on four key assumptions: (i) infrastructure investments yield the envisaged growth dividend; (ii) revenue collection improves by ½ percent of GDP per year over the next five years; (iii) oil exports commence in 2023; and (iv) infrastructure investment is reduced once the current projects are completed. Uncertainties around spending pressures, contingent liabilities, or a growth shock could push public debt above the authorities' ceiling in the Charter of Fiscal Responsibility (50 percent of GDP in net present value terms).

11. **Contingent liabilities.** Current fiscal projections do not take into consideration contingent liabilities (estimated at 16.9 percent of GDP). At present, contingent liabilities from the banking sector seem limited. NPL ratios have continuously decreased since December 2016, reaching 4.7 percent of outstanding loans in September 2018.

12. **EAC and Charter of Fiscal Responsibility.** As a member of the East African Community (EAC) Uganda adopted a set of convergence criteria in preparation for eventual monetary union. Uganda is projected achieve the debt ceiling, but miss the fiscal deficit convergence criteria of 3 percent of GDP by FY20/21.

[1] The maximum spreads levels over the last 12 months and 5 years of countries of a similar rating as Uganda are between 400 and 600.

D. Assessment

13. **Uganda's fiscal space is assessed to be at risk.** This assessment reflects the weaker external position, high interest payments, limited access to financing, weak government administrative capacity and contingent liabilities.

Uganda: Fiscal Space Summary Table[1] FY2017/18

Initial state	
Estimated output gap (percent of potential GDP)	-0.5
Monetary policy appropriate	yes
Estimated current account gap	-0.3
Fiscal metrics	
Gross Public Debt	41.3
Debt service (percent of total revenue)	44.8
Projected interest payment in FY19/20 (percent of total revenue)	20
Projected Gross Public Debt in FY29/30	40
Primary balance	-2.6
Debt stabilizing primary balance	-0.9
Gross financing needs	9.7
Contingent liabilities	16.9
Member of EAC	yes

Source: Uganda authorities and IMF estimates and projections.

[1] in percent of GDP, unless otherwise indicated.

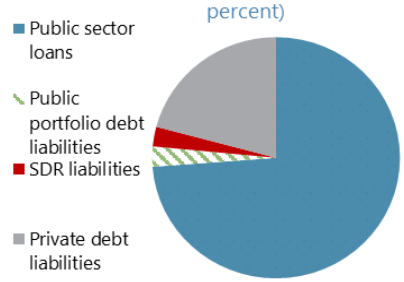
Annex III. External Sector Stability Assessment

Uganda's external position in 2018 was weaker than the level implied by medium-term fundamentals and desirable policies. The current account balance and net international investment position deteriorated in 2018, suggesting a moderately weaker external position. The current account deficit is expected to widen further over the medium term, reflecting higher oil investment related imports. Reserve coverage is above the assessed adequacy level. Policies should strive to enhance macroeconomic resilience, preserve fiscal and debt sustainability, continue improving export diversification and product quality, and advance growth-friendly structural reforms.

A. External Balance Sheets

1. **Uganda remains at low risk of external debt distress.** External liabilities consisted mostly of public sector loans and public portfolio debt liabilities, which are mostly concessional loans from multilateral and bilateral creditors. Public sector loans accounted for around three quarters of the external debt, equivalent to 28.7 percent of GDP as of end-2017. The FDI stock is also a major component of external liabilities and is concentrated in the oil sector. The accompanying debt sustainability analysis indicates that Uganda faces a low risk of debt distress based on an assessment of public and external debt, with vulnerabilities coming from risks related to contingent liabilities, growth, export shocks and fiscal implementation.

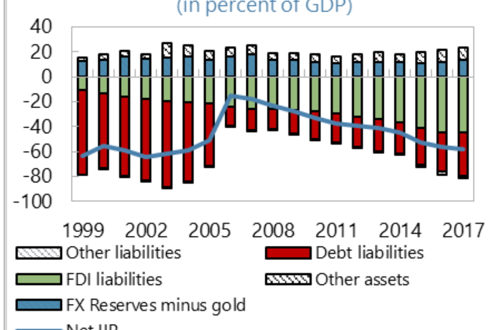
External debt liabilities in 2017 (in percent)



Sources: Bank of Uganda and IMF staff calculations.

2. **The net international investment position (NIIP) is projected to improve in the long run as Uganda becomes an oil exporter, though risks remain.** The NIIP stood at -60 percent of GDP at end-2017. FDI inflows remained strong with infrastructure investments. Other investment inflows declined significantly, while portfolio investment outflows increased. In the next three years, the NIIP is projected to deteriorate further, before an expected turnaround once infrastructure and oil sector investments start bearing fruit. Over the next few years, significant FDI inflows are expected to finance the development of the nascent oil sector and other infrastructure. The continued scaling-up of infrastructure investment will involve additional external public-sector borrowing. This is expected to increase investment-related imports and thereby widen the current account deficit. These investments are expected to have growth effects in the long run, reduce the current account deficit, and thereby improve the NIIP outlook.

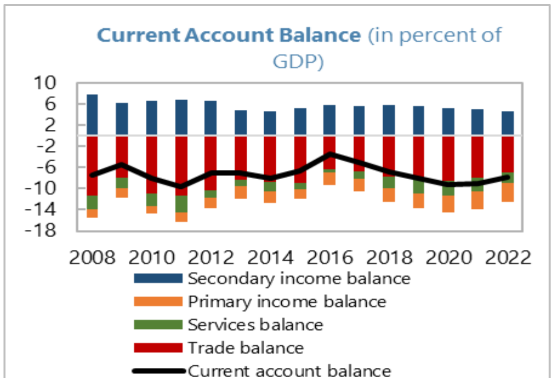
Net International Investment Position
(in percent of GDP)



Sources: Bank of Uganda, and IMF staff calculations.

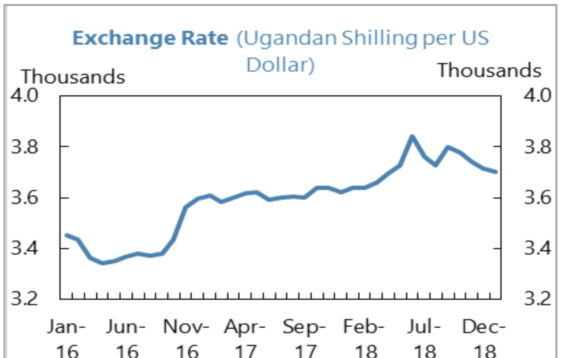
B. Current Account and Real Exchange Rate

3. **The current account deficit widened in 2017 and 2018.** After the current account deficit hit the lowest point in recent history in 2016, the current account deficit increased to 6.1 percent of GDP in FY2017/18, driven by the trade and service balances. The imports of goods and services increased with infrastructure related projects mainly in the hydropower and oil related sectors. Going forward, the current account deficit is projected to continue to widen as the development of the oil sector and continued scaling up of infrastructure investment are expected to increase imports. When oil related projects slow down, and oil exports start, we expect the current account balance to improve. Uganda's exports are relatively diversified with improved product quality, with good space to further grow (see trade development in Box 1).

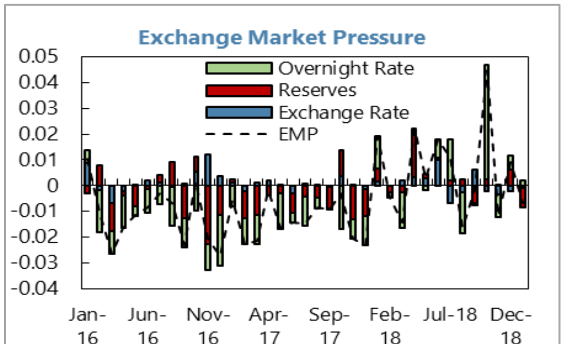


Sources: Bank of Uganda, and IMF staff calculations.

4. **The nominal effective exchange rate (NEER) depreciated in 2018, following a year of unusual stability in 2017, and Bank of Uganda (BoU) managed the excessive volatility.** The NEER depreciated by 5 percent in 2017 on average, compared to a 26-percent depreciation in 2016, an election year. The NEER depreciated in 2018 as a result of the global strengthening of the U.S. dollar and the weaker Ugandan current account position caused by higher imports. As shown by the exchange market pressure index (EMP) chart,[1] there were some high-pressure episodes in the exchange rate market in 2018 due to exchange rate depreciation, increases in the interest rate, and declines in reserves. BoU intervened in some periods to mitigate excessive volatility, which led to some reduction of reserves.



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



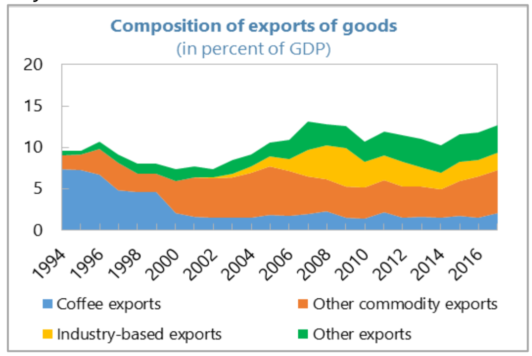
Sources: Bank of Uganda, Uganda Bureau of Statistics, and IMF staff calculations.

[1] The exchange market pressure index (EMP) measures the pressure on the market based on changes of exchange rate, reserves, and interest rates, using the same weights of the components. A depreciating currency creates an increased pressure on the market as well as an increase in the interest rate. A diminishing stock of reserves creates higher pressure on the market. The zero line is always relative to the previous month therefore it is not possible to compare two months that are separated for more than one period.

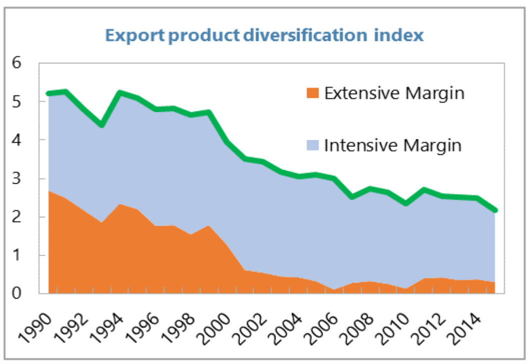
Box 1. Trade Development in Uganda

Exports of services have become more important in recent years, which comprised 34 percent of total exports in 2017. Main service export sectors include travel and tourism, ICT, and transport.

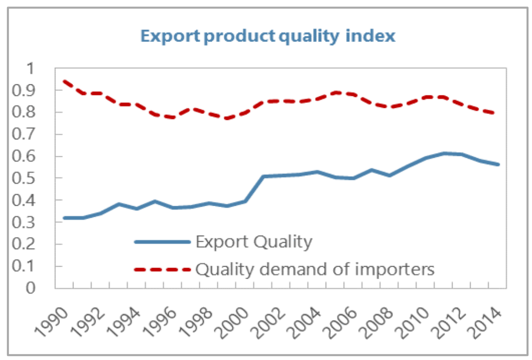
Coffee and other primary commodity exports have constituted more than half of total exports of goods in 2017. Industry-based exports were hit by security situations in trading partners, but recovery is under way.



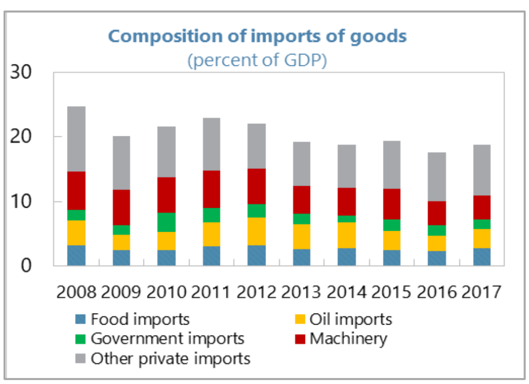
Uganda has made progress in export product diversification through extensive margin (exporting new products) and intensive margin (balancing the shares of products).



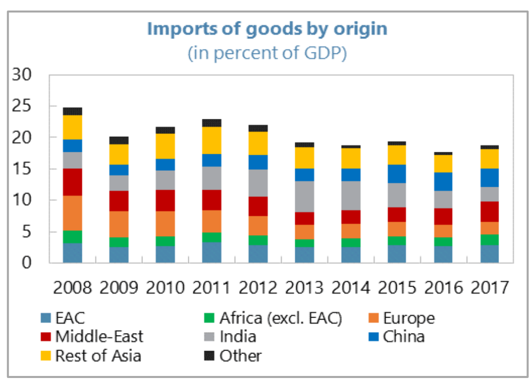
Export product quality has increased while the average quality is still lower than the quality demand of importers, which suggests more space to further improve product quality.



Imports are driven by private sector imports, along with oil imports and machinery imports



Imports are mainly from Africa, Europe, Middle-East and Asia.



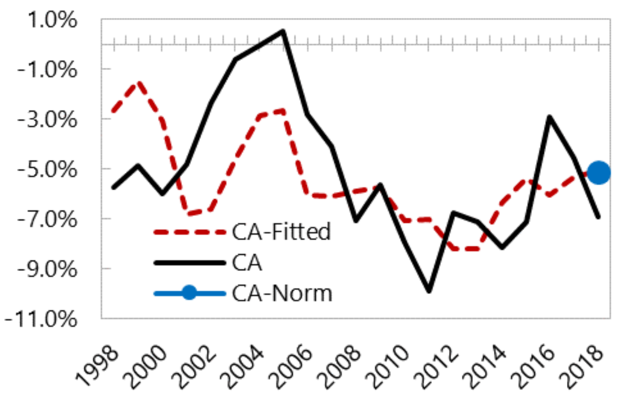
Source: Uganda Authorities; The Altas of Complexity; IMF Diversification Toolkit; IMF staff calculations.

5. **The 2018 current account is weaker than the level implied by fundamentals and desirable policy settings, which implies that the real effective exchange rate (REER) is**

overvalued. The assessment is based on the results of EBA-Lite current account model and external sustainability approach.

- Under the EBA-Lite current account model, Uganda's norm is estimated at -5.3 percent of GDP in 2018. This compares to an actual current account balance of -6.9 percent of GDP, implying a current account gap of -2.2 percent, suggesting the 2018 current account is weaker than the level implied by fundamentals. The current account gap includes policy gap of 0.6 percent of GDP. This translates into a REER gap of 13 percent. Therefore, the real exchange rate is overvalued and tends to depreciate to align the current account with its norm.

Current Account: Actual, Fitted, and Norm
(percent of GDP)



Source: IMF staff calculations.

Results of EBA-CA Approach

CA-Actual	-6.9%
Cyclical Contributions (from model)	0.4%
Cyclically adjusted CA	-7.3%
CA-Norm	-5.3%
Cyclically adjusted CA Norm	-5.7%
Multilaterally Consistent Cyclically adjusted CA	-5.2%
CA-Gap	-2.2%
of/which Policy gap	-0.61%
Elasticity	-0.17
REER Gap	13%
CA-Fitted	-5.0%
Residual	-0.02
Natural Disasters and Conflicts	0.9%

Source: IMF Staff calculations.

- The revised results of the external sustainability (ES) approach based on the NIIP level at -53 percent in 2016, show CA gap of -1.2 percent and REER gap of 7.2 percent in 2016, suggesting that the external position of Uganda is moderately weaker than implied by fundamentals and desirable policy settings. Thus, the exchange rate is overvalued under the ES approach. The third approach to assess exchange rate misalignment is the external sustainability approach (ES), which is commonly used for highly indebt countries by estimating REER to stabilize the NIIP at its current level.

Results of ES Approach

NFA/GDP 2016	-53%
NFA/GDP Benchmark	-53%
CA/REER elasticity	-0.16
Foreign Assets	1
Foreign Liabilities	0.36
REER Gap	7.2%
CA Gap	-1.2%

Source: IMF Staff calculations.

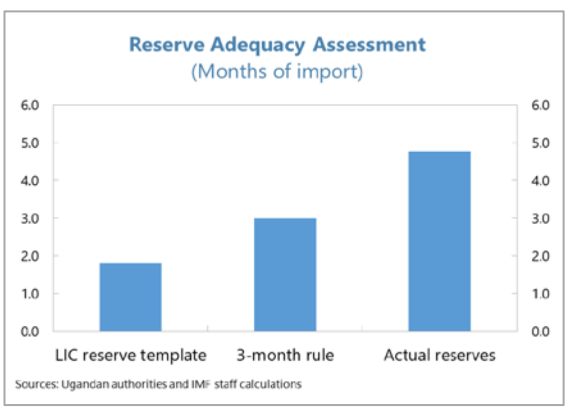
- Another approach to assess exchange rate misalignment is EBA-IREER approach, however, we think it is not the suitable model for Uganda as the fitting of the model does not work well for Uganda after 2014. The EBA-IREER results shows that the external position is substantially stronger than fundamentals and indicates an undervaluation of the real exchange rate of about 21 percent in 2018, which appears inconsistent with the model estimates of a negative CA gap.

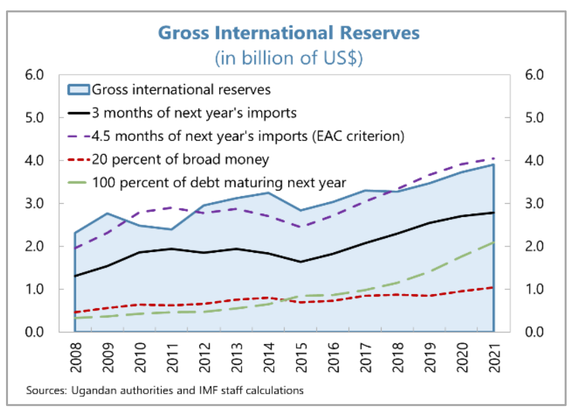
Results of EBA-IREER Approach	
Ln(REER) Actual	4.53
Ln(REER) Fitted	4.73
Ln(REER) Norm	4.75
Residual	-0.2
REER Gap	-21.9%
Policy Gap	-2%
Natural Disasters and Conflicts	-0.3%

Source: IMF staff calculations.

C. Reserve Adequacy

6. **International reserves remain adequate.** Reserves serve as external buffers, which is another important aspect of external sustainability**.** At end-2018, gross international reserves stood at US$3.3 billion, covering 4.5 months of next year's imports of goods and services. In 2019, the reserves are projected to have some increases to reach US$3.4 billion, covering 4.1 months of imports. The IMF's metric to assess reserve adequacy in credit-constrained economies, which explicitly weighs the cost and benefits of holding reserves, indicates that a reserve coverage of 2 months of imports would be adequate for Uganda. However, this level could be too low considering external vulnerability and should not be treated as an operational guideline. As shown in the figures the current stock of reserves exceeds the IMF's LIC metric, as well as standard rules of thumb (3 months of import coverage, 20 percent of broad money, and 100 percent of short-term external debt at remaining maturity), by comfortable margins. Going forward, under the baseline with continued confidence, BoU can continue to build reserves opportunistically while maintaining the flexible exchange rate regime. In case of extreme volatility in thin markets, BoU can intervene temporarily to combat excess volatility. From an external vulnerability perspective, reserves should be maintained at least above rules of thumb of 3 months of imports, and ideally above 4 months of imports with the EAC convergence criterion of 4½ months of imports as the anchor.





Annex IV. Governance and Corruption in Uganda

Governance and corruption issues are macro-relevant in Uganda, potentially impacting fiscal and growth outcomes. Uganda has the main elements of an anti-corruption legal framework but faces challenges in its implementation. The main areas of governance weakness are: fiscal transparency, notably in terms of coverage and adequacy of budget reports, the management of public investment projects, revenue collection, the regulatory framework for doing business and trade facilitation, the rule of law, and the Anti-Money Laundering / Countering the Financing of Terrorism (AML/CFT). Governance weaknesses, in particular weak implementation of the legal framework, can give rise to corruption.

1. **Uganda has put in place a strong legal anti-corruption framework and established formal accountability institutions.** The core of Uganda's legal anti-corruption framework encompasses the Anti-Corruption Act, the Penal Code, the Inspectorate of Government Act (2002), the Public Finance Management Act (2015), the Anti-Money Laundering Act, and the Leadership Code Act 2002 (LCA). The Anti-Corruption Act criminalizes a range of corruption offenses (e.g. bribery, diversion of property by a public official, trading in influence), outlines the powers of the Inspector General of Government and the Director of Public Prosecutions and provisions on jurisdiction, restraint and confiscation. The Penal Code also criminalizes embezzlement, causing financial loss, abuse of office and fraud. The LCA establishes the obligations for high-level officials to declare their assets and functions of the Inspectorate of Government. The Code of Conduct and Ethics lists standards of behavior for public officials, including handling of conflict of interests and bribery. Uganda is a signatory to both the UN and AU conventions against corruption.

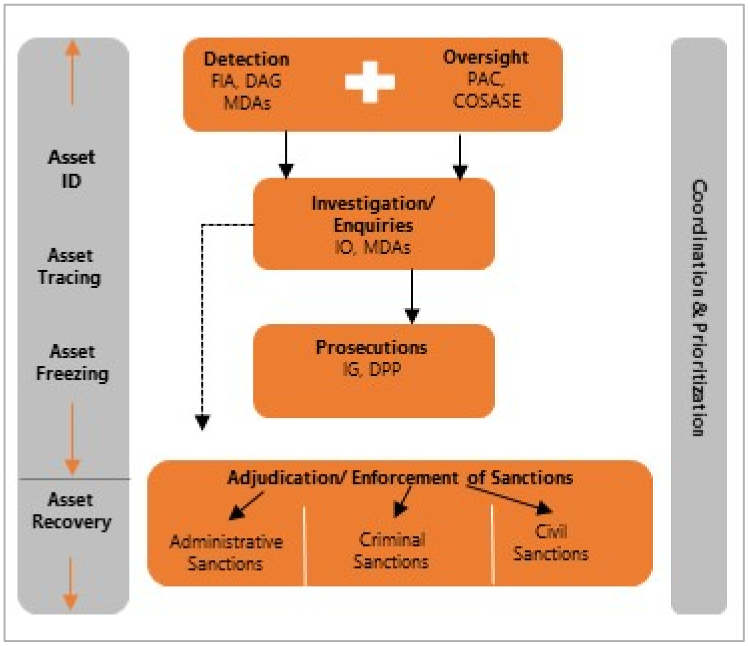
2. **The institutional anti-corruption framework** consists of a number of agencies:

Directorate of Criminal Investigation and Crime Intelligence is responsible for detection and investigation of crimes.

- **Offices of Auditor General (OAG) and Internal Auditor General (OIAG), Public Procurement and Disposal of Asset Authority (PPDA).**
- **Financial Intelligence Authority (FIA)** is responsible for coordinating AML/CFT issues, receiving and analyzing suspicious transaction reports and other information from reporting agencies.
- **Accountability committees of Parliament** which scrutinize OAG's audit findings and may recommend action by law enforcement or other government agencies: Public Accounts Committee, Committee on Commissions, Statutory Authorities, and State Enterprises, and Local Government Public Accounts Committee.
- **Bank of Uganda** is in charge of AML/CFT supervision of banks, money or value transfer services, forex bureaus and mobile money service providers.

- **The Inspectorate of Government (IG)** is responsible for offences under the Anti-Corruption Act and **the Department of Public Prosecution** is instituting criminal litigation in the courts of Uganda for all offences.

Core Functions and Institutions of the Anti-Corruption Response Chain.



Source: Strengthening Uganda's Anti-Corruption and Accountability Regime (SUGAR)

- **Directorate for Ethics and Integrity is responsible for the development of legislation, policies** and strategies aimed at improving accountability and reducing corruption.

- **Anti-Corruption Division of the High Court** adjudicates corruption-related cases.

- In December 2018, a new **anti-corruption unit** under the Office of the President was established. The primary functions of the unit include receiving and following up on corruption complaints and to manage an anonymous corruption hotline.

3. **The country faces major implementation challenges.** In addition to anecdotal evidence, national surveys indicate that corruption remains a severe problem. 88 percent of respondents consider corruption as a main concern.[1] Based on Transparency International's Corruption Perception Index 2017, Uganda received a score of 26 (on a scale of 0 to 100, 0 being the most corrupt). The Worldwide Governance Indicator assessing the control of corruption has recently worsened, while other indicators remained low (Figure 1).

[1] Most recent survey: 2017 National Governance, Peace, and Security Survey

4. **In 2016, the authorities launched the 5-year program Strengthening Uganda's Anti-Corruption Response Technical Advisory Facility (SUGAR), supported by DfID.** The inception report suggests that the country faces major implementation challenges and the accountability institutions lack effectiveness. For example, agencies have limited capacity to initiate investigations on the basis of existing audit findings, conduct effectively verification of asset/liabilities declarations, or transmit information to law enforcement agencies for follow-up. The administrative sanctions regime is inefficient and has contributed to a culture that tolerates corruption in the civil service. In criminal cases, the vast majority of convicted persons are able to avoid prison sentences by paying a fine. The illicit asset recovery rate is very low. The ineffectiveness of accountability institution reflects the broader ineffectiveness of government institutions.

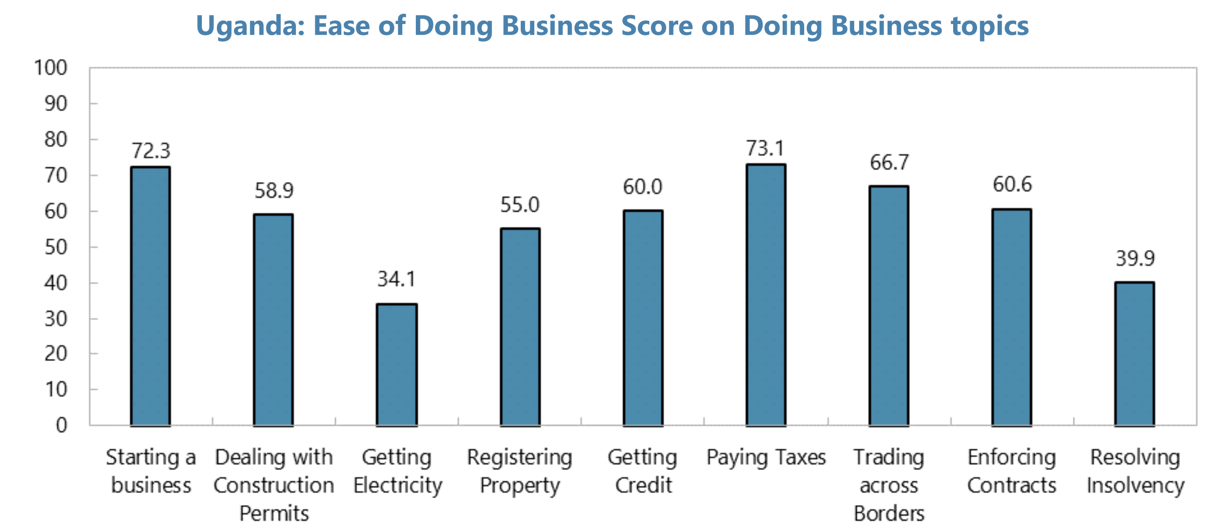
5. **Uganda has strengthened its fiscal governance framework and started a membership accession in the Extractive Industries Transparency Initiative, but areas of weakness remain.**

- **A new Public Finance Management Act was adopted in 2015**. A Treasury Single Account (initially covering central government) has been put in place. Work is underway to include the accounts of the local governments and donor projects. However, fiscal transparency remains weak. Budget documentation contains limited analysis on national fiscal objectives and targets. Further, explanations to budget revisions are not published, thus undermining budget credibility. The strategic focus of existing budget documents should be strengthened by publishing a clear annual fiscal anchor to underpin parliamentary oversight of budget performance and make the executive more accountable. The only operational anchor at present is the EAC's fiscal deficit target of 3 percent of GDP which is not binding until 2020/21[2].

- **In revenue administration,** the authorities focus on strengthening the human resource framework to conduct internal investigations and inspections and to effectively utilize the personnel disciplinary procedures. They are also expanding the role of senior management in addressing corrupt practices and strengthening administrative processes, including the taxpayer complaints procedure. They believe this would improve public perception of fairness of the revenue administration. The use of tax exemptions potentially creates vulnerabilities to corruption. The authorities have argued that the key objective of exemptions is to attract private investments, but the process may lack systematism and transparency.

[2] These issues among others were discussed in FAD's December 2018 mission to Uganda on "Developing a Fiscal Framework for Oil Revenue Management".

6. **The business environment remains challenging, as reflected in the WB's 2019 Ease of Doing Business report.** Uganda's overall Ease of Doing score is 57.1 (out of 100). In particular, businesses face challenges with access to electricity, getting credit, registering property, dealing with construction permits, and enforcing contracts. On most of these indicators, Uganda is trailing its regional peers and has a room for further improvements. In the banking sector, corporate governance can be further strengthened. Bank of Uganda should step up the enforcement of the findings of weaknesses in the banks' internal audit, controls and compliance.



Source: The World Bank Group

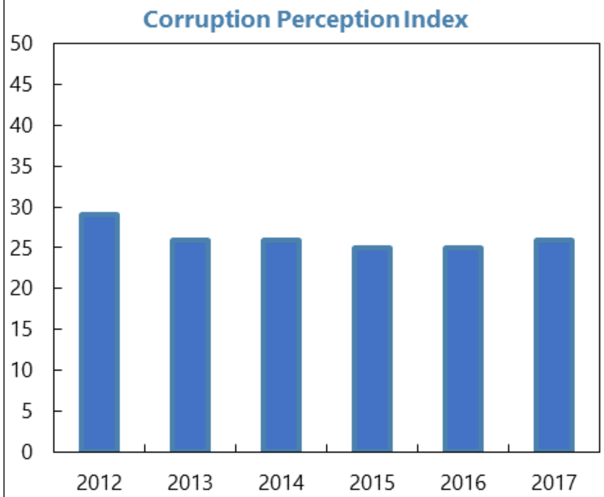
7. **Review of implementation of the UN Convention against Corruption in Uganda found a number of gaps in the legal system to effectively fight corruption.**[3] The review noted that provisions on tracing and identification of proceeds and instrumentalities of crime should be strengthened. The definition of a public official should include foreign public officials, and legislation on embezzlement and misappropriation should also cover private funds entrusted to a public official, as well as embezzlement for the benefit of another person or entity. The review also recommended that disqualification as a sanction for corrupt conduct should be foreseen for all persons employed by state-owned enterprises and the legal provisions on the rescission of concessions tainted by corruption should be created.

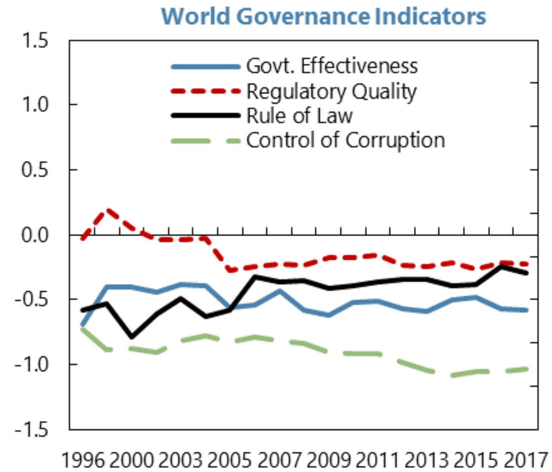
8. **Uganda has improved its AML/CFT regime, but compliance with international standards remains low.** Uganda underwent an assessment by the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) against the 2012 FATF AML/CFT standard and the report was published in April 2016. The assessment identified deficiencies in the legal framework and the low level of effectiveness for all outcomes of Uganda's AML/CFT regime, which may potentially lead to closer scrutiny of the FATF. Recently, progress has been made in addressing

[3] https://www.unodc.org/unodc/treaties/CAC/country-profile/CountryProfile.html?code=UGA

the technical compliance issues that were identified in the 2016 ESAAMLG report. The authorities have also completed and disseminated the ML/TF national risk assessment. The authorities are encouraged to bring the AML/CFT framework fully in line with the FATF standard and improve the effectiveness of its implementation. Strengthening the AML measures that support anticorruption efforts, such as implementation of measures related to domestic politically exposed persons, strengthening asset declarations, and transparency of companies and trusts is of particular importance.

Figure 1. Uganda: Selected Governance Indicator[1]



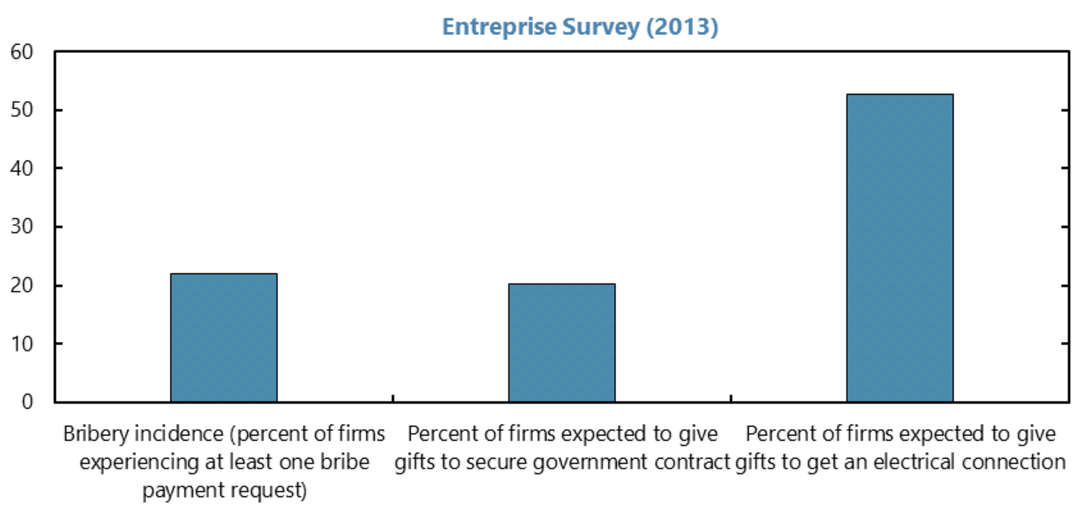


Note: Uses a scale of 0 to 100, where 0 is highly corrupt and 100 is very clean.

Source: Transparency International

Note: Range from -2.5 (poor governance) to 2.5 (good governance), in their standard normal units.

Source: Worldwide Governance Index



Source: World Bank Group

1/ Given the methodology used to calculate the indicators, there is an element of uncertainty around each point estimate.

Annex V. Capacity Development Strategy for FY2019—Summary

March 2019

Overall Strategy

1. **The Capacity Development (CD) strategy for Uganda focuses on:** safeguarding financial sector stability through enhanced capacity and operational frameworks for supervision and regulation, building on the recommendations from the 2018 Financial Sector Stability Review (FSSR); Public Financial Management (PFM) reforms, in particular improving the efficiency of spending, strengthening Public Investment Management, governance, transparency and accountability; enhancing domestic revenue mobilization, in particular continuing the support to the preparation and implementation of the Domestic Revenue Mobilization Strategy (DRMS); and continuing strengthening the timeliness and accuracy of national accounts and Government Finance Statistics (GFS). As a cross-cutting priority, the strategy will also support the preparation of the institutions and frameworks for oil production.

CD Priorities

Priorities	Objectives
Financial Supervision and Regulation	Support the implementation of the 2018 Financial Sector Stability Review recommendations to reduce regulatory forbearance, close gaps in bank supervision, strengthen corporate governance and internal controls.
PFM	Improve the efficiency of public spending, in particular capital spending. Strengthen the budget process and institutions to ensure budget targets are realistic and in line with policy priorities, avoiding arrears and supplementary budgets. Improve cash and debt management, and management of fiscal risks. Complete arrangements to prepare for oil production.
Tax policy and revenue administration	Assist the authorities with finalizing and implementing their DRMS so they can achieve their target of ½ percent increase in the tax-to-GDP ratio over the next five years to create space for investment and social spending.
Strengthen macroeconomic and financial statistics compilation and dissemination for decision making	Continue strengthening the accuracy of national accounts and GFS; improve data collection for extra budgetary units and local governments. Disseminate GFS for nonfinancial and financial public corporations and compile quarterly GFS for central government.

Risks and Mitigation

2. **Risks come from capacity constraints, vested interests and a possible shift in policy priorities in the run-up to 2021 presidential elections.** Furthermore, since Uganda has moved to a surveillance relation, the coordinating role of a IMF program framework is no longer in place. Lastly, a probe that was instituted by Parliament on the management of the closure of seven commercial banks by Bank of Uganda (BoU) and the ongoing legal process following the closure of Crane Bank tie up resources and time and could constrain BoU's ability to pursue high-visibility reforms.

3. **To mitigate the risks, the Fund will use the Article IV format to provide a framework for reform priorities and timeline.** Staff will ensure high-level commitment to reforms supported by capacity development which has in the past contributed to fast and smooth implementation, e.g. with the introduction of the Treasury Single Account.

Authorities' Views

4. **The authorities highly value the CD assistance from the IMF, which they view as an integral element of their reform efforts.** In particular, the Ministry of Finance, Planning and Economic Development identifies public investment management, PFM, and domestic revenue mobilization as key areas of focus for CD. BoU has been the recipient of IMF's CD assistance on monetary policy, supervision and financial market infrastructure issues and is committed to continue working closely to step up supervision along the lines recommended in the 2018 Financial Sector Stability Report, including by a resident advisor. Uganda Revenue Authority and Uganda Bureau of Statistics have emphasized the continued need for cooperation with IMF in CD. The authorities also welcome support at the level of the East African community, which helps addressing issues at the regional level.

5. **In terms of modalities, the authorities value regular missions that provide a hands-on experience for the technical staff.** They are also interested in relevant cross-country cases, expert attachments, and regional training workshops, which provide an opportunity to learn from peers.

6. **They appreciate the constraints and risks related to the implementation of the CD strategy and are committed to working closely with the staff on mitigating them.**

INTERNATIONAL MONETARY FUND

UGANDA

April 16, 2019

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By	The African Department (in consultation with other departments)

CONTENTS

FUND RELATIONS

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

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

Exchange Rate Arrangement:
The official exchange rate is determined on the interbank market for foreign exchange. Uganda's de jure exchange rate arrangement is free floating. The authorities intervene in Uganda's foreign exchange market when short-term fluctuations jeopardize its orderly operation. Therefore, the de facto exchange rate arrangement is classified as floating. As of end-February 2019, the official exchange rate was USh. 3694.79 per U.S. dollar. Uganda has accepted the obligations of Article VIII, Sections 3, 4 and 5. The exchange system is free of restrictions on the making of payments and transfers for current international transactions and that no new exchange restrictions or multiple currency practices were introduced since the last article IV consultation.

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

Uganda and the World Bank:

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

World Bank projects :

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

Uganda and the African Development Bank:

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

STATISTICAL ISSUES

(As of March 12, 2019)

I. Assessment of Data Adequacy for Surveillance

General:

Overall data provision is adequate for surveillance purposes, although some shortcomings remain. In July 2016, an e-GDDS implementation assisted the authorities in developing a National Summary Data Page (NSDP) using the Open Data Platform (ODP) to enable public dissemination of the e-GDDS data according to an advance release calendar. The authorities have launched the NSDP (http://nso.uganda.opendataforafrica.org/yeaclng/national-summary-data-page-nsdp).

Real Sector Statistics:

Since 2004 Uganda has been receiving technical assistance (TA) from the East African Technical Assistance Center (East AFRITAC) on the compilation of annual and quarterly national accounts and price statistics. In October 2018, an East AFRITAC mission provided TA for producing rebased GDP estimates based on the supply and use tables (SUT) for FY2016/17. The rebased series is planned for release in 2019. In November 2018, an East AFRITAC mission provided TA on the Construction Input Price Index (CIPI). In February 2019, an STA mission supported the Uganda Bureau of Statistics (UBOS) in the development of a workplan for the compilation of a comprehensive indicator of the evolution of the economy, the Monthly Indicator of Economic Growth (MIEG). In March 2019, STA conducted a regional workshop on residential property prices indexes (RPPIs) to provide an overview of data sources and methods for compiling RPPIs.

Labor market indicators, such as employment and wages/earnings, are infrequently compiled and disseminated. UBOS aims at compiling and disseminating these data categories on an annual basis, but due to resource and data limitations, these data are compiled with a two-year lag.

The ***consumer price index*** (CPI) series was released in January 2010 and replaced in June 2014 with the new CPI series that uses the expenditure weights from the 2009/2010 Uganda National Household Survey. UBOS compiles and disseminates a ***producer price index*** (PPI) for manufacturing (separately for imports and domestic output) and for hotels. A January 2016 mission assisted with developing export and import price indexes and improving the producer price index for hotels and restaurants. Uganda participated in an STA workshop on residential property price indexes (RPPI) and other property price indexes and it has developed the region's first RPPI.

Government Finance Statistics (GFS):

The Ministry of Finance, Planning and Economic Development (MoFPED) compiles and reports annual general government data and monthly budgetary central government data on a modified cash basis following the Government Finance Statistics Manual 2014 (GFSM 2014). East AFRITAC is providing technical assistance to the national authorities. The national GFS Technical Working Group, comprising representatives from MOFPED, UBOS and the Bank of Uganda (BOU) are working on the implementation of GFSM 2014 to meet the fiscal statistics requirements of the East African Monetary Union (EAMU) Protocol. Work of migrating the authorities' macro-fiscal forecasting framework to the GFSM2014 standard is nearing completion to facilitate seamless transmission of high frequency data to the Fund for surveillance. In addition, work is in progress to disseminate estimates of stock of financial assets and liabilities by end of 2020.

Monetary and Financial Statistics (MFS):

Uganda has been submitting monetary data to STA based on standardized report forms (SRFs) since 2009. Starting June 2016, BOU has expanded the coverage of other depository corporations to include deposit taking savings and credit cooperative societies (SACCOs) and compiled SRF-4SR covering other financial corporations. In addition, BOU with support of STA has developed a system to collect information on financial positions with non-residents in the other East African Community (EAC) partner states, to enable the compilation of MFS for the EAC.

Financial sector surveillance:

The BOU reports all 12 core financial soundness indicators (FSIs) and few of the encouraged FSIs for deposit takers. All FSIs are reported on a quarterly basis for posting on the IMF's FSI website. A Financial Sector Stability Review mission took place in February 2018.

External Sector Statistics (ESS):

The BOU compiles quarterly balance of payments and international investment position (IIP) statistics based on *BPM6*. The oldest data points of *BPM6*-based quarterly balance of payments and IIP are Q1-2001 and Q1-1999, respectively. Monthly informal cross border trade surveys are conducted to estimate informal trade. As part of the EAC under the DFID Balance of Payments Module 2, Uganda should continue developing source data for services, specifically travel. Merchanting and construction services, and address intra-EAC trade discrepancies. Separating balance of payments transactions from other flows, such as revaluations and other volume changes, may improve measurement of balance of payments flows as well as the IIP financial stocks. Efforts should continue to reduce the size of errors and omissions term of Balance of Payments and align projected financing gap with changes of reserves in the cash flow table.

II. Data Standards and Quality

Uganda implemented the e-GDDS recommendations in November 2016. It is already publishing all the fifteen data categories recommended under the e-GDDS on its National Summary Data Page and is well on track to becoming an SDDS subscriber.

III. Reporting to STA

Uganda reports government finance statistics (GFS) data according to the GFSM 2014 framework for the GFS Yearbook but does not report any high frequency data for inclusion in the International Financial Statistics (IFS).

Table of Common Indicators Required for Surveillance (March 12, 2019)

	Date of Latest Observation	Date Received	Frequency of Data[4/]	Frequency of Reporting[4/]	Frequency of Publication[4/]
Exchange Rates	March 1, 2019	March 6, 2019	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1/]	January 2019	February 2019	M	M	M
Reserve/Base Money	January 2019	February 2019	M	M	M
Broad Money	January 2019	February 2019	M	M	M
Central Bank Balance Sheet	January 2019	February 2019	M	M	M
Consolidated Balance Sheet of the Banking System	January 2019	February 2019	M	M	M
Interest Rates[2/]	January 2019	February 2019	D	M	M
Consumer Price Index	February 2019	March 2019	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3/]- Central Government	January 2019	February 2019	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt	FY2017/18	February 2019	A	A	A
External Current Account Balance	Q3 2018	January 2019	Q	Q	Q
Exports and Imports of Goods	January 2019	March 2019	M	M	M
GDP/GNP	Q1 FY2018/19	January 2019	Q	Q	Q
Gross External Debt	FY2017/18	February 2019	A	A	A
International Investment Position[5/]	Q3 2018	January 2019	Q	Q	Q

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

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

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

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

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

INTERNATIONAL MONETARY FUND

UGANDA

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

April 16, 2019

Approved By
Annalisa Fedelino (IMF, AFR), Vitaliy Kramarenko (IMF, SPR), and Paloma Anos Casero (IDA)

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

Risk of external debt distress:	**Low**
Overall risk of debt distress	**Low**
Granularity in the risk rating	**Not applicable**
Application of judgment	**No**

With debt-carrying capacity updated to 'strong' in the revised Low-Income Country Debt Sustainability Framework (LIC DSF), Uganda remains at low risk of external debt distress and overall debt distress, despite significantly higher debt burden trajectories than anticipated in the last DSA.[1] *The authorities are scaling up public investment in infrastructure to prepare for oil exports expected to start in FY2023/24 and to lay the foundation for growth over the longer term. All external debt and total public debt burden trajectories remain below their respective indicative thresholds under the baseline and stress test scenarios. That said, total debt service is expected to average around 41 percent of government revenue until oil revenues ensue, underscoring the importance of raising tax revenues, reducing tax expenditures, and reining in current spending. Key risks include political pressures for higher current spending, and new ad-hoc tax exemptions in addition to existing exemptions that put downward pressure on already low tax revenues. Further delays in oil exports beyond FY2023/24 could result in liquidity pressures, given the current heavy borrowing for oil sector-related infrastructure that is relying on enhanced repayment capacity from oil exports— especially if more non-concessional borrowing materializes. Maintaining public debt on a sustainable path will require strengthening the budget process to ensure that budget targets become more binding, effective public spending and public debt management, as well as comprehensive monitoring of fiscal risks.*

[1] The last Debt Sustainability Analysis (DSA) update was conducted in December 2016 (IMF Country Report No. 17/7), while the last full DSA was conducted in June 2015 (IMF Country Report No. 15/175). Uganda's debt carrying capacity is classified as "Strong" according to the composite indicator score determined by the World Bank's Country Policy and Institutional Assessment (CPIA) Index (2017 update) and other key fundamentals including real GDP growth, import coverage of reserves, remittances as percent of GDP, and growth rate of the world economy. The relevant thresholds for external debt under this category are: 55 percent for PV of debt-to-GDP ratio, 240 percent for PV of debt-to-exports ratio, 21 percent for debt service-to-exports ratio, and 23 percent for debt service-to-revenue ratio. The benchmark on total public debt (sum of public and publicly guaranteed external debt and public domestic debt) is 70 percent for PV of total debt-to-GDP ratio.

PUBLIC DEBT COVERAGE

1. **Public and publicly guaranteed (PPG) external and domestic debt covers debt contracted and guaranteed by the central government, state and local government, social security fund, and central bank (Text Table 1).** The Uganda Public Debt Management Framework 2013 gives the Ministry of Finance Planning and Economic Development the mandate to prepare and publish quarterly Debt Statistical Bulletins. The published data covers public and publicly-guaranteed debt with information on domestic and external debt. In addition, the Bank of Uganda provides data on locally issued debt held by non-residents, which allows a residency-based analysis. However, due to data limitations, debt data does not cover several elements of the general government debt including extra budgetary funds and non-guaranteed debt issued by state-owned enterprise (SOE), although SOEs issue debt only in the domestic market. The authorities are committed to strengthening the oversight and monitoring of other elements in the general government and SOEs, which will further broaden the public debt coverage. Here we use estimates of SOE debt at 9.1 percent of GDP, based on a preliminary report. We also use the default PPP shock which equals 2.8 percent of GDP. Public expenditure captures spending to gradually pay off the domestic arrears. Based on the recent Auditor General's report, the amount of domestic arrears as of end-FY2017/18 increased by Ush 230 billion and stood at Ush 3.14 trillion, which is around 3 percent of GDP. The authorities have engaged the external auditor (Ernst &Young) to conduct a verification of the arrears.

Text Table 1. Coverage of Public and Publicly Guaranteed Debt and Parameters for Contingent Liability Shocks for the Tailored Stress Test

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

Public debt coverage

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

The contingent liability tailored stress test

	Default	Used for the analysis
Other elements of the general government not captured in 1.	0 percent of GDP	
SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	9.1
PPP	35 percent of PPP stock	2.78
Financial market (a minimum starting value of 5 percent of GDP)	5 percent of GDP	5
Total (in percent of GDP)		16.9

Source: Uganda authorities. IMF staff calculation.
Notes: Previous Debt Sustainability Analysis in Article IV staff reports have been done using currency-based approach.
The estimate of non-guaranteed SOE's debt is preliminary which is based on the Aide-Mémoire of Uganda Management of Contingent Liabilities where the source is from MoFPED (Consolidated Financial Statements FY 2016/17; Draft Fiscal Risk Statement FY 2019/20 November 2018; The Parastatal Monitoring Report on the Performance of Public Enterprises FU 2016/17). We also use the default PPP shock of 35 percent of the PPP stock, which equals 2.78 percent of GDP.

2. **Uganda's debt-carrying capacity is classified as strong.** The classification of debt carrying capacity is guided by the composite indicator (CI) score, which is determined by the World Bank's CPIA and other variables, such as real GDP growth, import coverage of foreign exchange reserves, remittances as percent of GDP, and growth of the world economy. The CI also incorporates forward-looking elements with the calculation based on 10-year average (5 recent years of historical data and 5 years of projection). The CI rating could change if growth and reserves are significantly lower than the forecast. Uganda's CI is 3.11, which lies above the threshold value of 3.05, and categorizes the country as having "strong" capacity. The four external indicative thresholds and the total public debt benchmark are determined by this classification of the debt carrying capacity (Text Table 2).

Text Table 2. Composite Indicator and Threshold Tables

Debt Carrying Capacity and Thresholds

Country	Uganda
Country Code	746
Debt Carrying Capacity	Strong

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintages 1/
Strong	Strong 3.11	Strong 3.13	Medium 3.70

Applicable thresholds

EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	240
GDP	55
Debt service in % of	
Exports	21
Revenue	23

TOTAL public debt benchmark	
PV of total public debt in % of	
GDP	70

Notes: The current vintage refers to the 2018 Oct WEO vintage; The previous vintage refers to the 2018 April WEO vintage.
1/ Until the April 2019 WEO vintage is released, the two previous vintages refer to classification and corresponding score based solely on the CPIA per the previous framework.

BACKGOUND AND RECENT DEVELOPMENTS

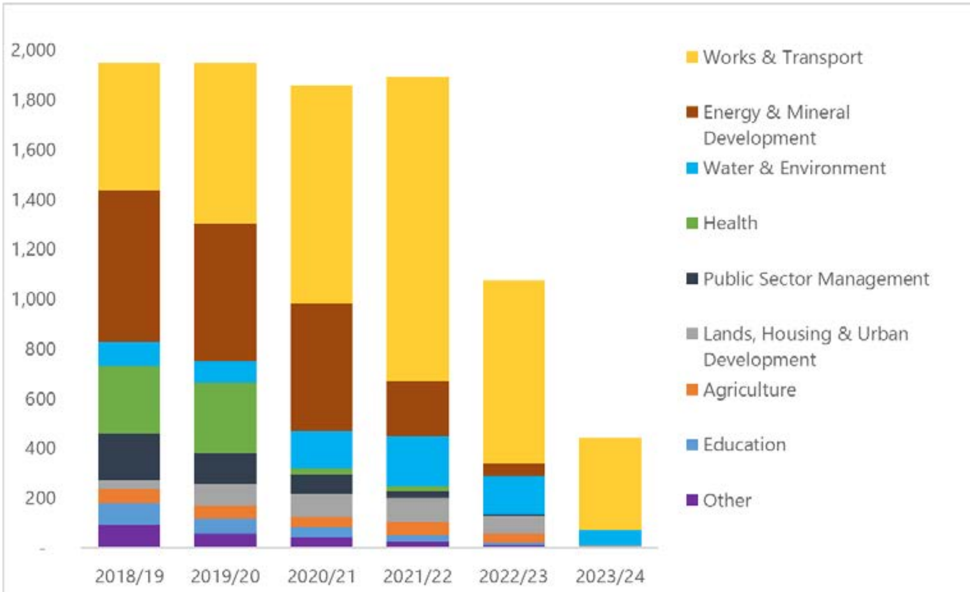
3. **Over the past five years, Uganda's economic performance moderated and was driven in part by low productivity in the agricultural sector and two weather-related shocks.** Average real GDP growth declined from close to 8 percent in the five years to FY2011/12 to 5 percent over the last five years (FY2013/14 to FY2017/18). The growth slowdown was in part caused by two severe droughts and pest infestations, such as the fall army worm. Meanwhile, inflation decelerated to around 5 percent, on average, since the spike in inflation in FY2011/12 of close to 21 percent. During the past six years, the current account deficit averaged 6 percent of GDP, declining steadily from a peak of 8.7 percent of GDP in FY2011/12 to around 3.7 percent in FY2016/17 and then widened again to 6.1 percent in FY2017/18. The external deficit was largely driven by hydro project-related imports, which are winding down as the

dams approach completion. Recent increases in imports were driven by oil related projects. Exports of goods and services increased from US$3.8 billion in FY2010/11 to US$5.4 billion in FY2017/18, while imports increased from US$6.8 in FY2010/11 to US$7.9 billion in FY2017/18, resulting in a larger trade deficit of 9.2 percent of GDP in FY2017/18. Over the past five years, the real exchange rate depreciated cumulatively by around 25 percent, with a stronger drop in the value of the domestic currency in FY2014/15 at around 27 percent mainly due to global liquidity concerns and negative shocks in neighboring countries and trading partners.

4. **With one of the largest oil reserves in Sub-Saharan Africa, Uganda is expected to start extracting and exporting oil in FY2023/24, and reserves are expected to last for 25 years.** Fiscal oil revenues are estimated in the range of ½ to 4 percent of GDP per annum during this period, based on a price for Brent of US$60 in constant 2018 prices. To export oil, a share of the extracted oil will be transferred to the port of Tanga in Tanzania through a pipeline that needs to be built and is estimated to cost around US$8 billion. The domestic oil refinery will use the other share of extracted oil and is expected to be built through a PPP arrangement with a consortium of U.S. and Italian companies. The total investment in the oil refinery is estimated at US$3-4 billion. The PPP gives rise to contingent liabilities, but estimates need to wait until negotiations are firmed up. In addition to the refinery and pipeline, oil-related road infrastructure will be built in the western region of Uganda as well as an international airport and storage facilities.

5. **Uganda continues to scale up public investment to lay the foundation for future growth, and to prepare for oil exports, although implementation has been slow.** Forecast disbursements for externally financed projects over the medium term is concentrated in sectors of Works & Transport, Energy & Mineral Development and Water & Environment (Text Figure 1). The two largest infrastructure projects, the Karuma and Isimba dams, are largely completed, and are set to start producing electricity in 2019 or next. Other planned large infrastructure projects include building access roads to oil wells, a pipeline to Tanga in Tanzania, a domestic refinery, an international airport in Kabaale, transmission lines, and the Lubowa hospital. Strong project selection and implementation frameworks that safeguard high quality of spending will be key to realizing the envisaged growth dividend. Investment in human capital is needed in parallel.

Text Figure 1. Forecast Disbursements of Externally Financed Projects, by Sector
(Millions of U.S. dollars)

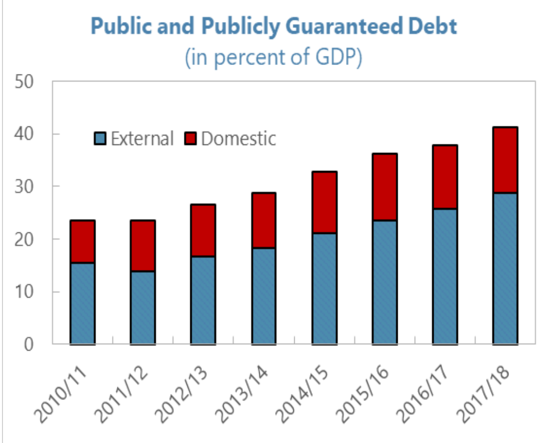


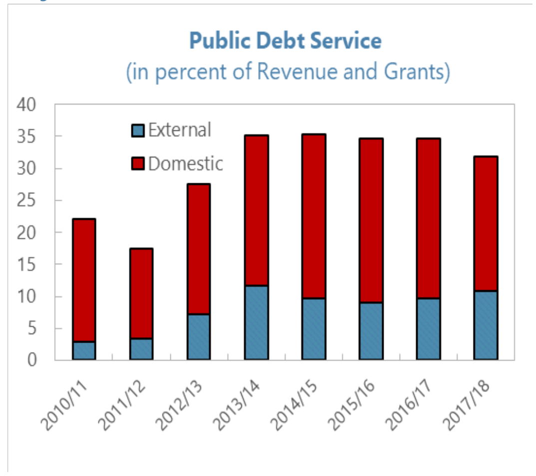
Sources: Uganda authorities and IMF calculations.
Note: The years are fiscal years.

6. **While government finances are adequate, the focus remains on capital spending.** The primary deficits averaged 2.4 percent of GDP over the past five years. Starting from a low base, tax revenue collection has strengthened over the last few years, on average by 0.4 percent of GDP yearly. Going forward the authorities target an annual improvement in tax revenues by ½ percent of GDP and are in process of preparing a 5-year domestic revenue mobilization strategy to that end. On the expenditure side, the authorities focus on capital spending, although this has been challenging with capital spending below budgeted amounts due to difficulties in government co-financing, land issues, and broader absorption capacity in terms of procurement.

7. **Public debt has increased in recent years to reach 41.3 percent of GDP at the end of FY2017/18** (US$11.3 billion) (Text Figure 2). In present value terms, total public sector debt amounts to 31.3 percent of GDP. Two-thirds of outstanding public debt is owed to external creditors (US$7.9 billion) on a residency basis, which finances largely energy and infrastructure projects (Text Figure 3). Domestic debt amounts to about US$3.5 billion, with roughly three-fourths in Treasury Bonds and the rest in short-term Treasury Bills (Text Figure 4).

Text Figure 2. Public and Publicly Guaranteed Debt



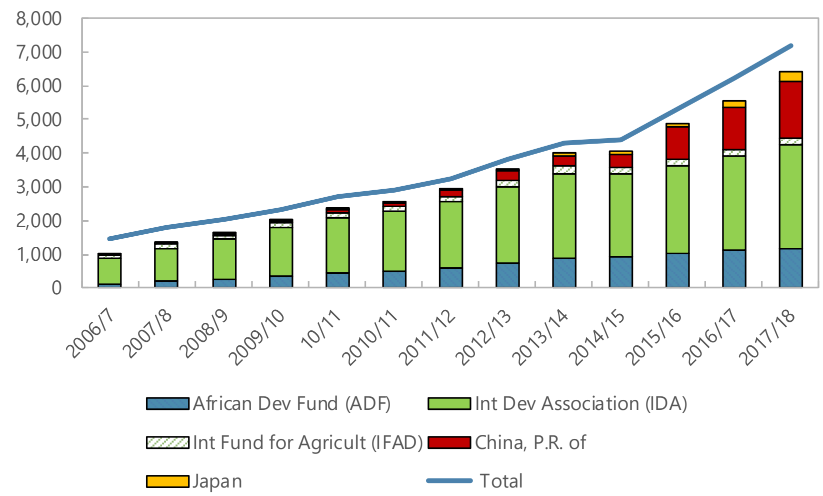


Sources: Uganda authorities and IMF calculations.

8. **While most of the existing stock of external public debt is on concessional terms, the semi-concessional component has been on the rise reflecting sizable borrowing from China since FY2015/16** (Text Figure 3). Highly concessional loans from the International Development Association (IDA) and the African Development Fund (ADF) account for 58.8 percent of the external loan portfolio, which drives the difference between the nominal value of public debt and its present value. Other concessional creditors include the International Fund for Agricultural Development (IFAD), the Arab Bank for Economic Development in Africa (BADEA), the Organization of the Petroleum Exporting Countries (OPEC) fund, and some bilateral creditors (Text Figure 3 and Table 3). Semi-concessional loans were used largely to finance the building of the Karuma and Isimba dams as well as the Kampala–Entebbe Expressway. These three investments financed by the Export-Import Bank of China (EXIM) account for three-fourths of all semi-concessional financing. The remaining one-third of semi-concessional loans are largely from the EIB for the East Africa transport corridor. Commercial loans are typically buyers' credits for electricity equipment provided by the China EXIM Bank and the Japan Bank for International Cooperation (JBIC). In sum, China EXIM Bank accounts for 23.4 percent of the external loan portfolio and is assumed to remain an important financing source going forward. Other commercial loans include European Export and Trade Bank (AKA Bank) and Commerzbank loans for the Inland Port at Bukasa, and Standard Chartered Bank provided loans for Kabaale International Airport and Closed-circuit television (CCTV) cameras (Text Table 3).

Text Figure 3. Main Creditors of Public and Publicly Guaranteed External Debt Stock

(Million U.S. dollars, main creditors, FY2006/07 –FY2017/18)



Sources: Uganda authorities and IMF and WB staff calculations.

Text Table 3. Composition of Public and Publicly Guaranteed External Debt Stock

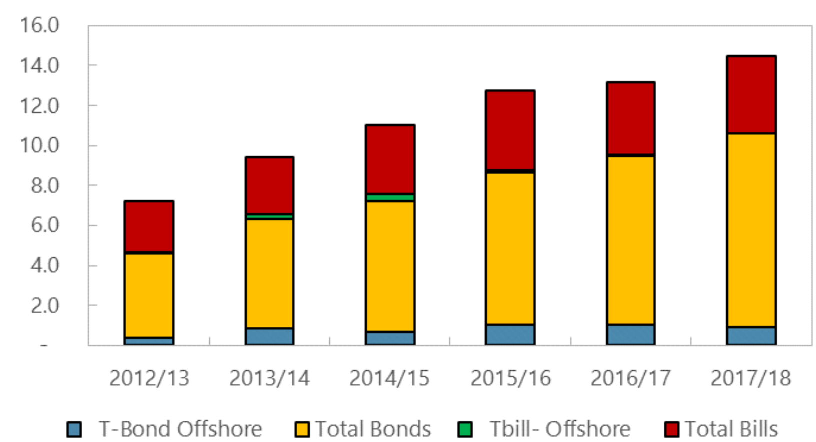
(Million U.S. dollars, as of end-FY2017/18)

Creditor	Amount	Share
Total	**7,202**	**100.0%**
BILATERAL	**2,239**	**31.1%**
AFD	101	1.4%
EXIM BANK OF CHINA	1,688	23.4%
EXIM BANK S KOREA	27	0.4%
GOVT OF NIGERIA	12	0.2%
IRAQ FUND	0	0.0%
JBIC	120	1.7%
JICA	170	2.4%
KUWAIT FUND	33	0.5%
MIN FOR AFF AUSTRIA	5	0.1%
SAUDI ARABIA FUND	30	0.4%
UKEF	53	0.7%
COMMERCIAL BANKS OR OTHER FINANCIAL INSTITUTION	**49**	**0.7%**
AKA	7	0.1%
COMMERZBANK	1	0.0%
STANDARD CHARTERED	41	0.6%
MULTILATERAL	**4,914**	**68.2%**
ADB	30	0.4%
ADF	1,182	16.4%
IDB	100	1.4%
IFAD	222	3.1%
NDF	56	0.8%
OPEC FUND	42	0.6%
PTA	101	1.4%
IDA	3,055	42.4%
EIB	79	1.1%
BADEA	47	0.7%

Sources: Uganda authorities and IMF and WB staff calculations.

9. **Public domestic debt (residency based) stood at 12.6 percent of GDP at end of FY2017/18, which is expected to remain broadly unchanged in FY2018/19.** Total public domestic debt in local currency amounts to 13.5 percent of GDP. On average, nonresidents held about 9 percent of total treasury bills and treasury bonds over the period of FY2012/13 to FY17/18. As of June 2018, nonresidents held about 7 percent of total government securities as the investments became less attractive due to lower yields. That said, foreign investors did not completely move out of Uganda but have shifted into currency swaps. Using the residency-based methodology, government securities held by nonresidents are treated as external debt in the DSA (Text Figure 4).

Text Figure 4. Public Domestic Debt, by Instrument and Residency
(Face value, in millions of Uganda Shillings)



Sources: Uganda authorities; IMF and WB staff estimates.

10. **The medium- and long-term macroeconomic framework underlying this DSA is consistent with the scenario presented in the staff report** (Text Table 4). The baseline scenario assumes the following:

- *Real GDP growth*. Growth is mainly driven by higher oil-related FDI and public infrastructure investment. Uganda's national development plan has identified five pillars to support long-term growth: (i) the modernization of the agriculture sector which accounts for about 2/3 of employment and more than half of today's exports; (ii) the development of the tourism sector, minerals and petroleum (iii) the development and maintenance of strategic infrastructure and human capital (iv) improvement of the business environment through better governance and fight against corruption. Medium term growth rate is projected between 6 to 7 percent.

- *GDP deflator*. Core inflation is projected to remain within a band of +/- 2 percentage points around the BoU's 5 percent target.

- *Oil revenue projections*. Oil production from the current projects is expected to start in FY2023/24 and last for 25 years. The government of Uganda expects to receive between ½ percent to 4 percent of GDP in oil related revenue per year during this period. Additional blocks are being allocated for exploration, and further commercially viable reserves may be discovered going forward.

- *Primary fiscal deficit*. The primary fiscal deficit is projected to remain high due to large capital spending on infrastructure projects.[2]

- *Public debt* is projected to decline starting from 2022/23, once the large infrastructure projects are completed and oil receipts raise government revenues.

- *External current account deficit.* The current account deficit is projected to widen to 9.6 percent of GDP over the next few years, due to rising import demand from both the government and the private sector for the planned development of the oil sector and public investment.

- *FDI inflows* are expected to continue to increase with investments on oil related projects before the oil exports start. Then we assume FDI outflows using the oil revenue in the long term.

- *Gross official reserves* are expected to gradually rise over the medium term, covering around 4.2 months of imports.

Text Table 4. Macroeconomic Forecast and Assumptions

	Real GDP growth (percent change)		Primary deficit (percent of GDP)		Change in public debt (percent)		Current account (percent of GDP)		FDI Inflows (percent of GDP)	
	Previous	Current	Previous	Current	Previous	Current	Previous	Current	Previous	Current
2015/16	4.7	4.8	3.8	2.9	2.8	3.4	-6.3	-5.6	2.2	2.8
2016/17	3.9	3.9	2.5	1.3	3.9	1.6	-4.8	-3.7	2.6	2.5
2017/18	5.0	6.1	1.6	2.5	2.9	3.5	-6.2	-6.1	3.3	2.7
2018/19	5.5	6.3	0.7	3.0	0.9	0.9	-8.0	-7.2	4.7	4.0
2019/20	6.0	6.3	0.6	4.7	1.5	3.5	-7.9	-8.9	5.6	5.4
2020/21	6.5	6.2	0.2	4.7	1.4	3.2	-9.0	-9.6	6.0	6.0
2021/22	6.5	6.1	-0.5	3.2	-1.5	1.7	-5.7	-8.9	6.1	6.9
2022/23	8.2	6.0	-2.4	1.3	-1.1	-0.2	-1.9	-7.0	-0.7	5.9
Avg 2023/24 -37/38	7.3	6.1	-0.2	-0.1	-0.8	-2.5	2.7	0.9	-2.3	-1.3

Sources: Uganda authorities and IMF staff calculations and projections.

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

- There are small differences between past and projected debt creating flows. The contributions of past debt creating flows remain relatively the same for the projection period, and unexpected changes in public debt are near the median of the distribution across

[2] In recent years, actual project execution rates have been about 70 percent for externally-financed development spending, while the execution rate for the two hydro power projects was much lower in the early days of construction. The execution rate for domestically financed public investment has been 100 percent. Budget projections have become more realistic, but the baseline projections still assume an under execution of 70 percent.

low-income countries. The smaller increase in average total public debt over the five-year projection horizon is accounted for by the start of oil exports in FY2023/24.

- Public investment rates are higher compared to the previous DSA. The higher investments reflect more infrastructure projects in the next few years, higher cost for some projects, and Uganda Air. Similarly, private investment rates have shifted upward.

- The country's planned fiscal adjustment for the next 3-years (until FY2021/22) is negative, implying that the investment cycle to prepare for oil exports is on-going. At the same time, the assumed fiscal multiplier stemming from the continued investment in oil infrastructure is minimal with the range of multipliers indicating a growth rate of up to 7.7 percent against the conservative assumption of about 6.1 percent in the analysis.

EXTERNAL DEBT SUSTAINABILITY

12. **The evolution of external government debt burden indicators points to a sustainable path under the baseline.** Both solvency and liquidity indicators remain well below their indicative thresholds over the projection horizon (Figure 1). Specifically, the PV of PPG external debt-to-GDP ratio peaks at 25.9 percent (against the threshold of 55 percent), while the PV of debt-to-exports ratio reaches 134.7 percent (against the threshold of 240 percent). The liquidity indicators show a similar path. The debt service-to-revenue ratio rises to 11.3 percent in FY2022/23, about half of the level at which the threshold is set. The denominator for this debt burden indicator is low compared to other Sub-Saharan countries, and is assumed to rise gradually from 15.3 percent in FY2017/18 to 17.9 percent of GDP in FY2022/23, on the back of a medium-term revenue strategy being developed by the government and supported by the IMF and the World Bank. The debt service-to-exports ratio peaks at 10.3 percent, well below the indicative threshold of countries with strong debt-carrying capacity.

13. **Stress tests and alternative scenarios confirm a continued low risk of debt distress rating.** All extreme stress tests remain below the respective indicative thresholds (Figure 1). The most extreme shock is the combined contingent liability shock for the PV of debt-to-GDP ratio and the depreciation shock for debt service-to-revenue ratio. For the PV of debt-to-exports ratio and debt service-to-exports ratio, the most extreme shock is a shock to exports. The historical scenario, meanwhile, depicts a deterioration over time across all debt burden indicators. This scenario does not take account of the structural break in the major macroeconomic indicators as a result from the commencement of oil production. For the debt sustainability assessment, the scenario is therefore disregarded. The contingent liability shock assumes the realization of the SOE's debt of 9.1 percent of GDP and a PPP stock of 2.8 percent of GDP.

14. **Risks stem from the uncertainty around oil production.** The scaling-up of investment spending and corresponding increases in semi-concessional and commercial borrowing lead to pronounced vulnerabilities. These vulnerabilities stem from several factors. First, oil export receipts could be realized much later than expected postponing large inflows of foreign exchange, which would

adversely affect denominators of the solvency and liquidity debt burden indicators (PV of debt-to-exports and debt service-to-exports). Second, a delay in oil exports would also leave the budget without planned revenues thus leaving a larger gross financing need, and adversely impacting the denominator of the debt service-to-revenues indicator. Under such circumstances, the historical scenario may to some extent be illustrative of the inherent risks as debt levels continue to increase over the period. Finally, risks could also stem from uncertainty regarding oil prices. There could be oil price shocks under which oil prices are lower than under the baseline. However, the effects of oil price shock on total exports are relatively small, as projected oil exports account for 10 to 20 percent of total exports. As a result, debt indicators would remain below the thresholds under an oil price shock scenario.

15. **Debt vulnerabilities nevertheless remain significant**. Other risks could include large investments financed with semi- or non-concessional loans not taken into account within this framework such as nationalizing the electricity transmission system when the concession expires in 2025, and thus engaging in new government borrowing for maintaining and expanding the gridline.

PUBLIC DEBT SUSTAINABILITY

16. **Total public debt-to-GDP trajectories under the baseline remain below the indicative threshold.** The PV of public debt-to-GDP ratio reaches around 39.3 percent in FY2023/24, and declines to 29.9 percent by FY2028/29 as oil export receipts ensue (Figure 2). This compares to an indicative benchmark of 70 percent for countries with strong debt-carrying capacity.[3] However, the nominal level of public debt-to-GDP is projected to reach 50.7 percent mark in FY2021/22. The debt service-to-revenue ratio slowly declines to 37.6 percent after five years. The liquidity indicator is driven by several factors: (i) the relatively short average term to maturity (ATM) of domestic debt amounting to 3.7 years; (ii) high average nominal interest rate on domestic debt of over 15 percent; and (iii) the low budget revenue base, even in the SSA context. These factors imply high rollover risks and pronounced interest rate risks. To mitigate such risks, policy actions are required such as stronger revenue mobilization and extension of average domestic debt maturities over the medium term. These are areas in which the IMF and the World Bank provide technical assistance.

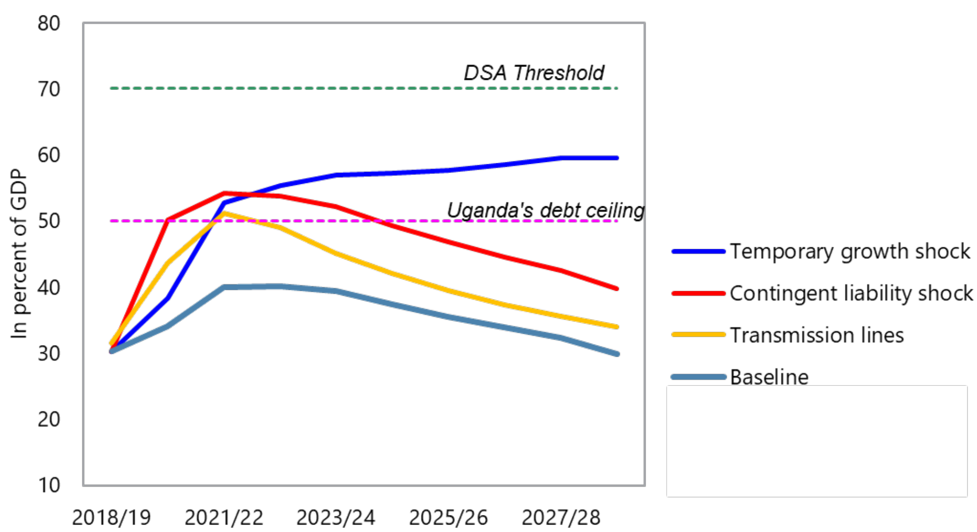
17. **Stress tests confirm that adding domestic debt to the analysis does not elevate the risk of debt distress.** The most extreme stress test is the combined contingent liability shock, which simulates a contingent liability shock on the order of 17 percent of GDP with liabilities from SOE's debt, PPP, and financial market liabilities (Figure 2). Under this shock scenario, PV of total public debt-to-GDP ratio rises to a maximum of 54 percent in FY2020/21 to FY2022/23, which would be higher than the government's publicly stated ceiling of 50 percent of GDP. Another significant stress test is the growth shock scenario, which assumes lower real output growth than under the baseline, the PV of total public debt-to-GDP ratio rises to a maximum of 50 percent in FY2023/24. The PV of total public debt-to-revenue ratio rises close to 300 percent under the most extreme contingent liabilities shock

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

scenario. The most extreme shock to public debt service is the combined contingent liability shock, and the debt service-to-revenue rises to 65 percent. The realism tools suggest conservative growth assumptions. However, there is uncertainty around the long-term growth dividend of public investment if there are significant delays in public investment execution.

18. **Deviations from fiscal plans are the main risks to debt sustainability.** Although the debt risk rating remains "low", the PV of public debt levels breaches the debt target of 50 percent of GDP that the authorities aim to maintain in the Charter for Fiscal Responsibility under the contingent liability shock scenario and the customized scenarios of temporary growth shock and transmission lines (Text Figure 5), which suggest vulnerabilities in the debt path. Uganda has lost its fiscal anchor. The budget process does not provide sufficient top-down guidance for resource allocation, as budget execution has systematically deviated from the approved budgets, altering expenditure composition. This also highlights the importance of domestic revenue mobilization, enhanced public investment management, reined-in current spending, overall fiscal consolidation once major large investment projects are completed, and realizing the envisaged growth dividend. These risks amplify the risk stemming from uncertainties surrounding oil production.

Text Figure 5. PV of Public Debt to GDP Under Alternative Scenarios



Sources: Uganda Authorities; IMF staff estimates.
Notes: In this chart, the temporary growth shock assumes growth rates are 1.5 standard deviation lower than forecast; Transmission lines scenario assumes full amount of financing needed.

CONCLUSION

19. **Despite increased debt vulnerability, Uganda's risk of external debt distress remains low.** The increase in borrowing is intended to finance growth-enhancing scaled-up public investment. As a result, external debt and public debt have risen rapidly compared to the previous DSA. Domestic risks include problems in public investment management, political pressures for higher current spending, new ad-hoc tax exemptions that put downward pressure on tax revenues in conjunction with existing exemptions, and weak implementation of new tax-enhancing measures and reforms. Further delays in oil exports beyond FY2023/24 could result in liquidity pressures, given the current heavy borrowing for oil sector-related infrastructure that is relying on enhanced repayment capacity from oil exports— especially if more non-concessional borrowing materializes. Significant delays in public investment execution, weather-related shocks and pest infestations may constrain real GDP growth and the future growth dividend. Debt risks could stem from external risks such as negative demand shock to real GDP growth outlook, declines in oil prices which may affect investment plans including phasing of extraction, worsened terms of trade, and exchange rate risks with normalization of US interest rate.

20. **Mitigating debt risks requires sound macroeconomic management and strong/steadfast policy implementation.**

- *Adopt fiscal anchor and make budget binding.* To prevent public debt from rising above the sustainable path and provide a buffer against shocks, the authorities could set an operational debt ceiling of 50 percent of GDP in nominal terms. This debt ceiling would then determine the annual budget deficit and define a binding expenditure envelope. Strong fiscal discipline requires clear quantitative targets of budget, and these targets need to gain a binding character during budget implementation, by committing to using budget for top-down resource allocation.

- *Strengthen public investment management.* To avoid overborrowing, close attention and prudence should be applied to project identification and the financing terms of any proposed investment. The government should focus on projects with high returns that are closely aligned to development priorities and rely more on concessional loans to contain borrowing costs. Reducing volatility in domestic borrowing, which currently occurs at high interest rates, would also serve this purpose and avoid crowding out private sector credit expansion.

- *Adopt and Implement Domestic Resource Mobilization (DRM) strategy.* Given Uganda's relatively low revenue collection, this requires further efforts to increase revenue mobilization and maximize the impact of limited domestic resources. The strategy is expected to include tax policy reforms, including a rationalization of exemptions, and tax administration reforms to improve compliance.

- *Strengthen debt management (interest cost, exchange rate risk, maturities).* Public debt management should ensure that the government's financing needs and its payment obligations are met at the lowest possible cost over the medium to long run, consistent with a prudent degree of risk. Debt management needs to consider interest rate risk, exchange rate risk, refinancing risk, liquidity risk, credit risk, and operational risk. Debt management should try to minimize expected debt servicing costs and the cost of holding liquid assets, subject to an acceptable level of risk. With limited access to foreign capital markets, debt management should give higher priority to refinancing risk and try to promote the development of the domestic debt market.

- *Strengthen overall public financial management (PFM), including efforts to avoid arrears*. Efforts should be taken to strengthen public procurement and PFM compliance. The approved Uganda PFM Reform Strategy (FY18/19–FY22/23) would help to ensure commitments accurately reflected in annual budgets and rein in excessive current spending. Implementing the proposed arrears management strategy, which includes recognition, ageing, liquidation and reporting of arrears, would be important.

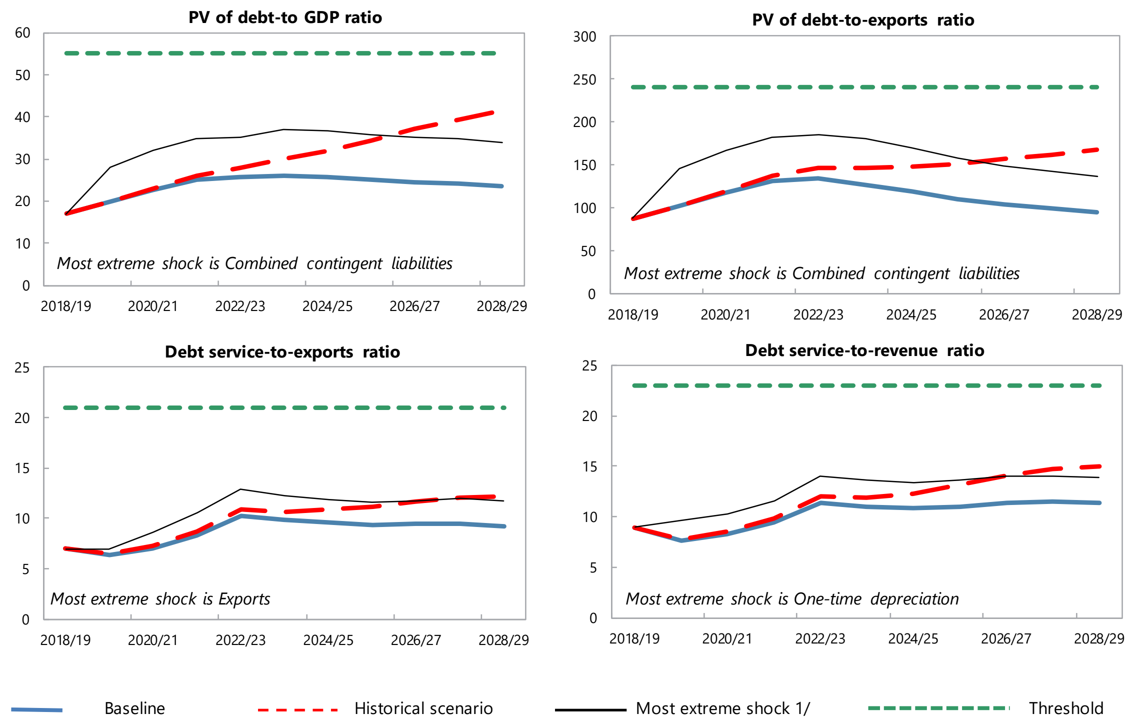
- *Closely monitor contingent liabilities.* Contingent liabilities have in general been one of the largest sources of fiscal risk across countries, since the materialization of contingent liabilities can contribute to unexpected increases in the debt-to-GDP ratio, crowding out private credit and jeopardizing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

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

Authorities' Views

21. **The authorities broadly agree with the results of this DSA and the overall conclusion of a low risk of external debt distress.** The authorities regularly carry out their own debt sustainability analyses and pay very close attention to maintaining a low risk of debt distress. They remain committed to ensuring debt sustainability through long-term prudent debt management, as outlined in their Medium Term Debt Management Framework. They are committed to carefully prioritizing infrastructure projects and financing of the projects preserves debt sustainability. The authorities acknowledged the significant vulnerabilities from growing public debt and contingent liabilities risks, and intend to closely monitor developments, and stand ready to adjust policies as needed to safeguard debt sustainability. They also commit to continue to engage with IDA/IMF staff on debt management issues and to address debt vulnerabilities by building policy credibility and deepening the markets.

Figure 1. Uganda: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2018/29-2028/29



Customization of Default Settings		
	Size	Interactions
Tailored Tests		
Combined CLs	Yes	
Natural Disasters	n.a.	n.a.
Commodity Prices [2/]	n.a.	n.a.
Market Financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing Assumptions for Stress Tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	4.1%	1.5%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	21	38
Avg. grace period	4	6

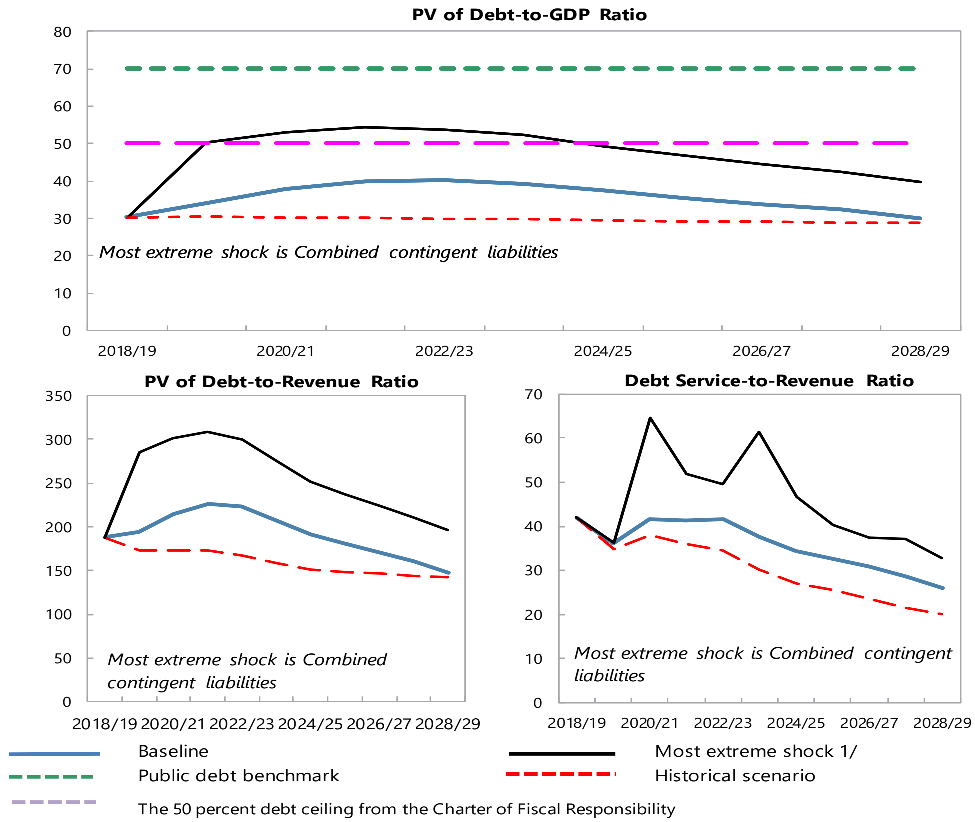
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Uganda: Indicators of Public Debt under Alternative Scenarios, 2018/19-2028/29



Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	53%	53%
Domestic medium and long-term	29%	29%
Domestic short-term	17%	18%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	4.1%	4.1%
Avg. maturity (incl. grace period)	21	21
Avg. grace period	4	4
Domestic MLT debt		
Avg. real interest rate on new borrowing	9.3%	9.3%
Avg. maturity (incl. grace period)	4	4
Avg. grace period	3	3
Domestic short-term debt		
Avg. real interest rate	7%	7.0%

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

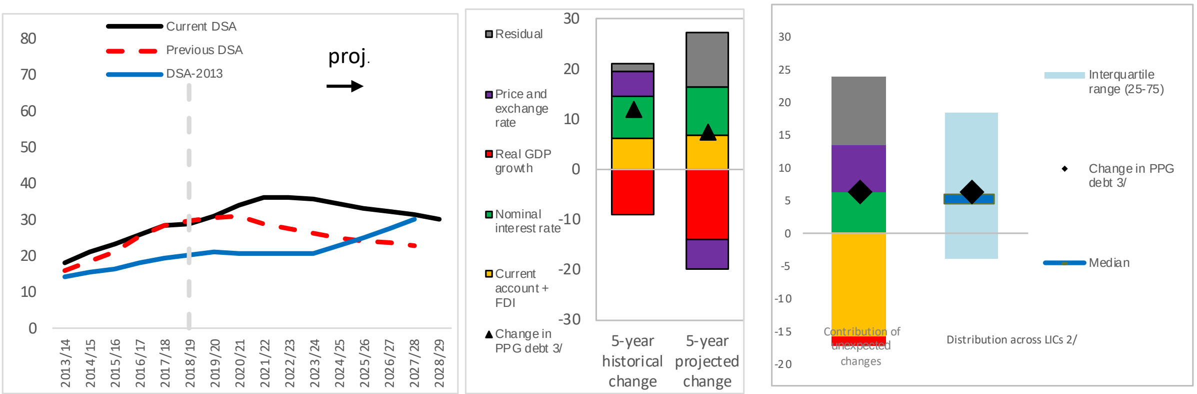
Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

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

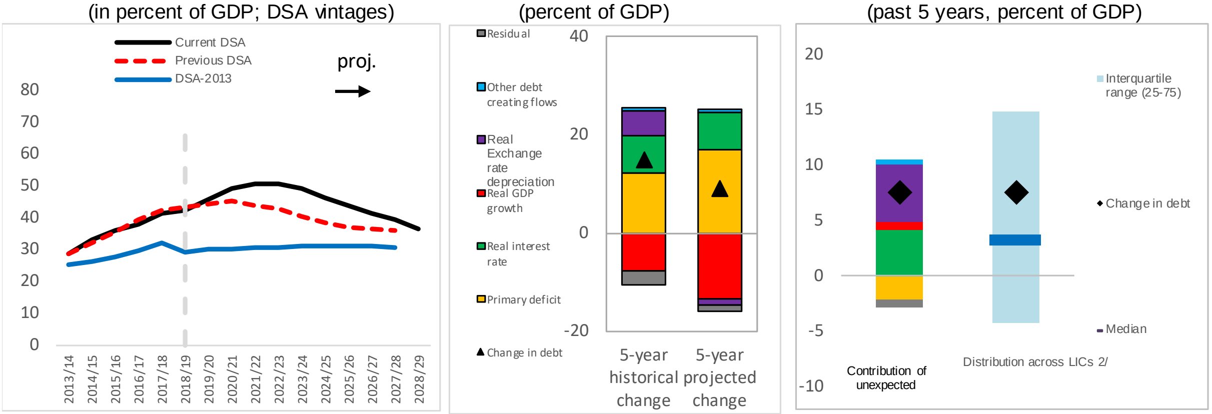
External debt

Gross Nominal PPG External Debt (in percent of GDP; DSA vintages) | Debt-creating flows (percent of GDP) | Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)



Public debt

Gross Nominal Public Debt (in percent of GDP; DSA vintages) | Debt-creating flows (percent of GDP) | Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)



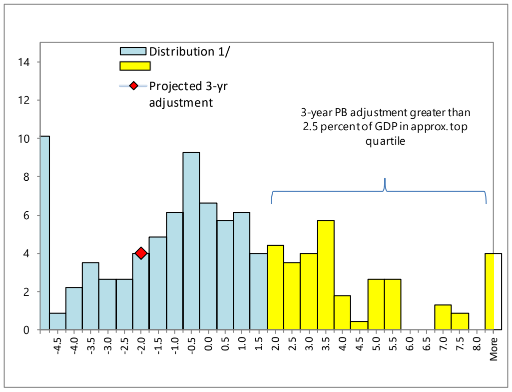
1/ Difference between anticipated and actual contributions on debt ratios.

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

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

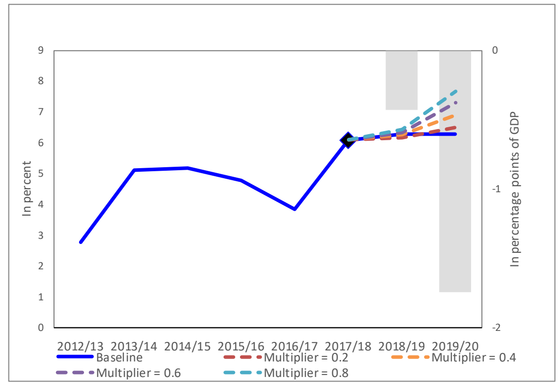
Figure 4. Uganda: Realism Tools

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



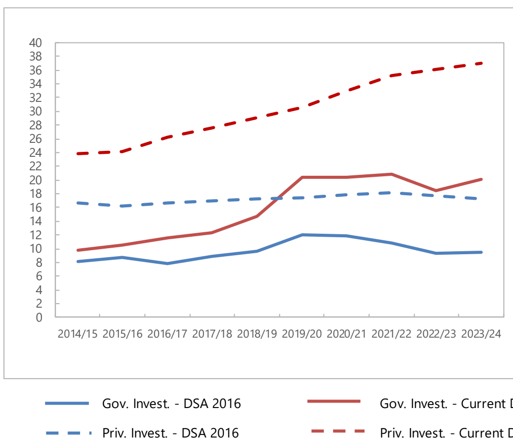
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



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

Public and Private Investment Rates
(% of GDP)



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

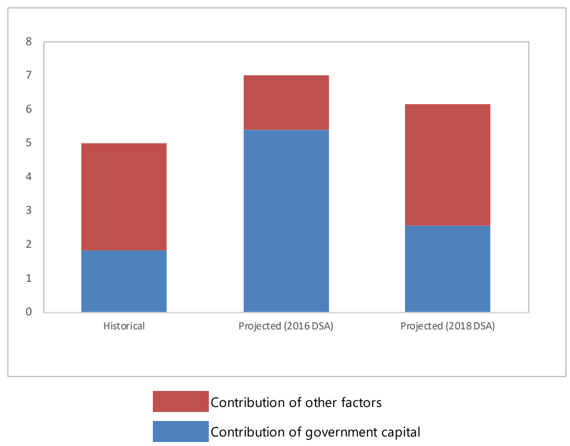
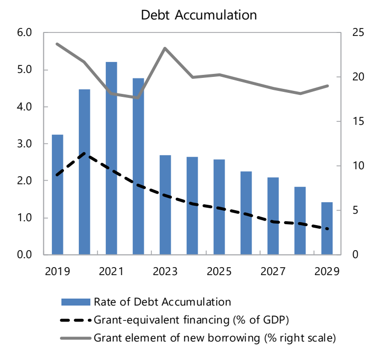


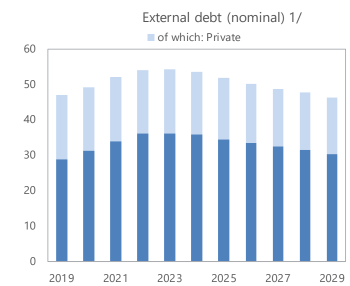
Table 1. Uganda: External Debt Sustainability Framework, Baseline Scenario, 2015/16-2028/29

(In percent of GDP,unless otherwise indicated)

	Actual			Projections							Average 8/	
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2028/29	Historical	Projections
External debt (nominal) 1/	41.1	42.9	45.3	46.9	49.3	52.0	54.1	54.3	53.6	46.2	33.2	50.4
of which: public and publicly guaranteed (PPG)	23.6	25.8	28.7	28.8	31.3	34.1	36.2	36.2	35.8	30.3	19.2	33.4
Change in external debt	4.6	1.7	2.5	1.6	2.3	2.7	2.1	0.2	-0.7	-1.5		
Identified net debt-creating flows	7.1	-1.8	1.1	0.6	1.3	1.4	0.1	-0.9	-2.4	-1.9	1.5	-1.1
Non-interest current account deficit	4.1	1.9	4.2	5.7	7.0	7.8	6.9	4.8	2.6	-6.2	5.4	2.1
Deficit in balance of goods and services	0.1	-0.6	0.9	1.6	2.4	2.5	1.8	0.2	-2.0	-11.4	1.7	-2.7
Exports	19.3	19.0	19.5	19.3	19.1	19.1	19.0	19.0	20.5	24.7		
Imports	19.4	18.3	20.5	20.9	21.6	21.6	20.8	19.3	18.5	13.3		
Net current transfers (negative = inflow)	-5.9	-5.6	-5.7	-5.9	-5.6	-5.2	-4.8	-4.6	-4.4	-3.2	-6.1	-4.5
of which: official	-1.0	-0.7	-0.5	-0.8	-0.8	-0.6	-0.5	-0.4	-0.3	-0.1		
Other current account flows (negative = net inflow)	9.8	8.1	9.0	10.0	10.2	10.4	9.9	9.1	9.0	8.4	9.7	9.3
Net FDI (negative = inflow)	-2.8	-2.5	-2.7	-4.0	-4.9	-5.5	-5.9	-4.9	-3.7	3.0	-3.6	-2.4
Endogenous debt dynamics 2/	5.8	-1.1	-0.4	-1.1	-0.9	-0.9	-0.9	-0.8	-1.2	1.3		
Contribution from nominal interest rate	1.6	1.8	1.9	1.6	1.8	1.9	2.0	2.2	2.1	4.0		
Contribution from real GDP growth	-2.0	-1.5	-2.5	-2.7	-2.7	-2.8	-2.9	-3.0	-3.3	-2.7		
Contribution from price and exchange rate changes	6.2	-1.5	0.1	...	...	...	...	...	...	...		
Residual 3/	-2.4	3.5	1.4	1.0	1.0	1.3	2.0	1.1	1.6	0.4	0.9	1.3
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators												
PV of PPG external debt-to-GDP ratio	...	...	14.8	16.9	19.7	22.5	25.1	25.6	25.9	23.4		
PV of PPG external debt-to-exports ratio	...	...	75.6	87.8	102.6	117.9	131.8	134.7	126.0	94.7		
PPG debt service-to-exports ratio	13.5	14.4	8.5	7.0	6.4	7.0	8.3	10.3	9.8	9.2		
PPG debt service-to-revenue ratio	18.9	19.3	11.4	9.0	7.7	8.2	9.5	11.3	11.0	11.3		
Gross external financing need (Million of U.S. dollars)	1727.2	1345.9	1941.5	2155.8	2591.4	3111.6	3259.3	3263.1	3457.2	6326.5		
				14381.3								
Key macroeconomic assumptions												
Real GDP growth (in percent)	4.8	3.9	6.1	6.3	6.3	6.2	6.1	6.0	6.6	6.1	**6.4**	**6.2**
GDP deflator in US dollar terms (change in percent)	-14.9	3.7	-0.3	0.2	2.4	4.0	2.6	2.3	2.4	3.0	**1.2**	**2.3**
Effective interest rate (percent) 4/	3.8	4.7	4.8	3.7	4.3	4.2	4.2	4.5	4.2	9.1	**5.5**	**4.2**
Growth of exports of G&S (US dollar terms, in percent)	-5.0	5.6	9.0	5.0	8.2	10.1	8.5	8.3	17.9	10.6	**7.2**	**9.7**
Growth of imports of G&S (US dollar terms, in percent)	-5.9	1.6	17.9	8.6	12.5	10.6	4.9	0.2	4.8	7.1	**5.1**	**6.9**
Grant element of new public sector borrowing (in percent)	...	...	...	23.7	21.7	18.2	17.7	23.2	20.0	19.0	**...**	**20.7**
Government revenues (excluding grants, in percent of GDP)	13.8	14.1	14.5	15.0	16.0	16.3	16.7	17.2	18.3	20.1	**12.7**	**16.6**
Aid flows (in Million of US dollars) 5/	583.5	519.8	246.2	882.4	1176.8	1093.0	1007.1	969.3	902.3	834.7		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	2.1	2.7	2.3	1.9	1.6	1.4	0.7	**...**	**2.0**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	38.6	39.0	31.9	28.9	34.9	31.5	23.2	**...**	**34.1**
Nominal GDP (Million of US dollars)	24,134	25,985	27,474	29,246	31,839	35,148	38,250	41,480	45,282	73,866		
Nominal dollar GDP growth	-10.8	7.7	5.7	6.5	8.9	10.4	8.8	8.4	9.2	9.3	**7.6**	**8.7**
Memorandum items:												
PV of external debt 7/	...	...	31.4	35.1	37.6	40.4	43.0	43.7	43.7	39.3		
In percent of exports	...	...	160.6	182.2	196.5	211.6	226.0	230.0	212.7	158.9		
Total external debt service-to-exports ratio	25.9	28.3	27.1	29.4	30.7	34.0	38.7	41.7	42.3	47.5		
PV of PPG external debt (in Million of US dollars)			4057.0	4949.9	6257.7	7916.0	9595.7	10622.3	11719.5	17281.5		
(PVt-PVt-1)/GDPt-1 (in percent)				3.3	4.5	5.2	4.8	2.7	2.6	1.4		
Non-interest current account deficit that stabilizes debt ratio	-0.6	0.2	1.7	4.1	4.7	5.0	4.8	4.6	3.3	-4.8		

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





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g) + Ɛα (1+r)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ɛ=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

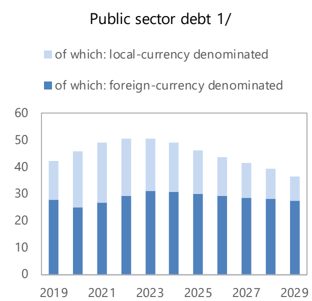
8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 2. Uganda: Public Sector Debt Sustainabilty Framework, Baseline Scenarios, 2017/18-2028/29

(In percent of GDP, unless otherwise indicated)

	Actual	Projections							Average 6/	
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2028/29	Historical	Projections
Public sector debt 1/	41.3	42.2	45.7	49.0	50.7	50.4	48.9	36.6	29.4	45.8
of which: external debt	28.7	28.8	31.3	34.1	36.2	36.2	35.8	30.3	19.2	33.4
Change in public sector debt	3.5	0.9	3.5	3.2	1.7	-0.2	-1.5	-2.9		
Identified debt-creating flows	3.6	0.3	3.8	3.8	2.3	0.5	-0.9	-2.7	1.9	0.2
Primary deficit	2.5	3.0	4.7	4.7	3.2	1.3	0.6	-1.1	2.3	1.8
Revenue and grants	15.3	16.1	17.6	17.5	17.6	17.9	19.0	20.2	14.3	18.5
of which: grants	0.8	1.1	1.6	1.2	0.9	0.7	0.6	0.2		
Primary (noninterest) expenditure	17.8	19.1	22.3	22.2	20.8	19.2	19.5	19.1	16.6	20.2
Automatic debt dynamics	1.1	-2.7	-1.3	-1.0	-0.9	-0.9	-1.4	-1.6		
Contribution from interest rate/growth differential	-0.4	-1.6	-1.3	-0.9	-0.9	-0.9	-1.4	-1.4		
of which: contribution from average real interest rate	1.7	0.8	1.2	1.8	1.9	2.0	1.8	0.9		
of which: contribution from real GDP growth	-2.2	-2.4	-2.5	-2.7	-2.8	-2.9	-3.1	-2.3		
Contribution from real exchange rate depreciation	1.6	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	0.4	0.1	0.1	0.1	0.0	0.0	0.1	0.1
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.4	0.1	0.1	0.1	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	-0.1	-0.5	-0.3	-0.7	-0.7	-0.7	-0.7	-0.4	-0.3	-0.6
Sustainability indicators										
PV of public debt-to-GDP ratio 2/	28.2	30.3	34.1	37.7	39.9	40.2	39.3	29.9		
PV of public debt-to-revenue and grants ratio	184.6	188.3	194.0	215.2	226.6	223.8	207.5	147.9		
Debt service-to-revenue and grants ratio 3/	44.5	42.0	36.2	41.6	41.4	41.6	37.6	26.0		
Gross financing need 4/	9.6	9.7	11.5	12.1	10.5	8.8	7.7	4.2		
Key macroeconomic and fiscal assumptions										
Real GDP growth (in percent)	6.1	6.3	6.3	6.2	6.1	6.0	6.6	6.1	6.4	6.5
Average nominal interest rate on external debt (in percent)	2.0	0.5	1.7	2.0	2.3	2.5	2.5	2.7	1.6	2.2
Average real interest rate on domestic debt (in percent)	-0.1	-1.5	-0.2	-0.2	-0.1	0.1	0.3	0.5	0.0	0.0
Real exchange rate depreciation (in percent, + indicates depreciation)	6.7	...	...	...	...	...	...	...	2.3	...
Inflation rate (GDP deflator, in percent)	3.3	3.0	4.2	5.2	5.2	4.9	4.9	5.4	9.2	4.9
Growth of real primary spending (deflated by GDP deflator, in percent)	15.1	13.6	24.3	6.0	-0.8	-2.1	8.4	1.5	7.2	8.0
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-1.0	2.1	1.2	1.5	1.5	1.5	2.1	1.8	-0.6	1.9
PV of contingent liabilities (not included in public sector debt)	0.0	0.8	0.0	0.0	0.0	0.0	0.0	0.0		

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



Sources: Country authorities; and staff estimates and projections.

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

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

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

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

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

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

Table 3. Uganda: Sensivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2018/19-2028/29

(In percent)

	Projections										
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
PV of debt-to GDP ratio											
Baseline	**16.9**	**19.7**	**22.5**	**25.1**	**25.6**	**25.9**	**25.5**	**25.0**	**24.5**	**24.2**	**23.4**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 1/	16.9	19.6	22.8	26.0	27.8	30.0	31.9	34.4	37.1	39.4	41.6
B. Bound Tests											
B1. Real GDP growth	16.9	20.8	25.2	28.0	28.6	28.9	28.5	27.9	27.4	27.0	26.1
B2. Primary balance	16.9	20.1	23.4	26.0	26.5	26.9	26.6	26.0	25.5	25.1	24.4
B3. Exports	16.9	20.6	25.3	27.7	28.2	28.3	27.8	27.1	26.5	26.0	25.0
B4. Other flows 2/	16.9	21.5	26.4	28.8	29.2	29.3	28.7	27.9	27.3	26.6	25.7
B6. One-time 30 percent nominal depreciation	16.9	24.6	26.4	29.7	30.5	30.9	30.6	29.9	29.5	29.1	28.3
B6. Combination of B1-B5	16.9	23.2	28.2	30.8	31.3	31.4	30.8	30.0	29.4	28.7	27.7
C. Tailored Tests											
C1. Combined contingent liabilities	16.9	27.9	32.0	34.7	35.3	37.0	36.7	35.8	35.1	34.7	33.8
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**55**	**55**	**55**	**55**	**55**	**55**	**55**	**55**	**55**	**55**	**55**
PV of debt-to-exports ratio											
Baseline	**87.8**	**102.6**	**117.9**	**131.8**	**134.7**	**126.0**	**118.5**	**109.7**	**103.9**	**98.9**	**94.7**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 1/	87.8	102.6	119.1	136.7	146.3	146.2	147.9	151.1	156.9	161.5	168.2
B. Bound Tests											
B1. Real GDP growth	87.8	102.6	117.9	131.8	134.7	126.0	118.5	109.7	103.9	98.9	94.7
B2. Primary balance	87.8	104.7	122.3	136.6	139.6	130.9	123.4	114.3	108.1	102.9	98.6
B3. Exports	87.8	117.1	160.2	176.3	179.1	166.7	156.0	144.0	135.8	128.6	122.6
B4. Other flows 2/	87.8	112.2	138.3	151.3	153.4	142.5	133.1	122.7	115.4	109.1	103.8
B6. One-time 30 percent nominal depreciation	87.8	102.0	109.8	124.1	127.3	119.5	112.7	104.6	99.3	94.9	91.0
B6. Combination of B1-B5	87.8	118.7	134.1	164.9	167.5	155.8	145.7	134.4	126.5	119.8	114.1
C. Tailored Tests											
C1. Combined contingent liabilities	87.8	145.7	167.5	182.4	185.4	180.0	170.3	157.4	148.4	142.1	136.7
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**240**	**240**	**240**	**240**	**240**	**240**	**240**	**240**	**240**	**240**	**240**
Debt service-to-exports ratio											
Baseline	**7.0**	**6.4**	**7.0**	**8.3**	**10.3**	**9.8**	**9.5**	**9.3**	**9.4**	**9.4**	**9.2**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 1/	7.0	6.5	7.3	8.7	10.9	10.6	10.9	11.1	11.7	12.0	12.2
B. Bound Tests											
B1. Real GDP growth	7.0	6.4	7.0	8.3	10.3	9.8	9.5	9.3	9.4	9.4	9.2
B2. Primary balance	7.0	6.4	7.1	8.5	10.5	10.0	9.8	9.7	9.7	9.7	9.5
B3. Exports	7.0	7.0	8.7	10.5	12.9	12.2	11.9	11.6	11.8	12.0	11.7
B4. Other flows 2/	7.0	6.4	7.3	8.8	10.8	10.2	9.9	9.7	9.9	10.1	9.8
B6. One-time 30 percent nominal depreciation	7.0	6.4	7.0	8.1	10.1	9.7	9.4	9.2	9.3	9.1	8.9
B6. Combination of B1-B5	7.0	6.7	8.2	9.8	11.9	11.4	11.0	10.7	11.1	11.2	10.9
C. Tailored Tests											
C1. Combined contingent liabilities	7.0	6.4	8.8	10.4	12.4	11.7	11.6	11.3	11.2	11.1	10.9
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**21**	**21**	**21**	**21**	**21**	**21**	**21**	**21**	**21**	**21**	**21**
Debt service-to-revenue ratio											
Baseline	**9.0**	**7.7**	**8.2**	**9.5**	**11.3**	**11.0**	**10.8**	**11.0**	**11.3**	**11.5**	**11.3**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 1/	9.0	7.8	8.5	9.9	12.0	11.9	12.3	13.1	14.0	14.7	15.0
B. Bound Tests											
B1. Real GDP growth	9.0	8.1	9.2	10.6	12.7	12.3	12.1	12.3	12.7	12.9	12.6
B2. Primary balance	9.0	7.7	8.3	9.7	11.6	11.2	11.1	11.4	11.7	11.9	11.7
B3. Exports	9.0	7.7	8.4	9.9	11.7	11.3	11.1	11.3	11.7	12.2	11.9
B4. Other flows 2/	9.0	7.7	8.5	10.0	11.9	11.5	11.2	11.4	11.9	12.4	12.1
B6. One-time 30 percent nominal depreciation	9.0	9.6	10.3	11.6	14.0	13.6	13.4	13.7	14.1	14.1	13.9
B6. Combination of B1-B5	9.0	8.2	9.4	10.9	12.9	12.5	12.2	12.4	13.1	13.4	13.1
C. Tailored Tests											
C1. Combined contingent liabilities	9.0	7.7	10.3	11.8	13.6	13.1	13.1	13.3	13.5	13.6	13.4
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**23**	**23**	**23**	**23**	**23**	**23**	**23**	**23**	**23**	**23**	**23**

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Includes official and private transfers and FDI.

Table 4. Uganda: Sensivity Analysis for Key Indicators of Public External Debt, 2018/19-2028/29

(In percent)

	Projections										
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
PV of Debt-to-GDP Ratio											
Baseline	**30.3**	**34.1**	**37.7**	**39.9**	**40.2**	**39.3**	**37.4**	**35.5**	**33.9**	**32.3**	**29.9**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 1/	30	30	30	30	30	30	29	29	29	29	29
B. Bound Tests											
B1. Real GDP growth	30	37	44	48	49	50	49	49	49	49	48
B2. Primary balance	30	35	39	40	40	39	37	35	33	31	29
B3. Exports	30	35	40	43	43	42	40	38	36	34	32
B4. Other flows 2/	30	36	42	44	44	43	41	39	37	35	32
B6. One-time 30 percent nominal depreciation	30	36	37	37	36	33	30	27	25	22	19
B6. Combination of B1-B5	30	34	37	38	38	37	35	33	31	30	27
C. Tailored Tests											
C1. Combined contingent liabilities	30	50	53	54	54	52	49	47	45	43	40
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Public debt benchmark	**70**	**70**	**70**	**70**	**70**	**70**	**70**	**70**	**70**	**70**	**70**
PV of Debt-to-Revenue Ratio											
Baseline	**188.3**	**194.0**	**215.2**	**226.6**	**223.8**	**207.5**	**191.4**	**180.7**	**170.3**	**160.2**	**147.9**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 1/	188	174	174	172	168	158	151	149	146	143	142
B. Bound Tests											
B1. Real GDP growth	188	208	249	269	273	262	252	248	245	242	237
B2. Primary balance	188	198	220	228	222	204	187	176	165	154	142
B3. Exports	188	199	231	242	238	220	203	191	180	169	156
B4. Other flows 2/	188	204	238	248	244	226	208	196	184	173	159
B6. One-time 30 percent nominal depreciation	188	206	212	212	199	176	155	139	124	110	94
B6. Combination of B1-B5	188	192	212	217	211	194	178	167	156	146	134
C. Tailored Tests											
C1. Combined contingent liabilities	188	286	302	308	300	275	252	238	224	211	196
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	**42.0**	**36.2**	**41.6**	**41.4**	**41.6**	**37.6**	**34.5**	**32.5**	**30.9**	**28.7**	**26.0**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 1/	42	35	38	36	34	30	27	26	23	21	20
B. Bound Tests											
B1. Real GDP growth	42	38	47	49	50	48	46	46	45	44	42
B2. Primary balance	42	36	43	43	43	39	36	34	32	30	27
B3. Exports	42	36	42	42	42	38	35	33	31	29	27
B4. Other flows 2/	42	36	42	42	42	38	35	33	31	30	27
B6. One-time 30 percent nominal depreciation	42	35	41	40	42	38	34	32	31	28	26
B6. Combination of B1-B5	42	35	41	41	41	37	34	32	31	28	26
C. Tailored Tests											
C1. Combined contingent liabilities	42	36	65	52	50	61	47	40	37	37	33
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

2/ Includes official and private transfers and FDI.

Statement by Mr. Mahlinza, Executive Director for Uganda and Ms. Gasasira-Manzi, Senior Advisor to the Executive Director May 1, 2019

Introduction

Our authorities continue to value Fund engagement and thank staff for the constructive policy discussions during the 2019 Article IV mission in Kampala. They welcome staff's objective view of the country's macroeconomic policies and challenges and broadly agree with the assessment.

The Ugandan economy continues to show strong performance underpinned by sound macroeconomic policies, which have enabled strong growth and improved market confidence. However, more effort is required to make further progress on poverty reduction and achieve the Sustainable Development Goals (SDGs). Further, although growth prospects are positive, they remain subject to substantial risks and vulnerabilities. To this end, the authorities are taking steps to ensure strong macroeconomic policies and address structural bottlenecks to improve economic resilience as reflected in the second National Development Plan (NDP II 2015/16 -2019/20). The NDPII seeks to strengthen Uganda's competitiveness for sustainable wealth creation, employment and inclusive growth.

Recent Economic Developments and Outlook

Real GDP growth accelerated from 3.9 percent in FY2016/17 to 6.1 percent in FY2017/18 largely underpinned by increased private sector activity, significant growth in the services sector, and recovery in the agricultural sector due to good weather and supportive government interventions. In FY2018/19, the economy is expected to grow at 6 - 6.5 percent, with growth close to potential, supported by improved agricultural production, strong pick up in private investment and consumption, as well as public investment, particularly in preparation for future oil production.

The current account deficit increased to 6.1 percent of GDP in FY2017/18, largely due to increased imports of capital goods related to infrastructure projects and private sector investments, which outweighed the growth in exports. The international reserves stood at 4.5 months of future imports of goods and services as at end March 2019.

Annual headline inflation edged upwards during the first half of FY2018/19, registering a 6-month average of 3.1 percent compared to 2.1 percent in the last half of FY2017/18. Annual core inflation also increased to a 3.3 percent average in the first half of 2018/19 from 1.6 percent in the last half of FY2017/18. In March 2019, annual headline inflation remained unchanged from February 2019 at 3 percent, while core inflation rose from 3.7 percent in February 2019 to 4.6 percent in March 2019, approaching the Bank of Uganda (BOU)'s medium-term target of 5 percent, driven mainly by other goods and services inflation. The low headline inflation reflects declining food, energy, fuel and utilities prices. At its April 2019 meeting, the Monetary Policy Committee (MPC) considered that inflation had developed in line with expectations and concluded that the current policy stance remained appropriate. As a result, the MPC kept the Central Bank Rate (CBR) on hold, consistent with its policy stance of maintaining price stability while supporting economic growth.

Policy Priorities and Reforms

Consistent with the objective to maintain stable macroeconomic conditions, which are necessary for achieving sustainable and inclusive growth, our authorities are prioritizing higher public investment outcomes, by improving efficiency in public investment, strengthening domestic revenue mobilization efforts, and maintaining low and stable inflation, while creating opportunities for private sector development and job creation. Supported by the 5-year medium-term budget under the theme 'Industrialization for Job Creation and Shared Prosperity', the authorities are pursuing a number of revenue enhancement and expenditure rationalization measures.

Fiscal Policy

On the revenue side, concerted policy efforts are being made to enhance the capacity of the revenue administration, improve transparency and accountability in the tax system, and enhance tax payer services, education and information. In addition, with the help of development partners, the authorities are finalizing their medium-term Domestic Revenue Mobilization Strategy (DRMS), which aims to increase revenue by 2.5 percent of GDP over five years. Domestic revenue collections for the first two quarters of the FY2018/19 exceeded set targets, owing to good performance in income taxes, increased import volumes and improved taxpayer compliance. In FY2019/20, the authorities expect to collect higher tax revenues through various measures, including property tax and the use of digital tax stamps.

Public expenditure is expected to be largely driven by development spending as the Government continues to invest in public infrastructure projects with high growth pay-offs. Completion of on-going infrastructure projects, such as the hydro power projects in FY2019/20, is expected to gradually narrow the overall deficit towards the macroeconomic convergence criteria of 3 percent, set under East African Monetary Union. The government also plans to protect priority social spending and, in collaboration with development partners, improve social outcomes.

The authorities are committed to maintaining the country's debt at low risk of debt distress. As at end June 2018, the total public debt stock stood at 41 percent of GDP. This is likely to rise as more debt is incurred to finance government infrastructure projects but will decline in the medium term as the Government completes the investment priorities under the NDP II. In line with the Public Financial Management (PFM) Act, a medium-term debt strategy (MTDS), which provides the benchmark and thresholds within which the government acquires debt, has been developed. The authorities plan to keep debt below or as close as possible to the 50 percent of GDP target under the Charter of Fiscal Responsibility (CFR).
Additional measures are also being taken to improve export earnings, improve the sequencing and execution of projects for timely realization of returns and impact on the economy. This will help increase domestic revenues and reduce the reliance on debt.

At the same time, the authorities are strengthening their public financial and investment management practices. In this regard, improved guidelines for planning and costing public investment projects have been introduced and the execution rate of infrastructure projects has improved over the last year. In addition, progress has been made on the management of domestic arrears with a view to improve monitoring and avoid further accumulation of arrears. A domestic arrears' strategy has been developed and verification of all outstanding arrears by an external audit firm has been undertaken with a view to clear them. The authorities have also started the ascension process to the Extractive Industries Transparency Initiative (EITI).

Monetary and Financial Sector Policies

The inflation targeting framework has been successful in keeping inflation low and stable, consistent with the BOU's medium-term inflation target of 5 percent. Further, the BOU remains committed to maintaining a flexible exchange rate regime.

In 2018, the banking sector performance continued to strengthen, underpinned by a recovery in credit growth and improvements in asset quality. The non-performing loans (NPLs) ratio declined from 5.6 percent at the end of 2017 to 3.4 percent at the end 2018. The BOU also continued to strengthen its prudential oversight and regulations to preserve financial sector stability. In this regard, the International Financial Reporting Standard 9 (IFRS 9), to which all banking institutions are mandated to comply, took effect in January 2018 and the new financial institutions capital adequacy regulations took effect in September 2018.

Efforts by the BOU to promote financial inclusion, including developing financial consumer protection guidelines and undertaking financial literacy campaigns, have been successful. However, around 15 percent of the population still has no access to financial services. The 2017-2022 National Financial Inclusion Strategy, which aims to develop credit infrastructure and promote formal savings, investment and insurance instruments, is expected to further improve inclusion. Meanwhile, financial innovation continues to grow through agent banking, mobile money banking, and Islamic banking. A National Payments System Bill, which includes proposed enhancements to the regulations on mobile money, is in the process of being enacted. The authorities have made progress in implementing some of the recommendations of the 2018 Financial Sector Stability Review (FSSR), with support from the Fund. Implementation of other recommendations awaits legislative approval.

Structural Reforms

The authorities continue to make progress on the implementation of structural reforms. Their strategy includes enhancing private sector development, promoting human capital development, strengthening public sector investment, and improving governance while sustaining security. In this regard, efforts are being made towards addressing constraints faced by the private sector, developing industrial parks, completing key infrastructure projects and enhancing the contribution of the services sector, with a special focus on tourism and ICT sectors.

Unemployment remains a major challenge in Uganda, especially considering the fast growing and youthful population. The government is designing various programs targeting youth and women, including the development of a youth fund and industrialization programs to support job creation. To this end, skilling and the provision of relevant education programs remain a priority for the government. Consistent with the NDP II, industrial parks are being developed, with five industrial parks already in operation, creating job opportunities and increased use of local raw materials.

With respect to infrastructure development, a number of projects are underway including Isimba dam power project, commissioned in March 2019 and the Karuma dam power project, which is set to be completed at the end of 2019. These two projects are expected to increase the country's power generation capacity by 783MW. Other infrastructure projects include the Kampala-Entebbe express highway, major roads and bridges construction and the expansion of the Entebbe International Airport. In addition, the national airline, expected to become operational in June 2019, will start with regional flights. This will help enhance competitiveness by easing connectivity to and from Uganda and support the growth of some sectors of the economy such as tourism, minerals, and oil and gas.

The authorities remain committed to strengthening governance and anti-corruption initiatives. Relatedly, they are advancing work towards aligning the AML/CFT regime with international standards to ensure compliance with the FATF requirements, following Uganda's removal from FATF's grey list in 2017.

Conclusion

Our authorities remain committed to maintaining macroeconomic stability to support inclusive and sustainable growth. They appreciate the Fund's policy support, which has been instrumental in achieving economic stability while supporting durable and inclusive growth. Further, they welcome the enormous analytical work and capacity building support provided by the Fund in strengthening the fiscal framework, developing capacity for effective management of oil revenues, tax policy and revenue administration, public financial and investment management, strengthening the inflation targeting framework, and enhancing financial supervision and regulation. They look forward to further engagement with the Fund.