

Uganda: 2017 Article IV Consultation and Eighth Review Under the Policy Support Instrument- Press Release; Staff Report; and Statement by the Executive Director for Uganda



UGANDA

July 2017

2017 ARTICLE IV CONSULTATION AND EIGHTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR UGANDA

In the context of the 2017 Article IV Consultation and the Eighth Review under the Policy Support Instrument, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its July 7, 2017 consideration.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 7, 2017, following discussions that ended on May 15, 2017, with the officials of Uganda on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 21, 2017.
- **Staff Supplements** updating information on recent developments.
- An **Informational Annex** prepared by the IMF staff.
- 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.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: <http://www.imf.org>
Price: \$18.00 per printed copy

International Monetary Fund
Washington, D.C.



Press Release No. 17/273
FOR IMMEDIATE RELEASE
July 11, 2017

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

IMF Executive Board Completes Eighth PSI Review for Uganda and Concludes 2017 Article IV Consultation

On July 7, 2017, the Executive Board of the International Monetary Fund (IMF) concluded the 2017 Article IV consultation¹ with Uganda and completed the eighth review of Uganda's economic performance under the Policy Support Instrument (PSI).²

In completing the review, the Board granted a waiver of the nonobservance of the continuous assessment criterion of the zero ceiling of external payment arrears.

The PSI for Uganda was approved by the Executive Board on June 28, 2013 (see [Press Release No. 13/78](#)). A one-year extension was approved on June 6, 2016 (see [Press Release No. 16/263](#)), and a further extension through July 28, 2017 was approved on June 19, 2017.³

Following the Executive Board discussion, Mr. Tao Zhang, Deputy Managing Director and Acting Chair, made the following statement:

“Macroeconomic performance in Uganda has been sound. Notwithstanding a growth slowdown, the medium-term outlook is favorable with steadfast policy implementation. Performance under the Policy Support Instrument has been broadly satisfactory. The authorities need to be commended for hosting over one million refugees.

“Budget implementation in FY16/17 was mixed. The authorities increased tax revenue by another ½ percent of GDP and started settling domestic arrears. However, externally-financed

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.

² The PSI is an instrument of the IMF designed for countries that do not need balance of payments financial support. The PSI helps countries design effective economic programs that, once approved by the IMF's Executive Board, signal to donors, multilateral development banks, and markets the Fund's endorsement of a member's policies (see <http://www.imf.org/external/np/exr/facts/psi.htm>).

³ For more details on Uganda's PSI, go to: www.imf.org/uganda

capital spending was significantly under-executed while current spending overshot. The government regrettably relied again on central bank financing.

“The FY17/18 budget targets a further revenue increase, but specific measures have yet to be identified. The tight current spending envelope will require strong expenditure controls and efficiency gains to avoid the need for supplementary budgets or renewed domestic arrears. Social spending would decline in real terms and relative to EAC peers, requiring efficiency gains to protect the level of service delivery.

“Safeguarding debt sustainability necessitates continued domestic revenue mobilization and sound project implementation to realize the envisaged growth dividend from infrastructure investment. The authorities should target the projected debt trajectory as a fiscal anchor.

“The Bank of Uganda has effectively implemented its inflation targeting framework, while maintaining a flexible exchange rate. Given a stable core inflation outlook, the accommodative monetary stance is appropriate. Bank of Uganda should stand ready to tighten monetary policy if risks to the inflation outlook from food prices and the exchange rate materialize. While the banking sector remains well capitalized overall, more intrusive supervision can enhance financial stability.

“The authorities made progress on structural reforms. Notably, the approval of the Anti-Money Laundering and Combating the Financing of Terrorism legislations will support Uganda’s exit from the Financial Action Task Force’s “grey” list. Regrettably, some reforms, such as amending the Bank of Uganda Act, were delayed.”

The Executive Board also completed the 2017 Article IV Consultation with Uganda.

Uganda has made remarkable achievements over the past decades. Growth averaged 8 percent per annum during 1992–2010, tripling per capita GDP and more than halving poverty to 35 percent—one of the strongest performances in sub-Saharan Africa.⁴ The performance was underwritten by sound macroeconomic policies and institutions, and a reliance on the private sector as the engine of growth. The inflation targeting framework introduced in 2011 has served Uganda well. Uganda hosts over one million refugees in an integrative approach that has been praised as international best practice. The country’s challenge going forward is to rebuild momentum for continued high and inclusive growth.

Uganda’s recent economic performance has been sound, notwithstanding a slowdown in growth. Real GDP growth is estimated to have slowed to 3.9 percent in FY2016/17, reflecting domestic factors and external headwinds, including the drought in the Horn of Africa. The banking sector remains well-capitalized overall. However, elevated non-performing loans have constrained bank lending which contributed to the growth slowdown. Food price inflation increased due to the

⁴ Poverty headcount ratio in 2013 based on the international poverty line of \$1.9 per day in 2011 Purchasing Power Parity terms.

drought, but core inflation was 5.1 percent in May, in line with the Bank of Uganda's (BoU's) target. The current account deficit narrowed, reflecting lower-than-expected investment-related imports. International reserves are adequate.

Implementation of the FY16/17 budget has been mixed. Tax policy and administration measures have performed well to achieve a revenue increase of about ½ percent of GDP. Recurrent expenditures exceeded program projections by about ½ percent of GDP. The government cleared domestic arrears to the tune of ½ percent of GDP of the outstanding stock of 3.2 percent of GDP at end-June 2016. Domestically-financed capital expenditures are on track, but the foreign-financed ones are significantly under-executed. The government relied again on BoU financing, complicating monetary policy implementation.

Performance under the PSI up to March 2017 was broadly satisfactory. The authorities met the cornerstones of their quantitative targets, but missed several supporting ones. They made progress on structural reforms, notably the approval of the Anti-Money Laundering and Combating the Financing of Terrorism legislations that will support Uganda's exit from the Financial Action Task Force's "grey" list. However, reforms in several other areas are delayed, including submitting amendments to the BoU Act to parliament and within-year domestic arrears reporting.

The outlook is broadly favorable. With steadfast policy implementation and assuming improved weather conditions, growth could accelerate to 5 percent in FY17/18. Over the medium term, infrastructure and oil sector investments could yield growth rates of 6 to 6 ½ percent. Core inflation is projected to stay close to the 5 percent target. With the planned infrastructure investments, public debt would increase but remain manageable, assuming that the investments lead to higher growth and the government continues to increase its revenue collections. Reserves are projected to remain at comfortable levels. Risks to this outlook are tilted to the downside, in particular from weak implementation of public investments, adverse weather, and difficult regional developments.

Executive Board Assessment⁵

Executive Directors commended Uganda's economic achievements over the past few decades and its performance under the Policy Support Instrument (PSI). Directors, however, noted that growth has recently moderated and challenges and risks remain. They welcomed the authorities' focus on promoting growth through planned infrastructure and oil sector investments but emphasized that sound and steadfast implementation of policies and reforms will be important to

⁵ 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>.

foster inclusive and stronger growth. Directors praised the authorities for their tremendous efforts in hosting the large number of refugees from regional conflicts.

Directors emphasized the importance of strengthening fiscal policy implementation. They welcomed the increase in revenue collection in FY16/17, but noted the large under-execution of the externally-financed investment budget which could undermine growth prospects. Directors regretted the government's recourse to central bank financing this year, noting its inconsistency with the inflation targeting framework. They called on the authorities to settle outstanding external arrears expeditiously, while taking measures to prevent any recurrence.

Directors welcomed the authorities' plan to increase revenue collection, and recommended identifying specific measures. They emphasized that the tight current expenditure envelope in the upcoming budget will require strong spending controls and efficiency gains to avoid the need for supplementary budgets or renewed arrears. Directors encouraged stronger efforts to improve arrears monitoring and adoption of a comprehensive arrears clearance and prevention strategy.

Directors stressed that safeguarding debt sustainability should be a priority. In this regard, they called for continued domestic revenue mobilization and sound project implementation, especially to realize the envisaged growth dividend from infrastructure investment. They advised the authorities to target the projected debt trajectory to provide a buffer relative to the Charter of Fiscal Responsibility's debt ceiling in case of adverse shocks.

Directors commended the Bank of Uganda (BoU) for effective implementation of its inflation-targeting framework. They supported the recent accommodative monetary stance within the context of a stable core inflation outlook. However, Directors encouraged the authorities to closely monitor risks from food price inflation and exchange rate depreciation, and tighten policy if needed.

Directors supported the efforts to strengthen financial oversight given the rise in non-performing loans and the recent failure of the third largest bank. They welcomed the BoU's focus on banks' risk management frameworks and encouraged measures to strengthen supervision, including by closely scrutinizing banks' reporting. Directors welcomed mobile money's contribution to financial inclusion and underscored the importance of steadfast efforts to ensure that the regulatory framework keeps pace with financial innovation.

Directors emphasized that accelerating structural reforms aimed at facilitating private sector activity, including further improving the business environment, governance, and the education system is necessary for stronger growth. Priority should also be given to increasing the resilience of the agriculture sector. Directors welcomed the approval of the Anti-Money Laundering

Amendment Act, Insurance Act, and Anti-Terrorism Amendment Bill, which should help facilitate Uganda's removal from the FATF grey list.

Directors agreed that the PSI has helped Uganda maintain macroeconomic stability despite external and internal challenges. They took note of the authorities' interest in a successor PSI to strengthen the country's economic performance.

Table 1. Uganda: Selected Economic and Financial Indicators, FY2012/13–2021/22^{1,2}

	2012/13	2013/14	2014/15	2015/16	2016/17		2017/18		2018/19	2019/20	2020/21	2021/22
				Est.	7 th Rev.	Proj.	7 th Rev.	Proj.		Proj.		
(Annual percentage change, unless otherwise indicated)												
Output, prices, and exchange rate												
Real GDP	2.7	5.2	5.1	4.7	5.0	3.9	5.5	5.0	5.5	6.0	6.5	6.5
GDP deflator	6.1	3.4	3.8	3.3	5.1	4.8	4.7	5.8	5.2	5.0	5.0	5.0
Headline inflation (period average)	4.8	5.3	2.9	6.6	5.4	5.8	4.8	5.9	4.9	5.0	5.0	5.0
Core inflation (period average)	6.6	4.6	3.2	6.7	5.0	5.2	4.6	5.7	5.3	5.0	5.0	5.0
Terms of trade ("–" = deterioration)	-8.2	4.7	18.8	5.3	-0.3	1.8	-1.3	-1.2	-0.7	-0.9	-1.1	-0.4
Exchange Rate (Ugandan Shilling/US\$)	1.3	-2.0	11.4	21.8	...	...	...	...	...	...	...	...
Real effective exchange rate ("–" = depreciation)	3.3	7.8	-3.7	-7.2	...	...	...	...	...	...	...	...
Money and credit												
Broad money (M3)	6.6	17.4	15.9	7.1	5.8	12.7	17.4	13.7	15.0	16.6	17.1	17.5
Credit to non-government sector	6.4	13.9	20.4	4.0	8.3	8.5	15.0	12.6	13.6	15.6	16.7	17.0
Bank of Uganda policy rate ³	11.0	11.0	13.0	15.0	...	...	...	...	...	...	...	...
M3/GDP (percent)	18.6	20.1	21.3	21.1	19.8	21.9	21.1	22.4	23.2	24.3	25.5	26.8
NPLs (percent of total loans)	4.0	5.8	4.0	8.3	...	...	...	...	...	...	...	...
(Percent of GDP, unless otherwise indicated)												
Central government budget												
Revenue and grants	12.7	12.6	14.4	15.2	15.9	15.5	15.9	16.5	16.8	17.5	17.7	18.5
<i>of which: grants</i>	1.4	1.0	1.2	1.4	1.8	1.1	1.4	1.5	1.4	1.6	1.3	1.0
Expenditure	16.2	16.6	18.7	20.1	21.9	19.0	20.8	20.2	22.3	21.5	20.7	20.1
Current	9.0	9.5	10.0	11.0	10.4	11.0	10.3	10.5	10.6	10.5	10.4	10.2
Capital ⁴	6.5	7.0	8.1	8.7	11.0	7.7	10.3	9.4	11.3	10.7	10.0	9.5
Primary balance	-2.1	-2.6	-2.8	-2.9	-3.6	-0.9	-2.3	-1.1	-2.7	-1.4	-0.4	0.8
Overall balance	-3.2	-3.5	-4.4	-5.3	-6.0	-3.5	-4.9	-3.7	-5.5	-4.0	-3.0	-1.6
Excluding grants	-4.7	-4.5	-5.6	-6.7	-7.8	-4.6	-6.2	-5.3	-6.9	-5.6	-4.2	-2.6
Of which: Net domestic borrowing	1.0	2.2	3.2	2.3	0.7	0.9	1.0	1.1	0.6	0.5	0.4	-0.4
Public debt												
Public gross debt	26.1	28.3	32.2	35.7	38.6	38.7	41.5	38.6	40.9	41.6	41.6	40.7
External	15.3	15.8	18.7	21.7	25.0	25.1	28.1	25.4	28.4	29.9	30.7	30.9
Domestic	10.9	12.5	13.4	14.0	13.7	13.6	13.4	13.2	12.5	11.7	10.8	9.8
Investment and savings												
Investment	27.8	26.7	24.6	24.9	27.8	24.3	29.1	26.4	29.1	29.1	28.7	28.6
Public	6.5	7.0	8.1	8.7	11.0	7.7	10.3	9.4	11.3	10.7	10.0	9.5
Private	21.3	19.7	16.5	16.2	16.8	16.6	18.8	17.1	17.8	18.4	18.7	19.0
Savings	21.2	18.8	16.9	18.2	20.4	19.2	20.6	19.9	20.2	20.3	18.9	22.2
Public	1.7	2.3	2.9	2.8	3.6	3.4	4.5	4.6	5.1	5.7	6.2	7.3
Private	19.6	16.5	14.0	15.4	16.7	15.8	16.1	15.4	15.2	14.5	12.7	14.9
External sector												
Current account balance (including grants)	-6.3	-7.6	-7.3	-6.3	-7.1	-4.8	-8.2	-6.2	-8.0	-7.9	-9.0	-5.7
Exports (goods and services)	20.2	18.2	18.2	18.7	19.0	18.1	19.5	18.1	19.2	19.6	20.1	21.8
Imports (goods and services)	30.3	27.9	28.7	28.8	29.5	26.0	30.0	27.3	30.0	30.1	31.5	29.5
Gross international reserves												
In billions of US\$	2.9	3.4	2.9	3.0	3.0	3.2	3.1	3.3	3.6	4.0	4.1	4.6
In months of next year's imports	4.5	5.2	5.0	5.3	4.2	5.1	4.0	4.5	4.4	4.4	4.5	5.1
Memorandum items:												
GDP at current market prices												
Ush. Billion	64,758	70,458	76,883	83,120	93,639	90,514	103,400	100,552	111,555	124,146	138,791	155,136
US\$ million	24,993	27,761	27,190	24,142	...	...	...	...	...	...	...	...
GDP per capita (Nominal US\$)	757	817	778	673	626	694	648	718	737	799	833	861
Population (million) ⁵	33.0	34.0	35.0	35.9	...	...	...	...	...	...	...	...

Sources: Uganda authorities and IMF staff estimates and projections.

¹ Fiscal year runs from July 1 to June 30.² All figures are based on the 2009/10 rebased GDP provided by the authorities.³ The Central Bank Rate (CBR) was introduced to start Inflation Targeting in July 2011. Data refer to end-year CBRs. The CBR was at 11 percent in April 2017.⁴ Capital expenditures include net lending and investment on hydropower projects, and excludes BoU recapitalization and other spending.⁵ Based on revised figures after the 2014 census by the Uganda Bureau of Statistics.



UGANDA

June 21, 2017

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION AND EIGHTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT

EXECUTIVE SUMMARY

Economic growth has slowed. Secular and cyclical factors are at work. Private investment has plateaued in recent years and is skewed toward real estate. Credit to the private sector has stalled, driven by rising non-performing loans that partly reflect government arrears. Uganda has been affected by the drought in the Horn of Africa and regional conflicts.

Infrastructure and oil sector investments can revive growth over the next 3–5 years. Development spending appropriately tackles bottlenecks in electricity and transport. However, public investment management capacity needs to improve to achieve the scaling up. The timeline for developing the oil sector and getting to first oil is ambitious.

Fiscal policy balances spending needs within a constrained resource envelope. The authorities have increased revenue collection, but the tax take remains low. Infrastructure spending is given priority, leaving a tight envelope for current spending that gives rise to supplementary budgets, domestic arrears, or central bank financing. Public debt is manageable, if infrastructure spending raises growth and revenue improves further.

Monetary policy has kept core inflation on target. The Bank of Uganda's inflation targeting regime has allowed the central bank to maintain core inflation in a narrow band around its 5 percent target. Better fiscal-monetary coordination would facilitate liquidity management. International reserves are at a comfortable level.

The financial sector's contribution to growth is limited. Mobile money has greatly enhanced access, but credit to the private sector remains low. Ongoing initiatives should expand service availability and reduce costs. Banks are well-capitalized, despite elevated non-performing loans. The insurance and asset management sectors are still nascent.

While growth could reach 6–6½ percent over the medium term, there are downside risks. The main risks stem from delays and implementation problems in the public investment program. The agricultural sector is exposed to weather effects and pest infestations. Unfavorable regional and global developments could also weigh on growth.

Staff recommends completion of the eighth review under the Policy Support Instrument (PSI). Program implementation has been broadly satisfactory. The authorities are encouraged to complete pending structural reforms.

Approved By
**Roger Nord (AFR) and
 Zuzana Murgasova (SPR)**

IMF team: A. Schimmelpfennig (head), R. Randall and Q. Cui (all AFR), A. Hodge (FAD), J. Bersch (SPR). C. Mira (resident representative) and L. Samula (local economist) also participated. M. Attey, J. Delcambre, Y. Liu, and T. Tursoy provided administrative and research support. Ms. G. Gasasira-Manzi (OED) also participated in the mission.

Discussions were held in Kampala during May 2–15, 2017. The mission met with State Minister of Finance for Planning Bahati, 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. The mission is grateful to the authorities for their warm hospitality, excellent cooperation, and open and constructive discussions.

CONTENTS

CONTEXT	4
RECENT DEVELOPMENTS	5
PERFORMANCE UNDER THE PSI	7
ECONOMIC OUTLOOK AND RISKS	14
POLICY DISCUSSIONS	16
A. Macroeconomic Policies for FY17/18	16
B. External Sector Assessment	20
C. The Medium-Term Fiscal Framework	20
D. Financial Sector Stability, Inclusion and Development	22
E. Inclusive Growth	24
F. Regional Integration	25
STAFF APPRAISAL	26
BOXES	
1. The Authorities' Response to 2015 Article IV Recommendations	5
2. Managing Oil Wealth	15
3. Growth, Inequality and Poverty in Uganda: The Impact of Taxation and Social Spending	18
4. Inflation Targeting Has Served Uganda Well	19
5. Resolution of Crane Bank	23

FIGURES

1. Real Sector Developments	8
2. External Sector Developments	9
3. Fiscal Sector Developments	10
4. Monetary Sector Developments	11
5. Financial Sector Developments	12
6. Other Financial Sector Developments	13

TABLES

1. Selected Economic and Financial Indicators, FY2012/13–2021/22	28
2a. Fiscal Operations of the Central Government, FY2012/13–2017/18 (Billions of Shillings)	29
2b. Fiscal Operations of the Central Government, FY2012/13–2017/18 (Percent of GDP)	30
2c. Quarterly Fiscal Operations of the Central Government, 2015/16–2016/17	31
3. Monetary Accounts, FY2012/13–FY2017/18	32
4. Balance of Payments, FY2012/13–FY2021/22	33
5. Banking Sector Indicators, March 2013–March 2017	34

ANNEXES

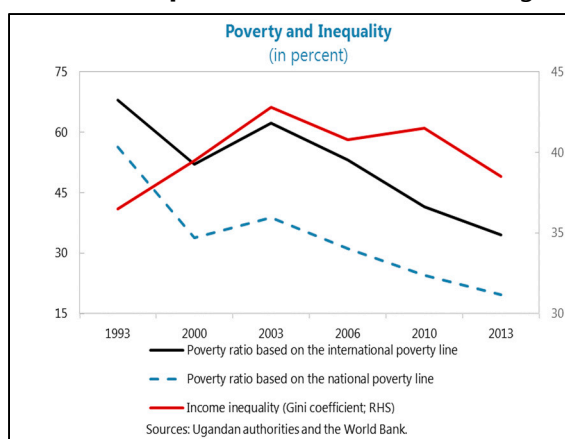
I. Progress in Achieving Millennium Development Goals	35
II. Implementation of 2011 FSAP Recommendations	36
III. Risk Assessment Matrix (RAM)	39
IV. External Sector Assessment	41
V. Stress Test Results	44

APPENDIX

I. Letter of Intent	46
---------------------	----

CONTEXT

1. Uganda has made remarkable achievements over the past decades. Growth averaged 8 percent per annum during 1992–2010, tripling per capita GDP and more than halving poverty to 35 percent (20 percent based on the national poverty line)—one of the strongest performances in sub-Saharan Africa over this period (see Annex 1).¹ The performance was underwritten by sound macroeconomic policies and institutions and a reliance on the private sector as the engine of growth. In the early years, Uganda also benefited from a peace dividend and increasing labor force participation.



2. The challenge going forward is to rebuild momentum for continued high and inclusive growth. Average growth slowed around 2010, reflecting negative productivity growth in agriculture and industry, as well as investment that is heavily concentrated in real estate.² Notwithstanding the strong gains in poverty reduction, a third of the population is still below the poverty line, and some 40 percent of the population are vulnerable to falling below the poverty line (2013 data). Income inequality has declined over the last decade and is lower than in many peers in sub-Saharan Africa, but is still somewhat higher than in the 1990s.

3. The government's focus is squarely on promoting growth. President Museveni has put his fifth and possibly final term in office—given a constitutional age limit—under the theme “Hakuna Mchezo” (“no jokes”). The main objectives of his administration include commencing oil production and achieving middle-income status by 2020. Government has scaled up infrastructure investment to address key bottlenecks in electricity and transport. The authorities, parliament, and civil society are concerned about problems in public investment management and the build-up of debt.

4. Uganda now hosts over one million refugees, with an integrative approach that is praised internationally as best practice. Arrivals over the last year are concentrated in northern Uganda where refugees make up more than half the population in some districts. The influx from conflict-torn South Sudan strains local service delivery systems and has raised inter-communal tensions. Emergency needs are estimated at about US\$1.4 billion this year, but UNHCR has recently announced that there are significant shortfalls in assistance. By government estimates, Uganda has spent the equivalent of ½ percent of GDP on refugees in 2016. This includes the provision of land and access to local services (e.g., health, education). A solidarity conference in June aims to raise international assistance for the refugees.

¹ The national poverty line ranges from US\$0.88 to US\$1.05 in 2005 PPP terms, depending on the region. The international poverty line is set at US\$1.90 per day in 2011 PPP terms.

² See Selected Issues Paper “Growth Diagnostics,” IMF Country Report No. 17/207.

5. The authorities welcome the Fund’s advice and the engagement through the Policy Support Instrument (PSI). The authorities have implemented key recommendations from the 2015 Article IV consultation (Box 1). The PSI has been instrumental in developing macroeconomic policies and moving the structural reform agenda forward, though implementation has suffered from delays.³ The Ugandan authorities also rely on the Fund’s technical assistance, and have achieved notable progress, e.g. in public financial management, inflation targeting, and designing a fiscal regime for natural resource taxation.

Box 1. The Authorities’ Response to 2015 Article IV Recommendations

Fiscal policies. The authorities raised domestic revenue mobilization and strengthened PFM institutions while scaling up infrastructure investment, some slippages notwithstanding. They completed regulations to implement the Public Financial Management Act, the Charter of Fiscal Responsibility and advanced the introduction of the treasury single account. The authorities made progress with the reconciliation of domestic arrears, but new domestic arrears occurred.

Monetary policy. The BoU successfully kept core inflation within the target band, maintained a flexible exchange rate regime, and maintained reserves at appropriate levels. BoU recapitalization progressed as envisaged.

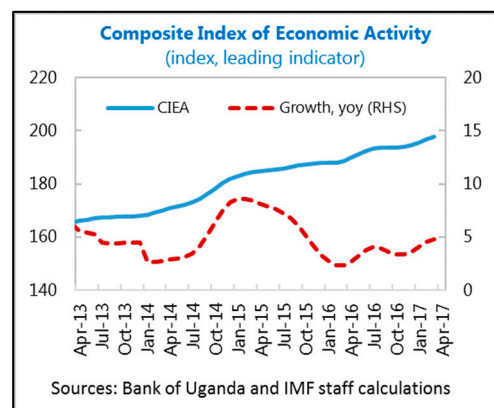
Financial sector. Financial inclusion improved largely via mobile money, but formal bank access remained low. The authorities passed the Amended Financial Institutions Act that allows for Agency Banking, bancassurance, and Islamic banking. Basel III capital standards are being implemented with delay.

2011 FSAP. Most FSAP recommendations have either been implemented or are still in train. However, a few key recommendations, pertaining to strengthening regulation and supervision are outstanding—such as the recommendation to amend regulatory requirements on classification and provisioning in respect of “watch loans (Annex 2).

RECENT DEVELOPMENTS

6. Growth slowed during the first half of FY16/17, reflecting domestic factors and external headwinds.⁴

The drought in the Horn of Africa is likely to have reduced growth by about ½ percentage point, mainly in the agricultural sector and food processing industry, exposing some 11 million Ugandans to food insecurity. In addition, subdued credit growth was a significant drag, and the slow execution of externally-financed public investment and the impact of spillovers from regional conflict also had a negative impact on growth. The initial estimate from the Ugandan Bureau of Statistics has growth at 1.6 percent in H1-FY16/17. Leading indicators suggest a pickup in economic activity in the second half of FY16/17, following a resumption of normal weather patterns. Projections assume that the fall armyworm infestation can be controlled, and renewed momentum in the growth of services. With this, the authorities and staff estimate growth of 3.9 percent for the year (about ½ percent in per-capita



³ See Selected Issues Paper “Uganda’s Experience under the 2013 PSI,” IMF Country Report No. 17/207.

⁴ The fiscal year runs July–June.

terms), down from 4.7 percent in FY15/16. This assumes that the initial H1 estimate will be revised up.

7. Macro-financial linkages explain part of the growth slowdown. Non-performing loans (NPLs) have become elevated (6.3 percent at end-March), and banks have tightened lending standards in response. As a result, real private sector credit growth (adjusted for valuation effects) turned negative in late 2016, and is recovering only slowly. NPLs are concentrated in agriculture, construction, and trade and commerce. A BoU survey suggests that NPLs arose from government domestic arrears in FY15/16, diversion of borrowed funds and fraudulent activities, the effect of political instability in South Sudan, and the impact of the economic downturn and recent exchange rate and interest rate volatility.

8. Headline inflation has edged up, mainly reflecting the effects of the drought. Food price inflation rose from 5 percent year-on-year in September 2016 to 23.1 percent in May 2017. With this, headline inflation registered 7.2 percent year-on-year in May. Core inflation was 5.1 percent year-on-year in May, in line with the BoU's 5 percent target.

9. The current account deficit narrowed. The deficit dropped to an estimated 2 percent of GDP in H1 FY16/17, driven mainly by lower investment-related imports. Financial inflows remained broadly stable. The overall balance of payments registered a surplus of 0.6 percent of GDP. The Ugandan shilling has stabilized against major currencies, while the real effective exchange rate depreciated by 2 percent since July 2016.

10. Implementation of the FY16/17 budget has been mixed. Revenue collection in nominal terms was slightly lower-than-projected through March, reflecting lower nominal growth than underlying the program. Policy and administration measures have performed well, yielding a near $\frac{1}{2}$ percent of GDP increase in the revenue ratio. Recurrent expenditures were $\frac{1}{4}$ percent of GDP ahead of program projections at end-March—broadly corresponding to additional domestic arrears clearance—and the government had prepared two supplementary budgets to meet the additional needs, including for drought-related food relief.⁵ Domestically-financed development spending is on track, but there was significant under-execution of the foreign-financed development budget and construction of the two hydropower dams.⁶ Given the slow pace of public investment execution, the overall fiscal deficit for Q1-Q3 FY2016/17 was 3 percentage points of GDP lower than anticipated, and is projected at $3\frac{1}{2}$ percent of GDP for the year, compared to 6 percent at the time of the seventh review.

11. With only a few weeks to go in the fiscal year, the authorities revised their financing strategy, relying again on BoU advances. The government decided to curtail domestic securities issuance compared to the program, given concerns over the pace of debt accumulation. They also decided against repaying the BoU advances taken in FY15/16, contrary to their original intentions of

⁵ The latest comprehensive arrears data is for end-June 2016. The report on outstanding bills for end-December 2016 is pending. The next comprehensive arrears data would be for end-June 2017.

⁶ Construction of the Isimba and Karuma Hydro Power Projects (HPPs) is approximately 70 percent and 50 percent complete respectively. The projects have been subject to delays due to technical difficulties, including a crack in the Karuma dam wall.

repaying in full. Instead, the government again took recourse to BoU advances as defined under the program, though in their interpretation it is a drawing down of government deposits at BoU. Given that BoU had already issued securities in line with the program, all June auctions were cancelled, entailing a large injection of liquidity that subsequently had to be mopped up with costly repo issuance.

PERFORMANCE UNDER THE PSI

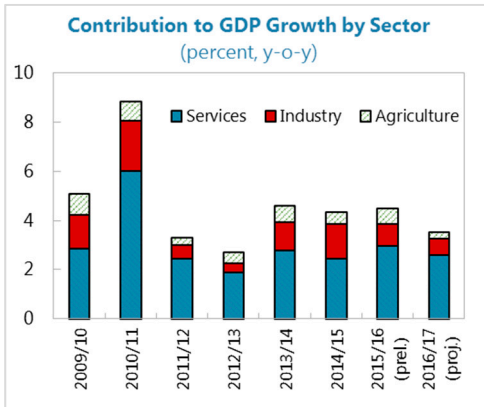
12. Performance under the PSI through March 2017 has been broadly satisfactory. The authorities met the cornerstones of their quantitative program, but missed several supporting targets (see Table 1.1 of the authorities' letter of intent). Specifically, the authorities met all end-December and continuous quantitative assessment criteria (QAC), including the overall deficit, net international reserves, and non-accumulation of external arrears. The BoU achieved its inflation target in December 2016 and March 2017. The indicative targets on poverty alleviating expenditures were met and preliminary data indicate that the target on domestic arrears clearance was met at end-December. However, the indicative target on revenue collection in December and in March was narrowly missed, reflecting muted economic activity, and the government issued two guarantees for Uganda Development Bank to allow the bank to pick up its lending activities. The IT on repaying BoU advances was missed in December and March, and the government subsequently reversed the repayments that had been made under the program so far.

13. The authorities have made some progress on structural reforms. One structural benchmark was met on time, three have been implemented with delay, and the remaining six have not been met, though the authorities intend to implement them going forward (see Table 1.2 of the authorities' letter of intent). Most notably, the authorities approved the AML/CFT legislative agenda that will support Uganda's exit from the Financial Action Task Force "grey" list. The Ministry of Finance, Planning, and Economic Development published reconciled reports on the stock of outstanding domestic arrears at end-June 2016 (3.2 percent of GDP). Looking ahead, continued capacity building and a focus on prioritization and selectivity should facilitate reform implementation. Pending reforms include:

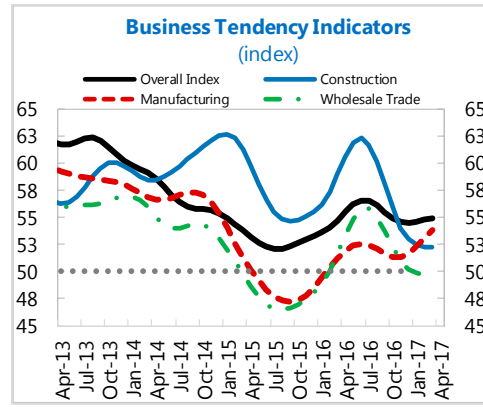
- Sending the BoU Act Amendments to Parliament: it took longer than expected to agree on some technical aspects between the Ministry of Finance, Planning, and Economic Development and the BoU. An understanding has now been reached, and the draft amendments are about to be shared with cabinet.
- Finalizing and publishing the report on end-December unpaid bills: the authorities have compiled information on gross settlements of domestic arrears in the first half of the year. Capacity constraints have slowed the reporting on unpaid bills, and further work is needed to strengthen domestic arrears monitoring within the fiscal year.
- Publication and issuance of the Appraisal User Manual: expected by end-June. The Manual has been finalized, but the actual printing and distribution has been delayed.
- Sending to cabinet a policy for regulating mobile money: the authorities are revisiting the best course of action to provide for a sound regulatory framework.

Figure 1. Uganda: Real Sector Developments

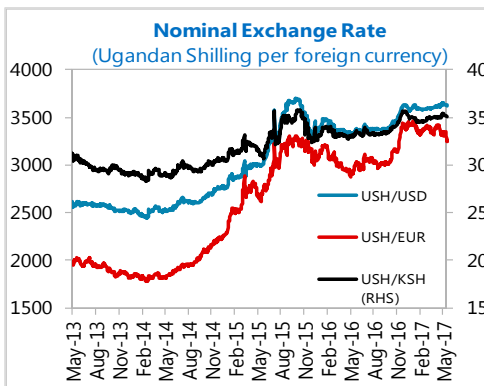
Growth has decelerated.



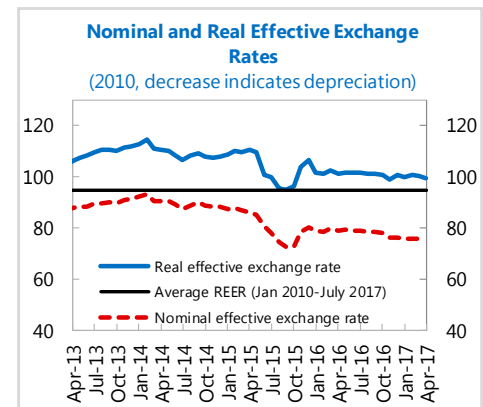
Some leading indicators suggest that economic activity is rebounding.



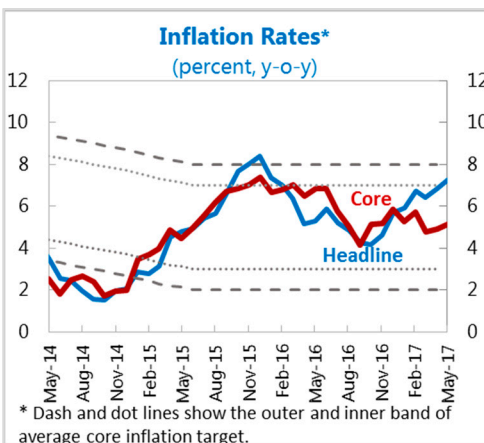
After a temporary depreciation in 2016, the Shilling has stabilized.



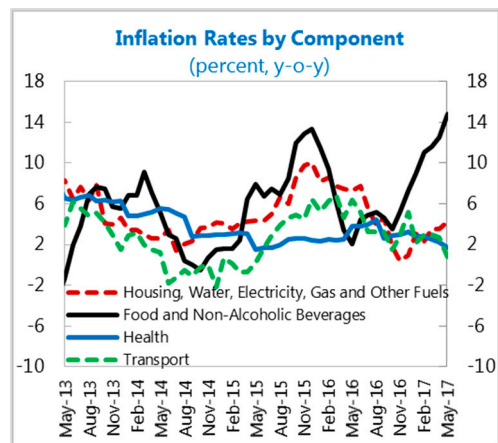
Effective exchange rates have depreciated marginally.



Core inflation is in line with BoU's target.



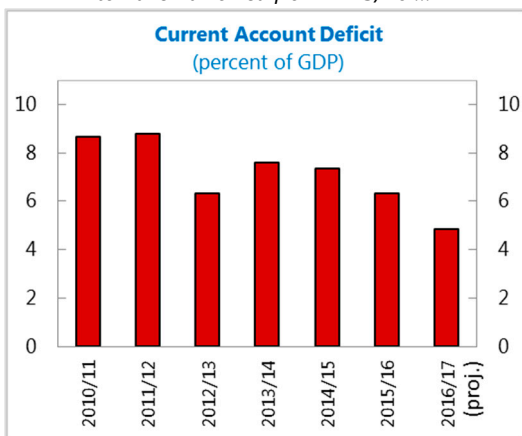
Headline inflation is mainly driven by drought-related food price increases.



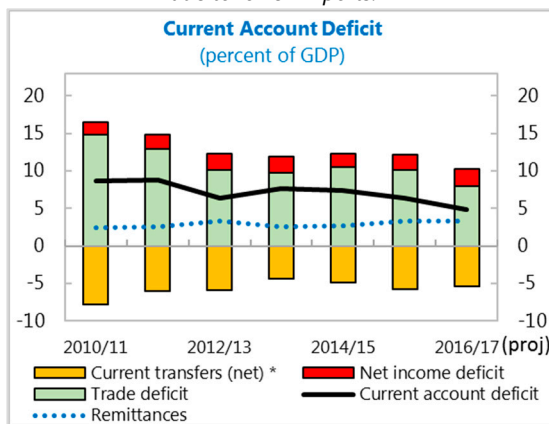
Sources: Bank of Uganda, Uganda Bureau of Statistics, and IMF staff calculations.

Figure 2. Uganda: External Sector Developments

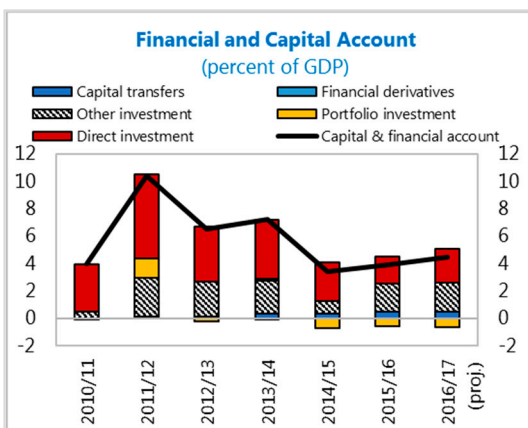
The current account deficit is expected to have narrowed from FY15/16 ...



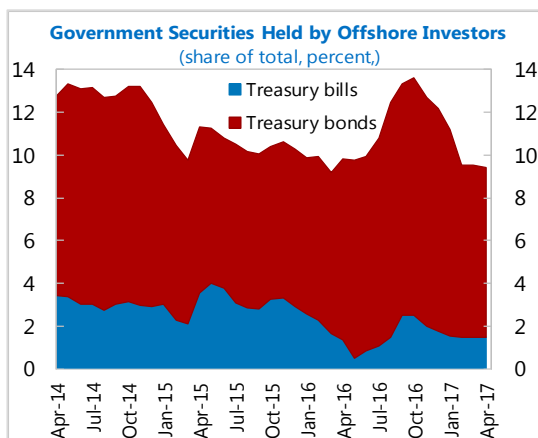
... driven mainly by a lower trade deficit, due to lower imports.



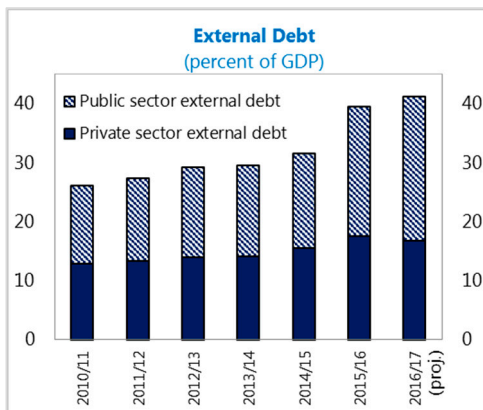
An increase in foreign direct investment contributes to a higher capital and financial account.



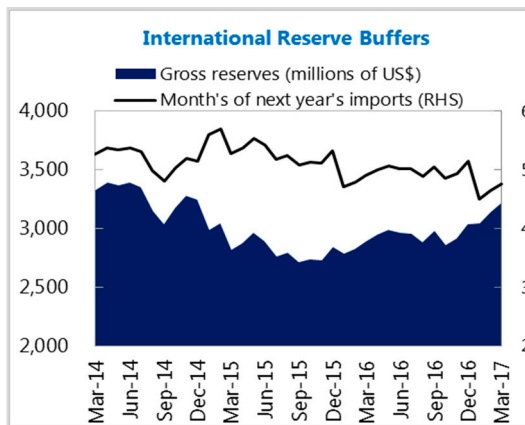
Foreign investors' participation in government securities has been significant, but declined recently.



Public external debt has risen due to increased borrowing for infrastructure investments.



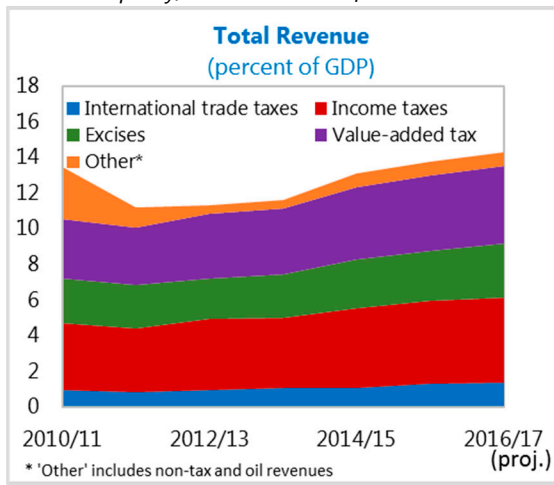
The reserves buffer remains comfortable at above four months of next year's imports.



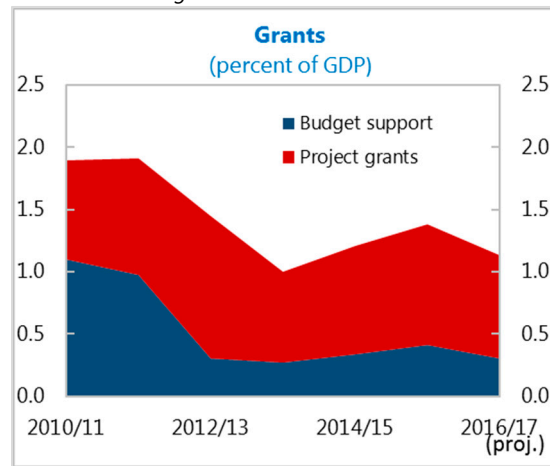
Sources: Bank of Uganda and IMF staff calculations.

Figure 3. Uganda: Fiscal Sector Developments

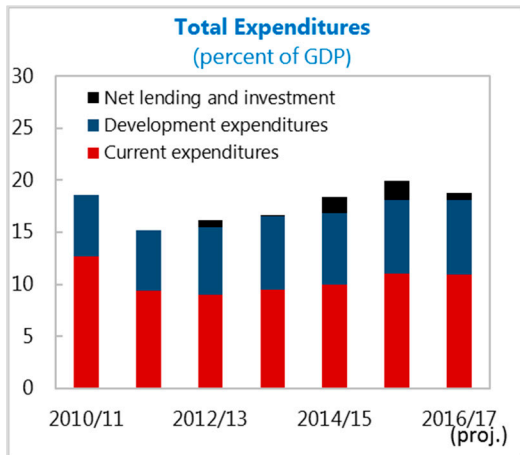
Revenue has increased due to policy/administration reforms.



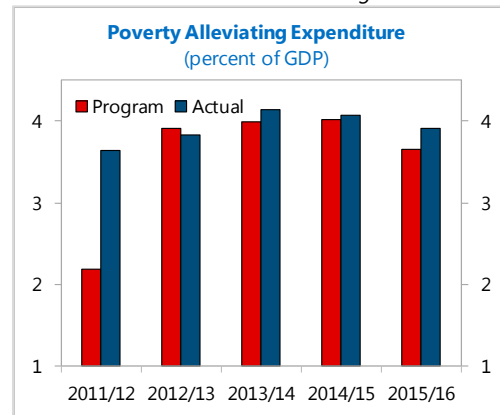
Grants have declined, as Uganda relies less on aid.



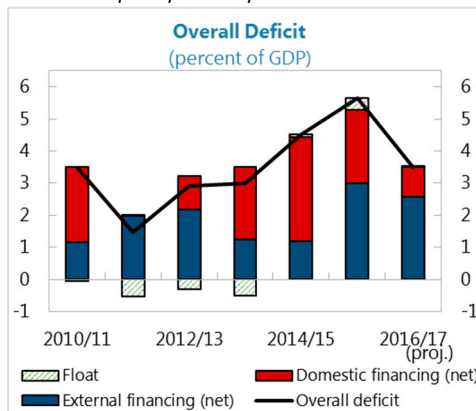
Public investment has been scaled up. Recurrent expenditure has also increased.



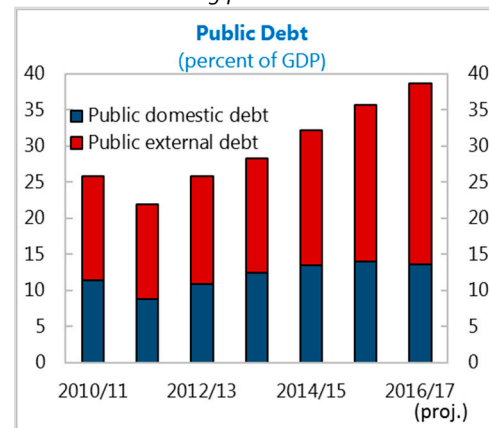
Poverty-alleviating expenditures have recently met or exceeded the PSI target.



Public investment is a key driver of the fiscal deficits...



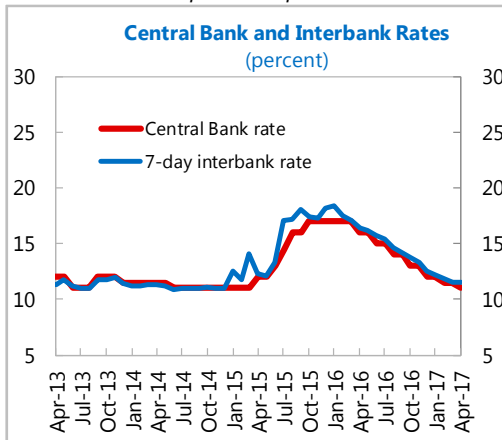
.... and rising public debt.



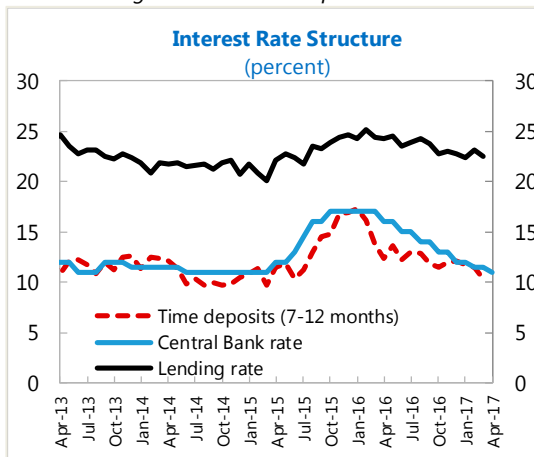
Sources: Ministry of Finance and IMF staff calculations.

Figure 4. Uganda: Monetary Sector Developments

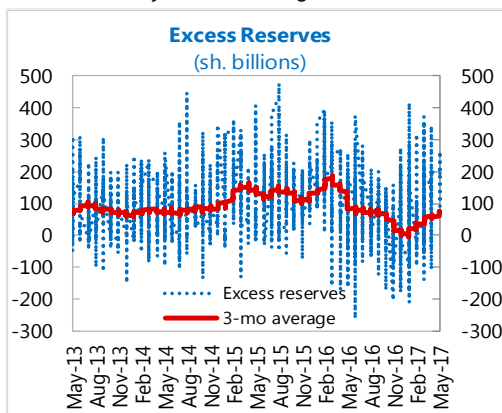
The central bank rate has been cut by 600 bps since April 2016.



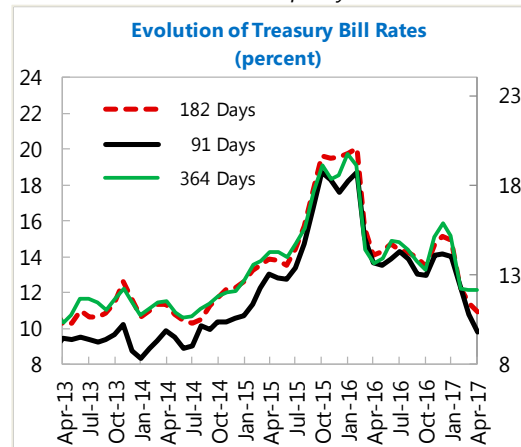
Lending rates declined less and with lags, leaving the interest rate spread elevated.



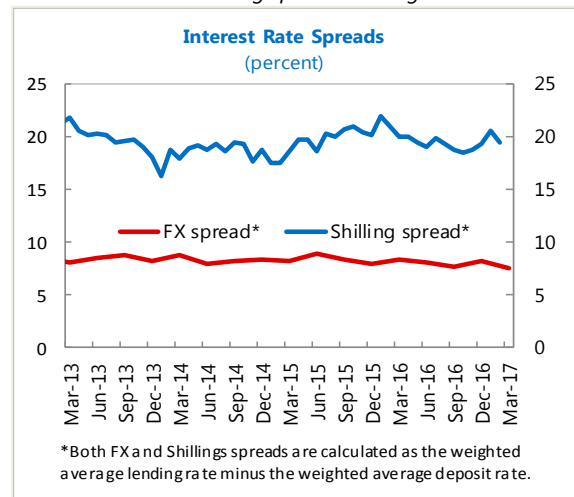
Excess reserves edged up again after a steady decline through 2016.



Treasury bill rates have declined, in line with the policy rate.

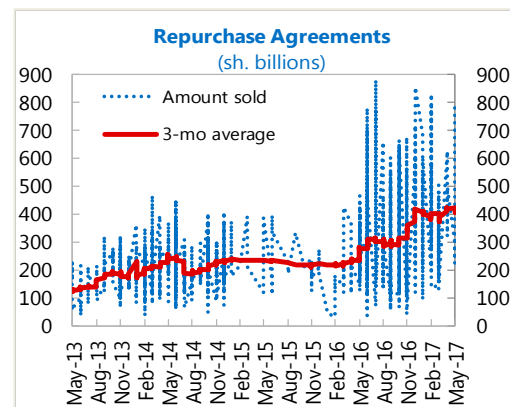


Interest rate spreads remain broadly unchanged, and shilling spreads are high.



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

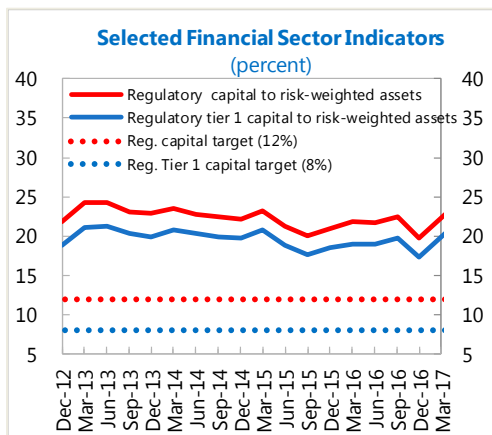
Repo sales continued on an upward trend.



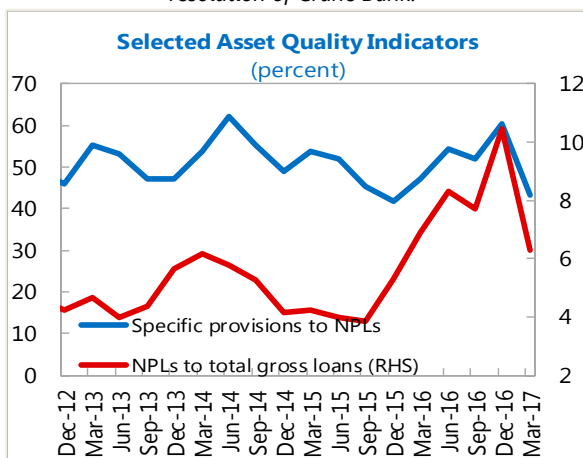
Sources: Bank of Uganda and IMF staff calculations.

Figure 5. Uganda: Financial Sector Developments

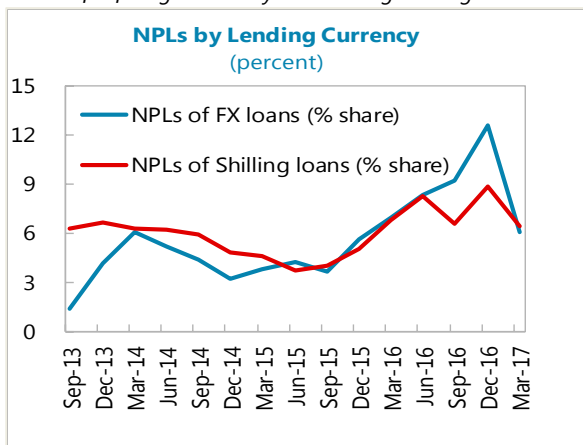
Overall, the banking sector remains well-capitalized.



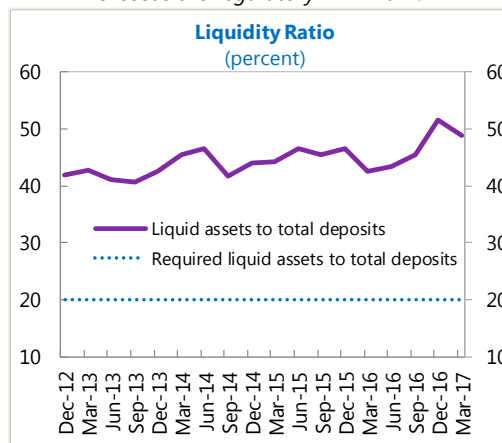
NPLs are elevated, even after the resolution of Crane Bank.



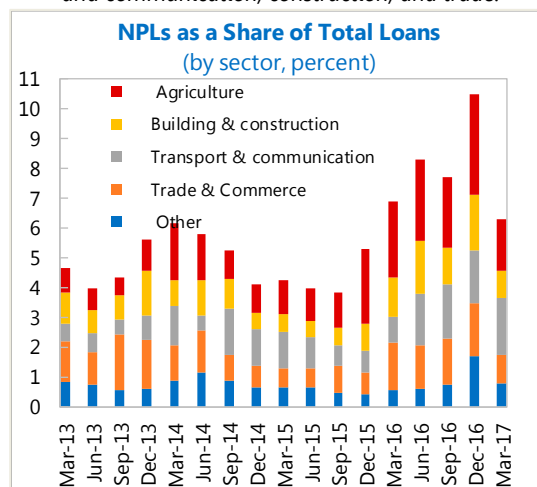
NPL levels are about the same for foreign currency and shilling lending



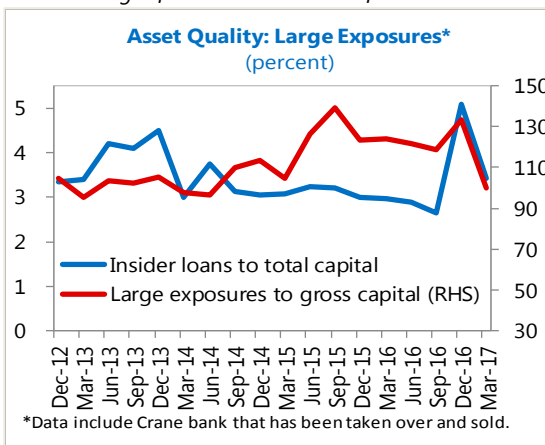
The banking system's liquidity ratio exceeds the regulatory minimum.



NPLs are concentrated in agriculture, transport and communication, construction, and trade.



The recent decline in large exposures and insider lending reflects the resolution of Crane Bank.

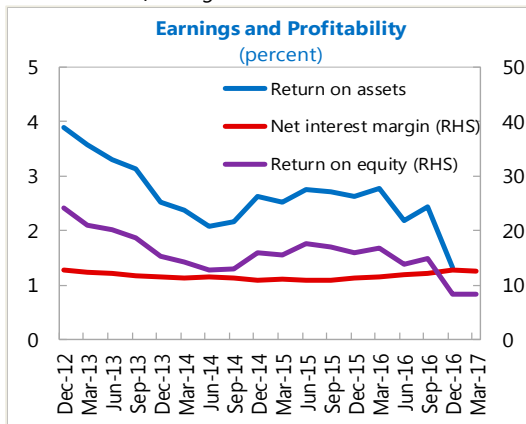


*Data include Crane bank that has been taken over and sold.

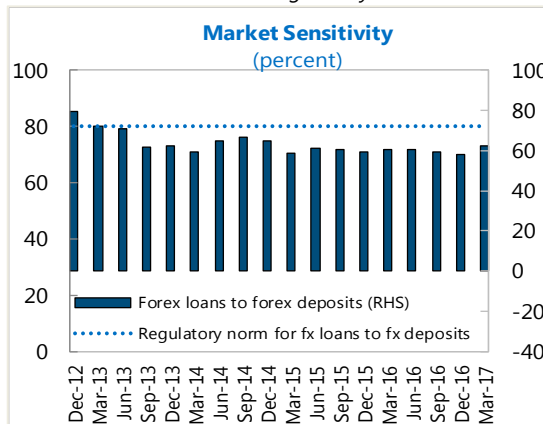
Sources: Bank of Uganda and IMF staff calculations.

Figure 6. Uganda: Other Financial Sector Developments

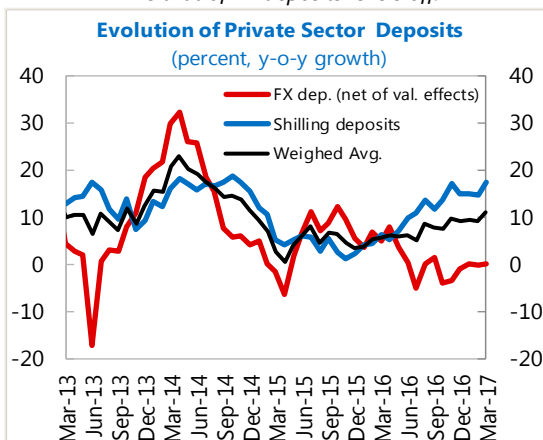
Profitability and earnings declined, reflecting the rise in NPLs.



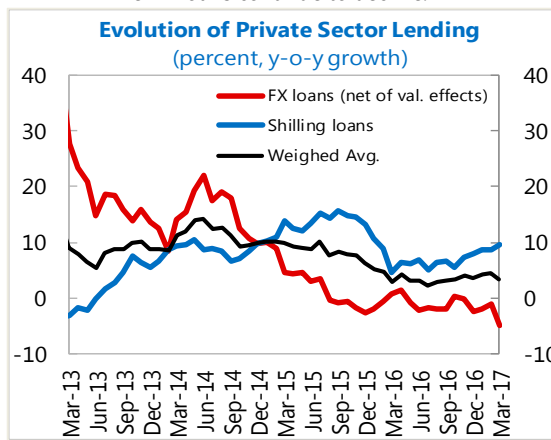
The FX loans-to-deposit ratio remains below the regulatory norm.



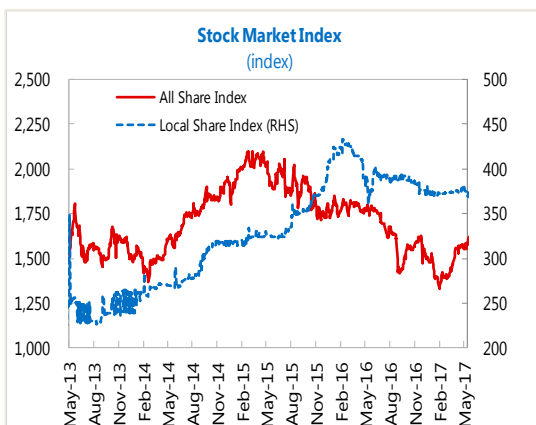
The growth of Shilling deposits has accelerated, while that of FX deposits levels off.



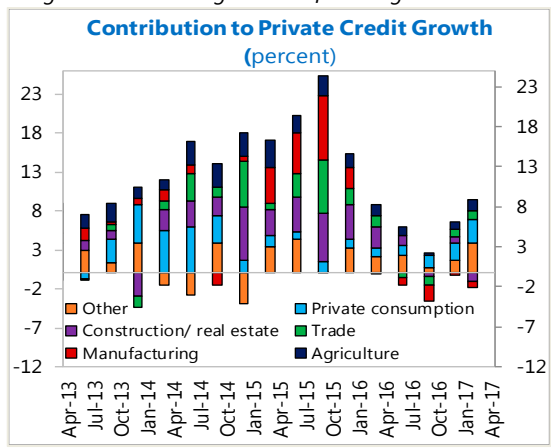
Shilling loans are rebounding, while FX loans continue to decline.



The decline of the Local Share Index reflects weak economic activity and muted market sentiment.



Credit was concentrated in personal lending, trade, and agriculture. Lending to manufacturing contracted.



Sources: Bank of Uganda, Uganda Stock Exchange, and IMF staff calculations.

ECONOMIC OUTLOOK AND RISKS

14. With sound and steadfast policy implementation, Uganda's economic outlook is broadly favorable. If weather conditions continue to improve, private sector credit recovers, and the public investment program is implemented as planned, growth could accelerate to 5 percent in FY17/18. Over the medium term, infrastructure and oil sector investments could yield growth rates of 6 to 6 ½ percent (Box 2). Such growth rates would require private sector credit to grow by 10–11 percent per annum in real terms. The authorities broadly agree with the outlook, while anticipating a somewhat higher growth dividend over the medium term from the planned infrastructure and oil sector investments.

15. The current account deficit will be driven by developments in the oil sector in the coming years. Initially, the deficit is projected to widen, driven by investment-related imports. Once oil exports start, the current account is projected to gradually improve and turn into a surplus. International reserves are projected to remain at around 4½ months of prospective imports.

16. Risks are tilted to the downside (see Annex 3). Weak implementation of public investment and regional developments (conflicts, possible disruptions during upcoming elections), could undermine growth, as could a slowing of global trade. Renewed accumulation of government domestic arrears would aggravate banks' NPL problem, and hit growth via the credit channel. Uncertainty persists over when oil production will commence and the phasing of investment in the sector. The agricultural sector remains exposed to climate conditions and pest infestations, with the spread of the fall armyworm posing an immediate danger. A large shilling depreciation could impact foreign investor holdings of government securities and contribute to rising NPLs. Tightening global financing conditions could hold back portfolio inflows and reduce offshore participation in Uganda's Stock Exchange. Lastly, cuts in aid flows would undermine the sustainability of spending, particularly in the social sectors.

Box 2. Managing Oil Wealth

Uganda has approximately 1.7 billion barrels of recoverable oil reserves, the fourth largest in sub-Saharan Africa. The authorities aim to have oil production commence in 2020. Production would continue for over 40 years. During this period, the government expects to receive between 0.5-4 percent of GDP in oil-related revenue per year.

Oil Extraction: A joint venture of three international companies and a government owned oil company (Uganda National Oil Company, UNOC) will carry out upstream oil extraction. The international joint venture partners are expected to make final investment decisions by end-2017. Production could commence as early as 2020 and quickly rise to a peak of 200,000 barrels per day. The total investment cost of upstream extraction is approximately US\$8 billion. The international oil companies will bring external financing, and the investment will be associated with increased imports. The government, through UNOC, has a carried interest share, and is fully involved in all commercial decisions. Additional blocks that could yield further proven reserves and thus additional revenues are set to be auctioned in the near future.

Pipeline and Refinery: There will be two outlets for extracted crude oil:

- (i) A pipeline to be constructed by a joint venture of the above-mentioned international companies, a subsidiary of UNOC and the government of Tanzania (costing US\$4-5 billion) will transport oil from Uganda to a sea port in Tanzania, allowing crude oil to be sold on international markets.
- (ii) A domestic oil refinery (with initial capacity of 30,000 barrels per day) will be constructed by a joint venture consisting of a UNOC subsidiary and other partners yet to be identified. Refined petroleum products are expected to be sold domestically and in the region at market prices.

Regulatory and Fiscal Regime: A Petroleum Regulatory Authority was established in 2015 to oversee the entire oil sector. The Public Financial Management (PFM) Act of 2015 requires all oil revenue to be deposited in a Petroleum Fund. Tax arrangements for upstream oil production are governed by Production Sharing Agreements (PSAs) between the government and joint venture partners that provide for: (i) royalties; (ii) distribution of 'profit oil' between the government and the joint venture partners according to the daily rate of production (where 'profit oil' is the surplus of oil over the amount needed to cover the royalty and other costs); (iii) corporate income tax (30 percent rate); and (iv) state participation, so that development costs owed by the government as a joint venture partner are initially covered by the private partners and then later repaid out of the government's share of profits.

Outstanding Issues: Construction of the pipeline must be completed before oil production commences, and the authorities also aim to have the refinery operational in time. The tax regime for the pipeline is under negotiation between the governments of Uganda and Tanzania, while that for the refinery is also still to be determined. Public road infrastructure is required to allow access to oil fields and the government is seeking external financing to commence road construction as soon as possible. A policy on the use of oil revenue deposited in the Petroleum Fund needs to be developed, to ensure an appropriate balance between investment and saving. For now, withdrawals from the Petroleum Fund are limited to infrastructure spending. However, when the previous Oil Fund was closed, its resources were pooled in the Consolidated Fund, and the ringfencing of the saved oil revenue for infrastructure was dropped.

Text Table 1. Uganda: Macroeconomic Outlook, FY2015/16 – 2021/22¹

	2015/16	2016/17		2017/18		2018/19	2019/20	2020/21	2021/22
	Est.	7th Rev	Rev. Proj.	7th Rev	Proj.			Proj.	
	(Annual percentage change, unless otherwise indicated)								
Real GDP	4.7	5.0	3.9	5.5	5.0	5.5	6.0	6.5	6.5
Headline inflation (period average)	6.6	5.4	5.8	4.8	5.9	4.9	5.0	5.0	5.0
Core inflation (period average)	6.7	5.0	5.2	4.6	5.7	5.3	5.0	5.0	5.0
Credit to non-government sector	4.0	8.3	8.5	15.0	12.6	13.6	15.6	16.7	17.0
	(Percent of GDP, unless otherwise indicated)								
Overall fiscal balance	-5.3	-6.0	-3.5	-4.9	-3.7	-5.5	-4.0	-3.0	-1.6
Public gross debt	35.7	38.6	38.7	41.5	38.6	40.9	41.6	41.6	40.7
Current account balance (including grants)	-6.3	-7.1	-4.8	-8.2	-6.3	-8.0	-8.0	-9.2	-5.8
Gross international reserves									
In billions of US\$	3.0	3.0	3.2	3.1	3.3	3.6	4.0	4.1	4.6
In months of next year's imports of goods and services	5.3	4.2	5.1	4.0	4.5	4.4	4.4	4.5	5.1
<i>Memorandum items:</i>									
GDP per capita (Nominal US\$)	673	626	694	648	718	737	799	833	861

Sources: Ugandan authorities and IMF staff estimates and projections.

¹ Fiscal year runs from July 1 to June 30.

POLICY DISCUSSIONS

17. Against this backdrop, the 2017 Article IV consultation centered around the macroeconomic framework underpinning the authorities' development strategy. Specifically, discussions focused on: (i) balancing infrastructure investment, social spending needs, and debt sustainability; (ii) macro-financial linkages and growth prospects; and (iii) other policies to foster inclusive growth. With fiscal policy mainly focused on the development strategy, monetary policy is the main instrument for counter-cyclical policy. In the near term, high NPLs impede credit and weigh on activity. Over the medium term, financial sector deepening is needed to promote sustained and inclusive growth.

A. Macroeconomic Policies for FY17/18

Fiscal Policy

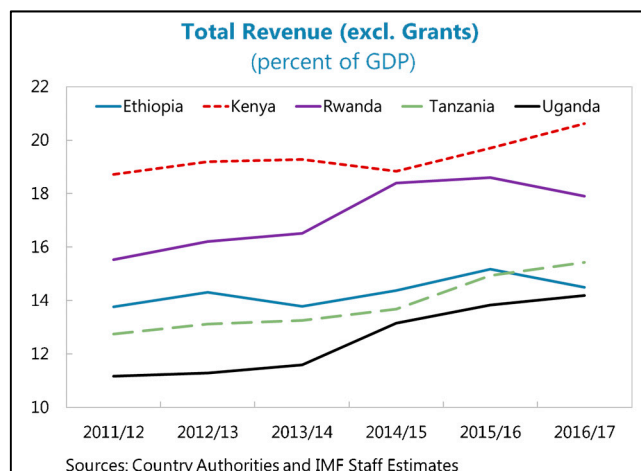
18. The FY17/18 budget seeks to create space for priority public investment expenditures through revenue mobilization and recurrent expenditure restraint. The authorities plan to increase development spending to allow for constructing roads needed for the oil sector. They acknowledge that this will require enhanced project implementation. The budget envisages a further ½ percent of GDP increase in the revenue ratio. Current expenditure is to be compressed and decline by 0.4 percent of GDP compared to FY16/17. In particular, allocations for social spending are budgeted to stay broadly unchanged relative to FY16/17 in Shilling-terms, and thus decline as a percentage of GDP from 6.3 percent of GDP in FY2016/17 to 5.7 percent in FY2017/18 (Box 3). The authorities believe that the allocations are adequate, if tight, and warranted to create space for their development spending priorities. They do not see a faster pace of revenue mobilization as an option as this could hold back the recovery of growth. Staff notes that strong expenditure control will be

needed to avoid a recurrence of domestic arrears or the need for a supplementary budget, and that social spending is important for achieving inclusive growth.

19. The authorities' FY17/18 revenue target continues the path of strengthening domestic resource mobilization. The target is consistent with the policy of increasing the revenue to GDP

ratio by about ½ percent of GDP per year. At 14 percent of GDP in FY16/17, revenue collection remains at the lower end of regional peers and severely constrains the scope for social and development spending. The budget includes specific tax raising measures, including a base expansion of the infrastructure levy. The remainder would have to come from administrative gains such as intensifying risk-based audits of large and medium taxpayers. Staff cautions that the measures may not be sufficient to achieve the targeted revenue gain, and suggests that

the authorities consider, e.g. reducing corporate tax exemptions. In addition, the budget also introduce new tax exemptions intended to promote investment and reduce the cost of electricity. Staff notes that general tax exemptions have a poor record of attracting investment and that accelerated depreciation allowances are a better targeted and effective option. Moreover, staff believes that a direct subsidy to the Bujagali power station instead of a tax exemption would be a more transparent measure to reduce the cost of electricity that would facilitate an informed discussion of budget priorities.



Box 3. Growth, Inequality and Poverty in Uganda: The Impact of Taxation and Social Spending

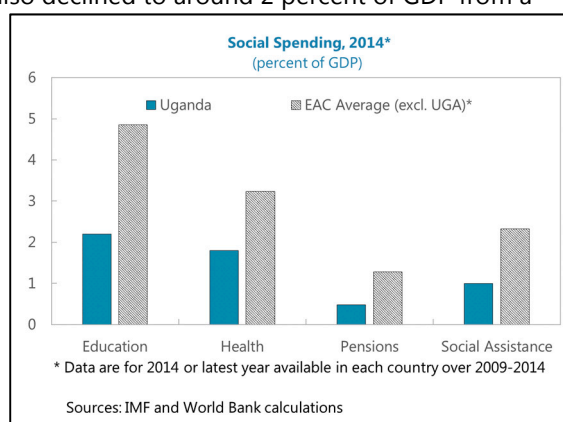
Inequality in Uganda remains high with a Gini coefficient of around 0.4. Recent research by the Commitment to Equity (CEQ) Institute indicates that fiscal policy reduces inequality in Uganda, but the effect is small, given the low levels of public expenditure and revenue collection.^{1/} The impact of fiscal policy on poverty is negligible.

Higher income inequality can make growth less durable. IMF research shows that income inequality is associated with shorter growth spells, preventing significant reductions in poverty (October 2015 Regional Economic Outlook for sub-Saharan Africa; Berg and Ostry, 2011). Redistribution of income by fiscal policy has been found to be generally benign or beneficial for growth (Ostry, Berg and Tsangarides, 2014). Redistributive policies can include public spending on health and education, pensions and cash transfers. Improving financial inclusion has also been found to reduce inequality in emerging market and developing countries (Dabla-Norris et al, 2015).

Fiscal policy reduces inequality in Uganda, but only by a small amount. Research by the CEQ Institute based on the latest available household survey finds that the net impact of fiscal policy (taxation and spending) yields a reduction of the Gini coefficient by 0.03 points. The modest impact on inequality appears attributable to the low level of social spending in Uganda, compared with regional peers, rather than stemming from inefficiency of social spending. For example, direct transfer programs in Uganda are found to operate effectively, but reach only a small fraction (around 3 percent) of Ugandan households in a given year.

The impact of fiscal policy on poverty appears to be neutral. This partly reflects the design of the tax system, with the very poor falling below the lowest personal income tax thresholds and benefiting from VAT exemptions on essential items.

On-budget social spending in Uganda has recently declined as a share of GDP and is below the EAC average. Education spending has declined from a peak of around 5 percent of GDP in the mid-2000s to roughly 2 percent of GDP in 2013. Health spending has also declined to around 2 percent of GDP from a peak of 3 percent of GDP in 2010, the result of a build-up in spending from 1½ percent of GDP in the mid-1990's. Pension spending has been flat at ½ percent of GDP since 2010. Compared to peers, social spending (including pensions and social assistance payments, such as cash transfer programs) is below the average of the other EAC countries. When looking at these numbers, it is important to keep in mind that donor spending in the social sectors also occurs outside the budget, so that budget allocations do not necessarily reflect the total spending in a sector. For example, off-budget donor spending is estimated at 25–30 percent of total spending in the health sector and about 10 percent in the education sector in Uganda. However, data on donor activity is difficult to compile in a comprehensive and consistent manner, making cross-country comparisons difficult.



Sources: UNESCO; WHO; IMF; World Bank and government data; IMF Staff Discussion Notes SDN/11/08 and SDN/15/13; and Commitment to Equality (CEQ) Institute Working Paper No. 53

1/ Jellema and others (2016) use the FY2012/13 Uganda National Household Survey to analyze the impact on inequality and poverty of Uganda's various taxes, as well as government spending in the form of in-kind transfers (health, education spending), direct transfers and water/electricity subsidies.

Monetary Policy

20. The BoU's inflation targeting framework has served Uganda well (Box 4). The BoU has appropriately reduced its policy rate by 600 bps since April 2016 to 11 percent, guided by its core

inflation forecast, and considering the weak growth outlook.⁷ Headline inflation is projected to increase over the next few months, reflecting the drought-related spike in food prices. The BoU assesses the increase to be temporary, given the return of normal climatic conditions and does not see notable second-round effects, with the still weak economy and absence of demand pressures. As such, the BoU projects core inflation to remain within its narrow band of +/- 2 percentage points around the 5 percent target. Staff believes that remaining on hold for a while would allow the BoU to confirm that second-round effects from food price inflation remain limited.

Box 4. Inflation Targeting Has Served Uganda Well

The BoU introduced inflation targeting (IT) in July 2011, replacing its monetary targeting framework. Money demand and the money multiplier had become unstable, and the monetary targeting framework was proving ineffective in bringing down high inflation. Under the IT-lite framework, the BoU began targeting core inflation of 5 percent with a band of ± 3 percent over a 12 months' horizon. The BoU uses open-market operations (repos or reverse repos) to steer the 7-day interbank rate to be aligned with the announced Central Bank Rate which is set every other month by the Monetary Policy Committee. In support of the IT approach, the BoU committed to a flexible exchange rate regime, with interventions limited to volatility smoothing.

The authorities have continuously enhanced their capacity since the introduction of IT. The BoU has strengthened its forecasting, operational, and communication capacity, and developing monetary policy instruments, also with support of IMF technical assistance. The authorities' macroeconomic framework under the PSI has been instrumental in strengthening fiscal discipline, constraining BoU advances and creating channels for fiscal-monetary coordination, some recent problems notwithstanding. Reforms such as the drafting of amendments to the BoU Act, the adoption of the Charter of Fiscal Responsibility and the Public Finance Management Act, as well as the introduction of a Treasury Single Account have strengthened the basis for effective IT.

With its IT framework, the BoU has successfully steered core inflation close to its target. At inception in 2011, core inflation was reduced within a year from a peak of over 30 percent to about 5 percent. In 2015, guided by its core inflation forecast, BoU raised its policy rate early and decisively, keeping core inflation within a narrow band around its target. When the inflation outlook improved, the BoU started easing again in April 2016. Inter-bank rates and treasury security rates have followed the policy rate, but bank lending rates have responded less, particularly during easing episodes. Market participants widely acknowledge the BoU's credibility.

These achievements have been supported by the BoU's independence and a strong political commitment to the primacy of the inflation objective. Uganda's constitution contains stipulations to support the operational independence of the BoU. Initial reforms separated domestic financing in primary auctions from monetary policy operations in the secondary market. In addition, the success in controlling inflation consolidated support for additional institutional reforms to reinforce IT. Remaining challenges include maintaining fiscal discipline, strengthening fiscal-monetary coordination, and developing the still shallow financial market to improve monetary policy transmission.

Sources: IMF (2015) and E. Tumusiime-Mutebile (2014). "The elements of a modern monetary policy framework."

21. The BoU is enhancing the financial market architecture to facilitate liquidity management. The BoU has introduced deposit auctions as an additional tool for managing the banking system's structural excess liquidity.⁸ Work is ongoing to develop a master repo agreement that would facilitate banks' liquidity management via the interbank market. The BoU is enhancing trading in government securities by giving all banks direct access to the central depository system,

⁷ The staff report was finalized before the June 19, 2017 Monetary Policy Committee meeting. A staff [statement/supplement] will provide an update on the decision.

⁸ The certificates of deposit with tenors of 28-day and 56-day are auctioned weekly to banks.

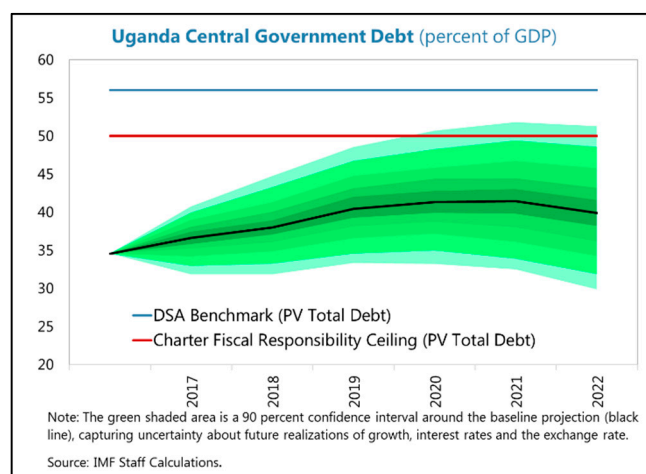
and considers replacing the current over-the-counter trading with a trading platform, to enhance market efficiency. In addition, the authorities could consider introducing a standing facilities corridor that would delink liquidity provision from emergency liquidity assistance which currently are both provided under the BoU's Lombard facility.

B. External Sector Assessment

22. Uganda's external position was broadly consistent with fundamentals and desirable policy settings in calendar year 2016 (Annex 4). The net international investment position stood at -56 percent of GDP at end-2016, and the current account deficit narrowed to 4.4 percent of GDP. Continued scaling-up of infrastructure investment and the development of the oil sector are expected to temporarily widen the current account deficit. To maintain external sustainability, achieving the envisaged growth dividend of these investments will be critical. The EBA-Lite methodologies do not indicate significant misalignments, while international reserves exceed the assessed adequacy level. Going forward, the BoU should maintain reserves in line with the EAC convergence criterion of at least 4½ months of imports. The flexible exchange rate regime continues to serve Uganda well. The authorities agree with staff's assessment.

C. The Medium-Term Fiscal Framework

23. Government debt is projected to peak at 42 percent of GDP in FY19/20 when the scaling up of infrastructure investment is completed. The projected debt trajectory is broadly unchanged from the latest Debt Sustainability Analysis (DSA) ([IMF Country Report No. 17/7](#)), which found the risk of debt distress to be low, but noted that risks had increased.⁹ These risks can also be illustrated with a fan chart that assesses the probability of different debt trajectories given the past shocks to key macroeconomic aggregates.¹⁰ The fan chart for government debt shows that the



probability of exceeding 56 percent of GDP—the NPV threshold in the public debt DSA—is negligible, given past shocks to growth, inflation, or the primary deficit. However, the fan chart also shows that a potential breach of the 50 percent of GDP line—the NPV ceiling in Uganda's Charter of Fiscal Responsibility—is within the 90 percent confidence interval.

⁹ Uganda owes a small amount in pre-HIPC Initiative arrears to non-Paris Club debtors, which continue to be deemed away under the revised arrears policy for official creditors, as the underlying Paris Club agreement was adequately representative and the authorities continue to make best efforts to resolve the arrears.

¹⁰ See Selected Issues Paper "A Medium-Term Fiscal Anchor: Managing Debt as Public Investment is scaled up".

24. The authorities confirmed that fiscal policy is anchored by their Charter of Fiscal Responsibility. The Charter requires keeping government debt below 50 percent of GDP in net present value terms and achieving an overall fiscal deficit of no more than 3 percent of GDP by FY20/21—consistent with the EAC convergence criteria for monetary union. Fiscal projections are consistent with the Charter’s deficit target and keep government debt below the Charter’s ceiling. Staff welcomes this framework and notes the authorities’ commitment to safeguarding debt sustainability. Staff suggests that the authorities consider adopting the projected debt trajectory as an operational ceiling which would provide a buffer to the Charter’s debt ceiling in case of adverse shocks.

25. The success of Uganda’s fiscal strategy depends on continued revenue mobilization and strong public investment management. The authorities remain committed to increasing the tax-to-GDP ratio by ½ percent of GDP per year over the medium term. Past Fund technical assistance has provided options for tax policy and revenue administration measures to achieve this objective. The authorities are considering to adopt a medium-term revenue strategy in collaboration with the G20 initiative, with the IMF possibly taking the lead. In parallel, the authorities are focusing on strengthening public investment management to ensure that development spending is cost-effective and yields the envisaged growth dividend. A recent IMF technical assistance report emphasized the need to undertake: (i) an annual review and prioritization of the project pipeline to ensure consistency with the medium-term fiscal framework for cabinet approval; and (ii) phased development of an integrated project database to track all completed and planned projects, containing information on appraisal, financing, monitoring and evaluation of project outcomes. Staff welcomes the ongoing efforts to enhance project selection, implementation, and monitoring.

26. The budget process could be strengthened to better align spending with policy priorities and plan for financing. The 2015 Public Financial Management Act provides a sound legal framework for budget preparation and execution. However, ambitious plans for foreign financed development spending have typically not been realized, given numerous implementation challenges, while tight envelopes for recurrent spending have had to be revisited through supplementary budgets. Indeed, the National Planning Authority notes that the FY16/17 budget is only 59 percent aligned with the National Development Plan (68 percent in FY15/16) with adverse implications for growth—the misalignment also reflects that some spending entities have not spelled out sector plans consistent with the National Development Plan. Moreover, supplementary budgets have complicated financing since they do not have to be accompanied by the legal authorization to raise the necessary domestic financing. Therefore, as FY16/17 demonstrated, supplementary budgets can lead to a financing gap that is then closed through ad hoc measures— including the use of BoU advances—which create volatility.

27. The authorities remain focused on fighting corruption. In this year’s state of the nation address, President Museveni again emphasized his government’s attention to reducing corruption, and there have been several recent high level arrests, including at the Ministry of Finance, Planning, and Economic Development. Uganda ranked 151 out of 176 countries in the 2016 Transparency International Corruption Perception Index. Corruption was cited as one of the most problematic

factors for doing business in the World Economic Forum's 2016 Global Competitiveness Report where Uganda ranks 113 out of 138 countries. Based on the World Bank's 2015 Governance Indicators, Uganda is ranked below its EAC peers Rwanda, Tanzania, and Kenya.

28. The authorities seek to settle existing domestic arrears and prevent accumulation of new arrears. The FY16/17 budget prioritized settlement of outstanding domestic arrears, but at the same time, there are reports of new domestic arrears being accumulated—only the end-June 2017 report on the stock of domestic arrears will provide a clear picture. Given the total outstanding stock of domestic arrears, the government could consider securitization which would, for example, help in the case of government suppliers that need to service bank loans. The government has also tightened commitment controls, moved regular payments such as utilities onto pre-paid schedules, and has announced that accounting officers would be personally held responsible for accumulating domestic arrears. However, as long as budget envelopes are overly tight, pressures for renewed domestic arrears accumulation are likely to persist.

29. The authorities have launched a local content policy aimed at supporting domestic companies and service providers. The Buy Uganda, Build Uganda (BUBU) policy aims to promote production of local goods and services. To increase local content in government procurement, new guidelines require that at least 30 percent of procurement goes to local companies in specific sectors. In parallel, plans are under way to enhance the capacity of local service providers and producers and to develop a brand and marketing strategy for Ugandan goods and services. Staff cautions that initiatives in this field would need to be carefully designed to avoid discretion and ensure quality and cost effectiveness, to minimize any associated compliance costs, and to be consistent with commitments at the EAC level.

D. Financial Sector Stability, Inclusion and Development

Financial stability

30. The authorities note that the banking sector is well-capitalized overall and liquid, notwithstanding the recent failure of Crane Bank. Most banks meet or exceed Basel III capital requirements and already comply with the liquidity coverage ratio which the authorities expect to make binding by end-2017. Profitability in the sector has declined, reflecting the rise in non-performing loans and provisioning costs. The increase in non-performing loans in 2016 from 8.3 percent in June to 10.5 percent in December 2016 was largely driven by developments at Crane Bank, which was taken over by the BoU in October 2016 (Box 5). However, NPLs remain elevated at 6.3 percent at end-March which no longer includes most of Crane Bank's toxic assets. The authorities pointed to the watch list remaining high, and expect that NPLs could rise further in the next two quarters. Staff notes the initiative by the Uganda Bankers' Association to set up an asset recovery company that would purchase bad loans from commercial banks. While this would still imply a write-off for banks, it would free them to refocus on new lending. The authorities have requested a Financial Sector Stability Review which could be initiated later this year.

31. BoU stress tests suggest that the banking system remains resilient to shocks (Annex 5).

The BoU performs quarterly top-down stress tests that cover single-factor credit and liquidity stress tests. For the purposes of this Article IV consultation, the BoU has also carried out more stringent ad hoc tests, including interest and foreign exchange risk and combined stress test scenarios. Staff agrees that the stress tests suggest that the system can weather credit shocks, but notes the risks from deposit concentration. Staff also notes that the quality of banks' reporting is a risk to the validity of the stress test results, as the Crane Bank episode has illustrated. The authorities agree that the experience calls for more intrusive supervision, and explained that they are also focusing on banks' risk management frameworks.

Box 5. Resolution of Crane Bank

In October 2016, the BoU appropriately took over management of Crane Bank, which had become under-capitalized and encountered liquidity problems. The bank was the third largest domestic bank, accounting for just under 10 percent of total credit to the private sector, and 7.5 percent of total banking system assets.

Crane Bank had underreported its NPLs, and there were other problems with its financial reporting. Facing a steady deposit outflow, the bank was close to being illiquid, with signs of asset stripping. The ensuing corrections to the financial statements contributed to the worsening of financial soundness indicators of the banking sector. BoU intervened and placed the bank in receivership, appointing a statutory manager and suspending the bank's Board of Directors. BoU commissioned financial and forensic audits which are still in progress.

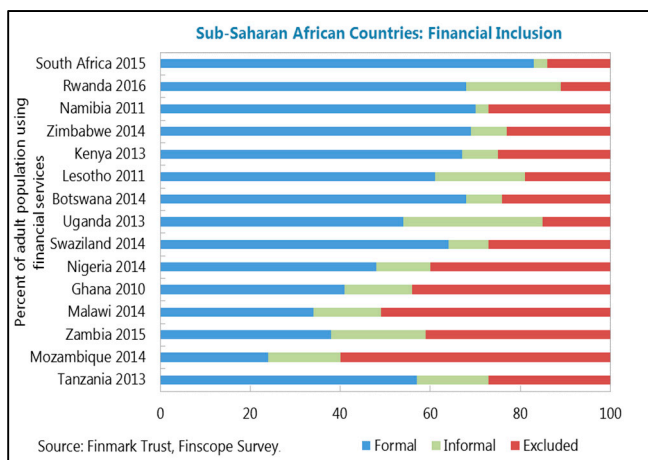
In January 2017, the Development Finance Corporation of Uganda (DFCU)—a domestic bank with foreign ownership—was chosen to acquire most of Crane Bank's balance sheet. BoU took over some of the non-performing assets.

32. The BoU is strengthening its financial surveillance toolkit. With support from the World Bank, the authorities are: (i) mapping the interconnections within the Ugandan financial system to strengthen consolidated supervision; (ii) developing a contagion matrix, encompassing cross-border exposures; and (iii) establishing three financial stability indices to better monitor financial stability risks. A real estate price index is also being developed that could form the basis for counter-cyclical provisioning. In response to NPLs in foreign exchange denominated mortgages, the regulator has introduced a maximum loan-to-value ratio and required that banks extend these mortgages only to borrowers that have foreign exchange income. Staff cautions that in the case of real estate, rents may be denominated in foreign exchange, thus documenting the income of the borrower, but tenants may ultimately only have shilling incomes so that the foreign exchange risk is simply pushed to another balance sheet, but not eliminated. Staff encourages the authorities to consider imposing loan-to-value ratios on all real estate lending, including in shilling terms. A second credit bureau has been established to improve on the quality of service delivery. Both credit bureaus should look beyond loan repayments to other payment obligations to derive credit scores.

Financial inclusion and development

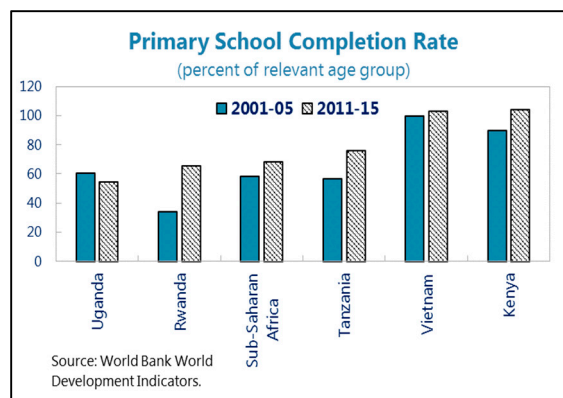
33. Mobile money has greatly expanded access to financial services, although access to credit remains low. Credit to the private sector has averaged only 11 percent of GDP over the past

decade—about half of its estimated benchmark potential.¹¹ The private sector views high lending rates as one obstacle to investment, while banks point to credit risk and their high funding costs—a few large depositors command returns that are close to the yields on government securities. Mobile money has significantly narrowed the access gap. With half of Uganda’s population using mobile money, transactions amounted to 44 percent of GDP in 2015, but so far there is only one provider that offers credit services. The authorities agree with the need to make continued progress on financial deepening and point to the introduction of agency banking and Islamic banking, as well as the growth of micro banking as avenues for further financial deepening and improved access to credit. Staff welcomes these initiatives, and encourages the authorities to ensure that their regulatory framework keeps pace with these innovations. Access to collateral, in particular land titling, remains a problem for borrowers to access loans at competitive rates. The nonbank financial sector is small, and reforms under consideration to open the mandatory pension system could provide an impetus.



E. Inclusive Growth

34. The authorities are keenly focused on policies to reinvigorate growth. Their strategy emphasizes infrastructure investments that appropriately tackle bottlenecks in electricity and transport and provide the space for industry to develop. In parallel, the authorities are promoting agriculture where about 70 percent of the labor force is employed. They point, for example, to the free distribution of coffee seedlings that is expected to boost production further. In addition, enhancing agricultural extension services would likely help to improve productivity and job creation.

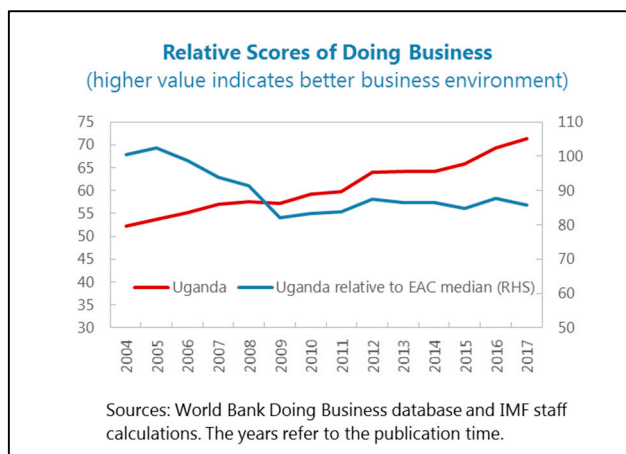


35. Staff analysis suggests that these efforts should be complemented with improved skill formation. Despite having achieved nearly universal primary enrolment, completion rates have recently declined and lag those of regional peers. The government’s reforms to strengthen vocational education are steps in the right direction, while private sector participation in curriculum design, skill certification, and practical training would improve the delivery and outcomes. Emphasis on empowering women to be economically active is equally important. This includes addressing obstacles to women accessing land or inheriting assets

¹¹ See Selected Issues Paper “Financial Inclusion and Development”.

and improving fertility choices. The authorities agree that skill formation and social protection are important, but note that their tight envelope requires prioritization, including over time.

36. In addition, Uganda has scope to facilitate private sector activity. While Uganda's business environment has improved in absolute terms, the country has lost ground relative to its peers. Enhancing Uganda's competitiveness requires faster progress in supporting business creation and growth, facilitating trading across borders (e.g., raising awareness of relevant regulations and promoting cross-country harmonization within the EAC), and reducing corruption. In this context, advancing EAC integration could further support Uganda's exports and structural transformation by providing improved access to a larger market.



F. Regional Integration

37. The authorities remain committed to the process of economic integration within the East African Community (EAC). EAC partner states announced that a Single Customs Territory (SCT) system will take effect on July 31. The SCT is intended to harmonize and electronically connect EAC countries' customs clearance systems to reduce the number of customs checkpoints and clearance delays at borders, and thereby reduce the costs of doing business. The harmonization of customs systems under the SCT is likely to gradually reduce customs delays and operational disruption along transport routes, by facilitating the clearance of goods and the remittance of customs fees charged at the port of entry to the relevant country. Implementation of the SCT is also likely to reduce customs-related corruption risks, through the digitization of systems, simplified procedures, and enhanced transparency.

38. Work is also advancing to achieve regional harmonization objectives, in keeping with the East African Monetary Union Protocol objectives. This includes key fiscal priorities such as: harmonization of domestic taxes and the approach to international tax treaties and negotiations, to help ensure a level playing field in the EAC common market, and strengthen tax administration through efforts to reduce tax expenditures and broaden the tax base. Efforts are also ongoing to strengthen harmonization in other areas, including: regulatory and prudential frameworks, systemic risk analysis, and monetary policy implementation and operations. Also important is the adoption of common principles and rules for payments and settlements and eventual harmonization of payments and settlements systems and the harmonization of monetary and financial sector statistics, balance of payments, government finance statistics and price indices; and improved data quality. The IMF is providing extensive technical assistance in these areas.

STAFF APPRAISAL

39. Uganda's economic conjuncture is challenging. Per-capita growth averaged about 5 percent for two decades, but has slowed to ½ percent in FY16/17. Uganda has realized notable progress on poverty reduction, but vulnerability remains high and income inequality has increased in parallel. The cyclical slowdown is partly driven by exogenous factors such as the drought and spillovers from regional conflicts. However, the slowdown in credit growth, inter alia linked to domestic government arrears, also played a role. Boosting trend growth requires a mix of infrastructure investment, strengthening skill formation, enhancing the business climate, and further financial deepening. Uganda's external position is broadly consistent with fundamentals and desirable policy settings in calendar year 2016. Policies to support growth, including infrastructure investment and enhancing the business environment, would also support Uganda's external position over the medium term.

40. Over the next 3–5 years, infrastructure and oil sector investments can become the key drivers of growth. The authorities' strategy appropriately focuses on tackling bottlenecks in electricity and transportation, as well as on developing Uganda's nascent oil sector. Significant improvements in public investment management are required to achieve the envisaged scaling up of development spending and realize the targeted growth dividend. In parallel, attention to social spending is needed, including on health and education, to invest in Uganda's citizens and help them acquire the skills needed to leverage the opportunities from improved infrastructure and the oil sector. Likewise, enhancing the business environment can empower the private sector to take advantage of the opportunities opening up, also from further EAC integration. With the right policy mix, Uganda can achieve high and inclusive growth that contributes to poverty reduction and equality.

41. Execution of the FY16/17 budget points to strengths and weaknesses. The muted economic activity notwithstanding, the authorities achieved another ½ percent of GDP increase in the revenue-to-GDP ratio. Domestically-financed development spending was executed as budgeted, and the government started settling domestic arrears. However, the execution rate of externally-financed development spending, including the hydropower projects, was only 35 percent. Two supplementary budgets were introduced—without a corresponding authorization to raise debt—and overall, spending was poorly aligned with the National Development Plan priorities. Insufficient coordination between the Ministry of Finance, Planning, and Economic Development and the BoU resulted in uncertainty over the government's financing needs and the amount of domestic issuance. It is regrettable that the government stepped away from its commitment to repay in full the BoU advances taken in FY15/16 and instead relied again on central bank financing when the domestic market could have easily absorbed government securities. This practice is not consistent with an inflation targeting framework. The government should settle outstanding advances from the BoU as a matter of urgency.

42. The FY17/18 budget accommodates infrastructure investment needs, but implies a very tight current expenditure envelope. The targeted increase in tax collection by another ½ percentage point is welcome, though specific measures still need to be firmed up. Capital spending plans will require improved project implementation capacity which may take more time to build. Strong expenditure control for recurrent spending is needed to avoid renewed domestic

arrears or the need for a supplementary budget. The tight social spending allocations require efficiency gains to protect the level of service delivery. Once growth has recovered, the authorities could consider additional revenue measures to create space for higher social spending which has declined in recent years and is below the EAC average.

43. The BoU's inflation targeting framework has served Uganda well. Since its introduction, the BoU has successfully steered core inflation within the band around the 5 percent target. With the drought-related spike in food prices, headline inflation is projected to increase over the next few months, while core inflation would remain close to target. Remaining on hold for a while would allow the BoU to confirm that effects from food price inflation on core inflation remain limited. Ongoing financial market architecture reforms should ultimately strengthen the monetary transmission mechanism.

44. The Charter of Fiscal Responsibility provides an appropriate anchor for fiscal policy. The key to safeguarding debt sustainability is continued domestic revenue mobilization and sound project implementation to realize the envisaged growth dividend. The authorities should consider targeting the projected debt trajectory—peaking at 42 percent of GDP in FY19/20—which would provide a buffer relative to the Charter's debt ceiling in case of adverse shocks. Local content requirements for government procurement need to be carefully designed to ensure quality and cost effectiveness. Close monitoring and adopting a comprehensive domestic arrears clearance and prevention strategy is essential for preventing a recurrence of domestic arrears with their negative macro-financial spillovers on credit and growth.

45. Financial sector stability and deepening are down payments for growth. Supervision needs to become more intrusive, scrutinizing banks' reporting, and the BoU is appropriately focusing on banks' risk management frameworks. Microprudential regulations could be tightened in some areas. Mobile money has greatly enhanced access to financial services, and the sector offers opportunities for deepening financial inclusion and access to credit. The regulatory framework must keep pace with this rapidly developing segment.

46. Staff recommends completion of the eighth review of the PSI for Uganda. The attached Letter of Intent provides a brief synopsis of the authorities' achievements and macroeconomic objectives and policies for the period ahead. The authorities have managed macroeconomic policies well in a complex environment for most of the fiscal year. However, the continued reliance on BoU advances complicates the implementation of the inflation targeting regime. Adopting AML/CFT legislation to support Uganda's exit from the FATF grey list is a major milestone. The slow progress on some of the other structural reforms, including the BoU Act Amendments and domestic arrears monitoring—reflecting inter alia extra time needed to agree on certain provisions and capacity constraints—is regrettable. Going forward, better prioritization and selectivity combined with a sharp focus on capacity building should help structural reform implementation.

47. It is proposed that the next Article IV consultation with Uganda take place on the 12 month cycle. The authorities have requested a successor PSI, and discussions could commence this fall.

Table 1. Uganda: Selected Economic and Financial Indicators, FY2012/13–2021/22^{1,2}

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22		
				Est	7th Rev	Proj.	7th Rev	Proj.	Proj.	Proj.		
(Annual percentage change, unless otherwise indicated)												
Output, prices, and exchange rate												
Real GDP	2.7	5.2	5.1	4.7	5.0	3.9	5.5	5.0	5.5	6.0	6.5	6.5
GDP deflator	6.1	3.4	3.8	3.3	5.1	4.8	4.7	5.8	5.2	5.0	5.0	5.0
Headline inflation (period average)	4.8	5.3	2.9	6.6	5.4	5.8	4.8	5.9	4.9	5.0	5.0	5.0
Core inflation (period average)	6.6	4.6	3.2	6.7	5.0	5.2	4.6	5.7	5.3	5.0	5.0	5.0
Terms of trade ("–" = deterioration)	-8.2	4.7	18.8	5.3	-0.3	1.8	-1.3	-1.2	-0.7	-0.9	-1.1	-0.4
Exchange Rate (Ugandan Shilling/US\$)	1.3	-2.0	11.4	21.8	...	...	...	...	...	...	...	...
Real effective exchange rate ("–" = depreciation)	3.3	7.8	-3.7	-7.2	...	...	...	...	...	...	...	...
Money and credit												
Broad money (M3)	6.6	17.4	15.9	7.1	5.8	12.7	17.4	13.7	15.0	16.6	17.1	17.5
Credit to non-government sector	6.4	13.9	20.4	4.0	8.3	8.5	15.0	12.6	13.6	15.6	16.7	17.0
Bank of Uganda policy rate ³	11.0	11.0	13.0	15.0	...	...	...	...	...	...	...	...
M3/GDP (percent)	18.6	20.1	21.3	21.1	19.8	21.9	21.1	22.4	23.2	24.3	25.5	26.8
NPLs (percent of total loans)	4.0	5.8	4.0	8.3	...	...	...	...	...	...	...	...
(Percent of GDP, unless otherwise indicated)												
Central government budget												
Revenue and grants	12.7	12.6	14.4	15.2	15.9	15.5	15.9	16.5	16.8	17.5	17.7	18.5
<i>Of which: grants</i>	1.4	1.0	1.2	1.4	1.8	1.1	1.4	1.5	1.4	1.6	1.3	1.0
Expenditure	16.2	16.6	18.7	20.1	21.9	19.0	20.8	20.2	22.3	21.5	20.7	20.1
Current	9.0	9.5	10.0	11.0	10.4	11.0	10.3	10.5	10.6	10.5	10.4	10.2
Capital ⁴	6.5	7.0	8.1	8.7	11.0	7.7	10.3	9.4	11.3	10.7	10.0	9.5
Primary balance	-2.1	-2.6	-2.8	-2.9	-3.6	-0.9	-2.3	-1.1	-2.7	-1.4	-0.4	0.8
Overall balance	-3.2	-3.5	-4.4	-5.3	-6.0	-3.5	-4.9	-3.7	-5.5	-4.0	-3.0	-1.6
Excluding grants	-4.7	-4.5	-5.6	-6.7	-7.8	-4.6	-6.2	-5.3	-6.9	-5.6	-4.2	-2.6
Of which: Net domestic borrowing	1.0	2.2	3.2	2.3	0.7	0.9	1.0	1.1	0.6	0.5	0.4	-0.4
Public debt												
Public gross debt	26.1	28.3	32.2	35.7	38.6	38.7	41.5	38.6	40.9	41.6	41.6	40.7
External	15.3	15.8	18.7	21.7	25.0	25.1	28.1	25.4	28.4	29.9	30.7	30.9
Domestic	10.9	12.5	13.4	14.0	13.7	13.6	13.4	13.2	12.5	11.7	10.8	9.8
Investment and savings												
Investment	27.8	26.7	24.6	24.9	27.8	24.3	29.1	26.4	29.1	29.1	28.7	28.6
Public	6.5	7.0	8.1	8.7	11.0	7.7	10.3	9.4	11.3	10.7	10.0	9.5
Private	21.3	19.7	16.5	16.2	16.8	16.6	18.8	17.1	17.8	18.4	18.7	19.0
Savings	21.2	18.8	16.9	18.2	20.4	19.2	20.6	19.9	20.2	20.1	18.8	22.1
Public	1.7	2.3	2.9	2.8	3.6	3.4	4.5	4.6	5.1	5.7	6.2	7.3
Private	19.6	16.5	14.0	15.4	16.7	15.8	16.1	15.3	15.2	14.4	12.5	14.8
External sector												
Current account balance (including grants)	-6.3	-7.6	-7.3	-6.3	-7.1	-4.8	-8.2	-6.3	-8.0	-8.0	-9.2	-5.8
Current account balance (excluding grants)	-6.6	-7.9	-7.7	-6.7	-7.4	-5.2	-8.5	-6.5	-8.9	-8.8	-9.8	-6.4
Exports (goods and services)	20.2	18.2	18.2	18.7	19.0	18.1	19.5	18.2	19.2	19.9	20.4	22.2
Imports (goods and services)	30.3	27.9	28.7	28.8	29.5	26.0	30.0	27.4	30.0	30.6	32.0	30.0
Gross international reserves												
In billions of US\$	2.9	3.4	2.9	3.0	3.0	3.2	3.1	3.3	3.6	4.0	4.1	4.6
In months of next year's imports of goods and services	4.5	5.2	5.0	5.3	4.2	5.1	4.0	4.5	4.4	4.4	4.5	5.1
<i>Memorandum items:</i>												
GDP at current market prices												
Ush. Billion	64,758	70,458	76,883	83,120	93,639	90,514	103,400	100,552	111,555	124,146	138,791	155,136
US\$ million	24,993	27,761	27,190	24,142	...	...	...	...	...	...	...	...
GDP per capita (Nominal US\$)	757	817	778	673	626	694	648	718	737	799	833	861
Population (million) ⁵	33.0	34.0	35.0	35.9	...	...	...	...	...	...	...	...
Share of population below poverty line (percent)	19.7	...	...	...	...	...	...	...	...	...	...	...

Sources: Ugandan authorities and IMF staff estimates and projections.

¹ Fiscal year runs from July 1 to June 30.² All figures are based on the 2009/10 rebased GDP provided by the authorities.³ The Central Bank Rate (CBR) was introduced to start Inflation Targeting in July 2011. Data refer to end-year CBRs. The CBR was at 11 percent in April 2017.⁴ Capital expenditures include net lending and investment on hydropower projects, and excludes BoU recapitalization and other spending.⁵ Based on revised figures after the 2014 census by UBOS.

Table 2a. Uganda: Fiscal Operations of the Central Government, FY2012/13–2017/18^{1,2}
(Billions of Uganda Shillings)

	2012/13	2013/14	2014/15	2015/16	2016/17		2017/18	
					Est.	7th Rev	Proj.	7th Rev	Proj.
Total revenue and grants	8,245	8,868	11,045	12,647	14,868	14,039	16,451	16,577
Revenue	7,309	8,165	10,114	11,500	13,150	13,012	15,052	15,062
Tax	7,005	7,831	9,542	10,833	12,424	12,288	14,304	14,318
International trade taxes	599	747	838	1,076	1,267	1,253	1,608	1,433
Income taxes	2,588	2,756	3,402	3,872	4,370	4,318	4,912	4,857
Excises	1,466	1,757	2,128	2,300	2,767	2,747	3,258	3,338
Value-added tax	2,353	2,570	3,117	3,522	3,950	3,901	4,428	4,519
Infrastructure levy	...	...	57	63	69	69	98	172
Nontax	304	334	452	545	597	594	748	743
Oil revenue	0	0	120	121	128	130	0	0
Grants	936	702	931	1,147	1,718	1,027	1,399	1,516
Budget support ³	199	191	258	340	282	274	287	287
Project grants	738	511	673	808	1,436	753	1,112	1,229
Expenditures and net lending⁴	10,523	11,684	14,379	16,727	20,464	17,214	21,483	20,345
Current expenditures	5,813	6,706	7,689	9,169	9,710	9,912	10,623	10,569
Wages and salaries	2,160	2,385	2,759	2,966	3,359	3,437	3,549	3,548
Interest payments	890	970	1,213	1,682	2,188	2,355	2,703	2,684
Other current	2,763	3,351	3,717	4,520	4,163	4,119	4,371	4,336
Development expenditures	4,237	4,937	5,230	5,907	9,054	6,520	9,285	8,682
Externally-financed projects	2,163	1,871	1,933	2,384	4,804	2,296	4,568	4,316
Of which: Non-concessional borrowing				202	870	272	1,928	1,534
Government of Uganda investment	2,074	3,066	3,296	3,523	4,250	4,224	4,716	4,366
Net lending and investment	409	21	1,235	1,532	1,539	585	1,415	739
Hydro-power projects	0	21	985	1,332	1,239	485	1,315	739
Of which: Non-concessional borrowing	0	0	0	1,074	1,223	446	1,315	739
Recapitalization	410	0	250	-37	300	100	100	0
Of which: Bank of Uganda ⁵	410	0	250	-37	100	100	100	0
Other spending	63	20	225	119	161	197	160	356
Clearance of domestic arrears	63	20	225	119	161	197	160	356
Contingency	0	0	0	0	0	0	0	0
Float	-193	-352	68	313	0	0	0	0
Overall balance	-2,084	-2,463	-3,402	-4,393	-5,596	-3,174	-5,031	-3,768
Underlying balance (excl. one-off spending) ⁶	-1,675	-2,443	-2,287	-2,780	-3,315	-2,447	-1,688	-1,496
Financing	2,084	2,463	3,402	4,393	5,596	3,174	5,031	3,768
External financing (net)	1,418	887	919	2,494	4,920	2,323	4,000	2,688
Disbursement	1,628	1,128	1,177	2,814	5,297	2,692	4,771	3,826
Budget support	324	0	0	0	0	0	0	0
Concessional project loans	1,303	1,128	1,177	1,537	2,497	1,271	1,528	1,553
Non-concessional borrowing	0	0	0	1,276	2,093	718	3,243	2,272
Revolving Credit					707	703	0	0
Amortization (-)	-200	-212	-254	-320	-373	-365	-776	-1,143
Exceptional financing	-10	-30	-4	0	-4	-4	6	6
Domestic financing (net)	666	1,576	2,483	1,899	676	851	1,031	1,080
Bank financing	508	647	1,288	923	220	545	513	602
Bank of Uganda ⁷	-77	-198	1,064	309	-236	239	100	125
Commercial banks	585	845	224	614	456	306	413	477
Nonbank financing	158	930	1,195	976	456	306	518	478
Memorandum Items:								
Petroleum Fund (end-period stock) ⁸	1,606	1,608	120	241	369	371	369	246
Energy fund (end-period stock)	775	748	190	0	0	0	0	0
Expenditures for poverty-alleviating sectors⁹	2,448	2,841	3,032	3,241	3,547	3,909	4,151	4,018

Sources: Ugandan authorities and IMF staff estimates and projections.

¹ Fiscal year runs from July 1 to June 30.

² All figures are based on the 2009/10 rebased GDP provided by the authorities.

³ Include mainly HIPC-related grants from FY 2013/14 onwards.

⁴ Expenditure categories in FY2013/14 include clearance of arrears totaling Shs. 544 billion, mainly in Government of Uganda investment and other current spending.

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

⁶ The overall deficit excluding large infrastructure projects financed by nonconcessional external borrowing (e.g. HPPs), BOU recapitalization, and oil

⁷ Net financing from the Bank of Uganda includes resources freed by MDRI relief.

⁸ 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.

⁹ Excluding externally financed spending.

Table 2b. Uganda: Fiscal Operations of the Central Government, FY2012/13–2017/18^{1,2}
(Percent of GDP)

	2012/13	2013/14	2014/15	2015/16		2016/17		2017/18	
				Est.	7th Rev	Proj.	7th Rev	Proj.	
Total revenue and grants	12.7	12.6	14.4	15.2	15.9	15.5	15.9	16.5	
Revenue	11.3	11.6	13.2	13.8	14.0	14.4	14.6	15.0	
Tax	10.8	11.1	12.4	13.0	13.3	13.6	13.8	14.2	
International trade taxes	0.9	1.1	1.1	1.3	1.4	1.4	1.6	1.4	
Income taxes	4.0	3.9	4.4	4.7	4.7	4.8	4.8	4.8	
Excises	2.3	2.5	2.8	2.8	3.0	3.0	3.2	3.3	
Value-added tax	3.6	3.6	4.1	4.2	4.2	4.3	4.3	4.5	
Infrastructure levy	...	...	0.1	0.1	0.1	0.1	0.1	0.2
Nontax	0.5	0.5	0.6	0.7	0.6	0.7	0.7	0.7	
Oil revenue	0.0	0.0	0.2	0.1	0.1	0.1	0.0	0.0	
Grants	1.4	1.0	1.2	1.4	1.8	1.1	1.4	1.5	
Budget support ³	0.3	0.3	0.3	0.4	0.3	0.3	0.3	0.3	
Project grants	1.1	0.7	0.9	1.0	1.5	0.8	1.1	1.2	
Expenditures and net lending⁴	16.2	16.6	18.7	20.1	21.9	19.0	20.8	20.2	
Current expenditures	9.0	9.5	10.0	11.0	10.4	11.0	10.3	10.5	
Wages and salaries	3.3	3.4	3.6	3.6	3.6	3.8	3.4	3.5	
Interest payments	1.4	1.4	1.6	2.0	2.3	2.6	2.6	2.7	
Other current	4.3	4.8	4.8	5.4	4.4	4.6	4.2	4.3	
Development expenditures	6.5	7.0	6.8	7.1	9.7	7.2	9.0	8.6	
Externally-financed projects	3.3	2.7	2.5	2.9	5.1	2.5	4.4	4.3	
Government of Uganda investment	3.2	4.4	4.3	4.2	4.5	4.7	4.6	4.3	
Net lending and investment	0.6	0.0	1.6	1.8	1.6	0.6	1.4	0.7	
Hydro-power projects	0.0	0.0	1.3	1.6	1.3	0.5	1.3	0.7	
Recapitalization	0.6	0.0	0.3	0.0	0.3	0.1	0.1	0.0	
Other spending	0.1	0.0	0.3	0.1	0.2	0.2	0.2	0.4	
Clearance of domestic arrears	0.1	0.0	0.3	0.1	0.2	0.2	0.2	0.4	
Contingency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Float	-0.3	-0.5	0.1	0.4	0.0	0.0	0.0	0.0	
Overall balance	-3.2	-3.5	-4.4	-5.3	-6.0	-3.5	-4.9	-3.7	
Underlying balance (excl. one-off spending) ⁵	-2.6	-3.5	-3.0	-3.3	-3.5	-2.7	-1.6	-1.5	
Financing	3.2	3.5	4.4	5.3	6.0	3.5	4.9	3.7	
External financing (net)	2.2	1.3	1.2	3.0	5.3	2.6	3.9	2.7	
Disbursement	2.5	1.6	1.5	3.4	5.7	3.0	4.6	3.8	
Budget support	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Concessional project loans	2.0	1.6	1.5	1.8	2.7	1.4	1.5	1.5	
Non-concessional borrowing	0.0	0.0	0.0	1.5	2.2	0.8	3.1	2.3	
Revolving Credit					0.8	0.8	0.0	0.0	
Amortization (-)	-0.3	-0.3	-0.3	-0.4	-0.4	-0.4	-0.8	-1.1	
Exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Domestic financing (net)	1.0	2.2	3.2	2.3	0.7	0.9	1.0	1.1	
Bank financing	0.8	0.9	1.7	1.1	0.2	0.6	0.5	0.6	
Bank of Uganda ⁶	-0.1	-0.3	1.4	0.4	-0.3	0.3	0.1	0.1	
Commercial banks	0.9	1.2	0.3	0.7	0.5	0.3	0.4	0.5	
Nonbank financing	0.2	1.3	1.6	1.2	0.5	0.3	0.5	0.5	
Memorandum Items:									
Petroleum Fund (end-period stock) ⁷	2.5	2.3	0.2	0.3	0.4	0.4	0.4	0.2	
Energy fund (end-period stock)	1.2	1.1	0.2	0.0	0.0	0.0	0.0	0.0	
Expenditures for poverty-alleviating sectors ⁸	3.8	4.0	3.9	3.9	3.8	4.3	4.0	4.0	

Sources: Ugandan authorities and IMF staff estimates and projections.

¹ Fiscal year runs from July 1 to June 30.

² All figures are based on the 2009/10 rebased GDP provided by the authorities.

³ Include mainly HIPC-related grants from FY 2013/14 onwards.

⁴ 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.

⁵ The overall deficit excluding large infrastructure projects financed by nonconcessional external borrowing (e.g. HPPs), BOU recapitalization, and oil revenue.

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 2c: Uganda: Quarterly Fiscal Operations of the Central Government, 2015/16–2016/17^{1,2}
(Billions of Ugandan Shillings)

	2015/16					2016/17				
	Q1	Q2	Q3	Q4 Est.	Annual Est.	Q1 Est.	Q2 Proj.	Q3 Proj.	Q4 Proj.	Annual Proj.
Total revenue and grants	2,986	3,391	2,808	3,462	12,647	2,991	3,679	3,437	3,932	14,039
Revenue	2,504	3,082	2,667	3,248	11,500	2,835	3,285	3,288	3,603	13,012
Tax	2,365	2,946	2,540	2,982	10,833	2,695	3,120	3,017	3,454	12,288
International trade taxes	254	289	250	284	1,076	282	312	298	361	1,253
Income taxes	729	1,128	827	1,188	3,872	844	1,227	969	1,278	4,318
Excises	502	598	584	616	2,300	627	625	707	789	2,747
Value-added tax	865	913	865	878	3,522	926	940	1,027	1,008	3,901
Infrastructure levy	15	17	14	16	63	17	16	17	17	69
Nontax	139	136	126	144	545	140	165	140	149	594
Oil revenue	0	0	0	121	121	0	0	130	0	130
Grants	483	309	142	214	1,147	156	394	149	329	1,027
Budget support ³	159	61	50	70	340	70	51	71	82	274
Project grants	323	248	92	144	808	86	343	78	246	753
Expenditures and net lending	3,885	4,930	3,706	4,206	16,727	4,212	4,240	3,718	5,043	17,214
Current expenditures	2,166	2,275	2,315	2,412	9,169	2,538	2,402	2,467	2,504	9,912
Wages and salaries	698	760	758	751	2,966	836	836	845	921	3,437
Interest payments	389	354	482	456	1,682	647	543	626	539	2,355
Other current	1,079	1,161	1,076	1,204	4,520	1,054	1,023	997	1,045	4,119
Development expenditures	1,089	1,815	1,237	1,766	5,907	1,592	1,539	1,200	2,188	6,520
Externally-financed projects	443	829	436	474	2,384	422	513	407	682	2,296
<i>Of which:</i> Non-concessional borrowing	0	202	0	0	202	8	159	0	105	272
Government of Uganda investment	646	784	801	1,292	3,523	1,162	867	793	1,402	4,224
Net lending and investment	610	816	106	0	1,532	16	259	0	310	585
Other spending	20	24	47	28	119	67	39	51	41	197
Float	-79	127	-185	450	313	-161	-369	338	201	0
Overall balance⁴	-820	-1,667	-712	-1,194	-4,393	-1,061	-192	-620	-1,313	-3,174
Underlying balance (excl. one-off spending) ⁵	-289	-521	-791	-865	-2,466	-1,198	-143	-411	-697	-2,447
Financing	820	1,667	712	1,194	4,393	1,061	192	620	1,313	3,174
External financing (net)	703	1,173	252	365	2,494	223	694	554	862	2,323
Disbursement	803	1,242	329	440	2,814	337	782	651	932	2,692
Concessional project loans	446	428	223	440	1,537	329	370	192	381	1,271
Non-concessional borrowing	357	813	106	0	1,276	8	159	0	552	718
Revolving Credit						0	253	459	0	703
Amortization (-)	-100	-68	-77	-74	-320	-104	-91	-97	-73	-365
Exceptional financing	0	0	0	0	0	-9	2	0	2	-4
Domestic financing (net)	117	493	460	828	1,899	837	-502	65	451	851
Bank financing	34	30	430	428	923	237	-729	171	866	545
Bank of Uganda	302	41	-101	67	309	-293	-249	-260	1,041	239
Commercial banks	-268	-11	531	362	614	531	-480	430	-175	306
Nonbank financing	83	463	30	400	976	600	227	-105	-415	306

Sources: Ugandan authorities and IMF staff estimates and projections.

¹ Fiscal year runs from July 1 to June 30.

² All figures are based on the 2009/10 rebased GDP provided by the authorities.

³ Include mainly HIPC-related grants from FY 2014/15 onwards.

⁴ The projections for the overall balance in FY17 are consistent with the adjusted ceiling on the overall balance, as defined in the TMU of the Staff Report for the Sixth Review of the PSI.

⁵ The overall deficit excluding large infrastructure projects financed by nonconcessional external borrowing (e.g. HPPs), BOU recapitalization, and oil revenue.

Table 3. Uganda: Monetary Accounts, FY2012/13–FY2017/18^{1,2}
(Billions of Ugandan Shillings unless otherwise indicated)

	2012/13	2013/14	2014/15	2015/16	2016/17		2017/18	
				Est.	7th Rev	Proj.	7th Rev	Proj.
							0.00	
	Depository Corporations Survey ³							
Net foreign assets	8,427	8,844	9,656	10,329	11,049	12,409	12,267	12,826
Bank of Uganda	8,305	9,455	10,092	10,642	11,411	12,109	12,629	12,579
Commercial banks	122	-611	-436	-313	-362	300	-362	247
Net domestic assets	3,621	5,291	6,733	7,228	7,527	8,089	9,547	9,545
Claims on public sector (net) ⁴	-17	623	1,911	2,841	3,061	3,394	3,574	3,997
Claims on central government (net)	-105	539	1,827	2,750	2,970	3,295	3,483	3,898
Claims on the private sector	8,011	9,124	10,986	11,422	12,372	12,391	14,230	13,956
Other items (net) ^{5,6}	-4,373	-4,456	-6,163	-7,035	-7,907	-7,695	-8,257	-8,408
Money and quasi-money (M3)	12,047	14,142	16,389	17,557	18,575	19,795	21,814	22,511
Broad money (M2)	8,932	10,195	11,095	12,085	12,786	13,762	15,015	15,672
Foreign exchange deposits	3,115	3,947	5,294	5,472	5,789	6,033	6,798	6,839
	Bank of Uganda							
Net foreign assets	8,305	9,455	10,092	10,642	11,411	12,109	12,629	12,579
Net domestic assets	-4,760	-5,363	-5,039	-4,991	-5,699	-5,754	-6,502	-5,161
Claims on public sector (net) ⁴	-2,858	-3,059	-1,995	-1,686	-1,922	-1,447	-1,822	-1,322
Claims on central government (net)	-2,858	-3,059	-1,995	-1,686	-1,922	-1,447	-1,822	-1,322
Claims on commercial banks	-518	-889	-161	-461	-423	-1,124	-400	-814
Other items (net) ^{5,6}	-1,383	-1,415	-2,883	-2,844	-3,354	-2,993	-4,291	-3,680
Base money	3,545	4,092	5,053	5,651	5,711	6,355	6,127	7,418
Currency in circulation	2,453	2,746	3,232	3,392	3,573	3,848	4,196	4,698
Commercial bank deposits ⁷	1,092	1,346	1,822	2,259	2,138	2,508	1,931	2,720
	Other Depository Corporations							
Net foreign assets	122	-611	-436	-313	-362	300	-362	247
Net domestic assets	9,805	12,439	14,113	14,985	15,872	16,201	18,577	18,179
Of which Claims on central government (net)	2,753	3,598	3,830	4,436	4,892	4,742	5,305	5,220
Of which Claims on private sector	7,964	9,069	10,922	11,386	12,331	12,341	14,189	13,886
Deposit liabilities to the non-bank public	9,927	11,828	13,677	14,621	15,510	16,501	18,215	18,426
Shilling deposits	6,812	7,881	8,383	9,150	9,721	10,468	11,416	11,587
Foreign exchange accounts	3,115	3,947	5,294	5,472	5,789	6,033	6,798	6,839
<i>Memorandum items:</i>								
(Annual percentage change)								
Base money	17.7	15.4	23.5	11.8	1.1	12.5	7.3	16.7
M3	6.6	17.4	15.9	7.1	5.8	12.7	17.4	13.7
Credit to the private sector	6.4	13.9	20.4	4.0	8.3	8.5	15.0	12.6
Base money-to-GDP ratio (percent)	5.5	5.8	6.6	6.8	6.1	7.0	5.9	7.4
M3-to-GDP ratio (percent)	18.6	20.1	21.3	21.1	19.8	21.9	21.1	22.4
Base money multiplier (M2/base money)	2.5	2.5	2.2	2.1	2.2	2.2	2.5	2.1
Credit to the private sector (percent of GDP)	12.4	12.9	14.3	13.7	13.2	13.7	13.8	13.9
Velocity (M3)	5.4	5.0	4.7	4.7	5.0	4.6	4.7	4.5
Exchange rate (Ush/US\$, eop)	2,593	2,600	3,302	3,709	...	...	...	...

Sources: Ugandan authorities and IMF staff estimates and projections.

¹ Fiscal year runs from July 1 to June 30.

² All figures are based on the 2009/10 rebased GDP provided by the authorities.

³ Starting on June 2013, the Bank of Uganda expanded the reporting coverage from Monetary Survey to Depository Corporations Survey.

⁴ The public sector includes the central government, public enterprises, other financial corporations and local governments.

⁵ Including valuation effects, the Bank of Uganda's claims on the private sector and Claims on Other Financial Corporations.

⁶ Reflects actual and projected issuances for the recapitalization of Bank of Uganda.

⁷ Inclusive of foreign currency clearing balances.

Table 4. Uganda: Balance of Payments, FY2012/13–FY2021/22^{1,2}
(Millions of US dollars unless otherwise indicated)

	2012/13	2013/14	2014/15	2015/16	2016/17		2017/18		2018/19	2019/20	2020/21	2021/22
				Est.	7th Rev	Proj.	7th Rev	Proj.			Proj.	
Current account	-1,582	-2,106	-1,997	-1,522	-1,884	-1,242	-2,316	-1,708	-2,336	-2,571	-3,149	-2,132
Trade balance	-2,123	-2,367	-2,250	-1,887	-2,183	-1,519	-2,416	-1,994	-2,447	-2,649	-2,941	-1,986
Exports, f.o.b.	2,912	2,706	2,738	2,688	2,865	2,957	3,149	3,136	3,530	4,065	4,487	5,341
Of which: coffee	423	404	400	352	388	402	457	449	472	500	530	564
Imports, f.o.b.	-5,035	-5,074	-4,988	-4,574	-5,048	-4,476	-5,565	-5,130	-5,977	-6,714	-7,428	-7,327
Of which: oil	-1,028	-1,090	-933	-646	-743	-647	-811	-697	-726	-807	-859	-630
Of which: government	-438	-361	-224	-494	-585	-336	-597	-379	-525	-481	-446	-436
Services (net)	-405	-331	-600	-555	-591	-522	-557	-539	-691	-773	-1,028	-858
Income (net)	-528	-613	-492	-492	-462	-575	-623	-681	-836	-974	-1,146	-1,305
Of which: interest on public debt	-39	-45	-42	-47	-110	-114	-188	-180	-199	-207	-233	-255
Transfers	1,473	1,204	1,345	1,411	1,351	1,374	1,280	1,506	1,638	1,826	1,966	2,018
Private transfers	1,130	999	1,111	1,173	987	1,166	1,027	1,222	1,399	1,524	1,706	1,788
Of which: workers' remittances (inflows)	817	696	730	803	721	844	779	892	1,057	1,165	1,328	1,390
Official transfers	343	205	234	238	365	209	252	285	239	302	261	230
Of which: budget support (including HIPC)	71	83	99	95	80	78	78	78	73	81	73	68
Capital and financial account	1,519	1,813	952	1,060	1,906	1,204	2,438	1,789	2,654	3,011	3,226	2,596
Capital account	33	91	99	120	129	127	137	136	174	227	194	165
Of which: project grants	33	91	99	120	129	127	137	136	174	227	194	165
Financial account	1,486	1,722	853	940	1,777	1,077	2,301	1,653	2,481	2,784	3,032	2,431
Foreign direct investment	940	1,087	785	530	567	667	1,268	896	1,356	1,830	2,087	2,278
Portfolio investment	-46	26	-191	-151	23	-164	99	-48	-82	-65	-53	-49
Other investment	592	609	258	561	1,188	574	934	805	1,206	1,019	998	202
Of which:												
Public sector (net)	534	313	422	672	1,387	919	1,083	767	1,411	1,146	908	737
SDR allocation	0	0	0	0	0	0	0	0	0	0	0	0
Build-up (-)/drawdown (+) of petroleum fund	-7	-7	127	-42	-7	-37	-7	34	0	0	0	0
Loan disbursements	617	403	385	807	1,499	1,059	1,303	1,045	1,536	1,286	1,077	934
Project support (loans)	497	322	385	436	707	360	417	424	483	372	272	158
Budget support (loans)	120	0	0	0	0	0	0	0	0	0	0	0
Non-concessional borrowing	0	81	0	371	792	699	885	620	1,053	914	805	776
Amortization due	-76	-83	-90	-93	-106	-103	-212	-312	-125	-140	-169	-196
Commercial banks (net)	380	282	-103	-40	10	-175	-6	15	25	54	26	50
Other private (net)	-322	14	-61	-71	-209	-170	-143	23	-229	-181	64	-585
Errors and omissions	402	672	692	564	0	270	0	0	0	0	0	0
Overall balance	338	378	-353	101	22	232	123	81	318	440	77	464
Financing	-338	-378	353	-101	-22	-232	-123	-81	-318	-440	-77	-464
Of which:												
Central bank net reserves (increase = -)	-334	-374	353	-100	-18	-228	-121	-80	-318	-440	-77	-464
Of which: SDR allocation	0	0	0	0	0	0	0	0	0	0	0	0
Use of Fund credit	-2	-2	-2	-1	0	0	0	0	0	0	0	0
<i>Memorandum items:</i>												
Gross international reserves												
In US\$ billions	2.9	3.4	2.9	3.0	3.0	3.2	3.1	3.3	3.6	4.0	4.1	4.6
In months of next year's imports of goods and service:	4.5	5.2	5.0	5.3	4.2	5.1	4.0	4.5	4.4	4.4	4.5	5.1
Donor support				612	974	430	397.7					
Of which:												
Budget support (loans and grants)	191	83	99	95	80	78	78	78	73	81	73	68
Project support (loans and grants)	530	413	484	556	836	487	554	560	657	599	466	323
Current account balance (percent of GDP)	-6.3	-7.6	-7.3	-6.3	-7.1	-4.8	-8.2	-6.3	-8.0	-8.0	-9.2	-5.8
Current account balance (excluding grants)	-6.6	-7.9	-7.7	-6.7	-7.4	-5.2	-8.5	-6.5	-8.9	-8.8	-9.8	-6.4
Trade balance (percent of GDP)	-8.5	-8.5	-8.3	-7.8	-8.2	-5.9	-8.6	-7.3	-8.4	-8.2	-8.4	-5.4
Exports of goods (percent of GDP)	11.7	9.7	10.1	11.1	10.8	11.5	11.2	11.4	12.2	12.5	12.9	14.4
Imports of goods (percent of GDP)	20.1	18.3	18.3	18.9	19.0	17.5	19.7	18.7	20.6	20.7	21.3	19.7

Sources: Ugandan authorities and IMF staff estimates and projections.

¹ Fiscal year runs from July 1 to June 30.

² All figures are based on the 2009/10 rebased GDP provided by the authorities.

Table 5. Uganda: Banking Sector Indicators, March 2013–March 2017

(In percent)

	2013				2014				2015				2016				2017
	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Capital adequacy																	
Regulatory capital to risk-weighted assets	24.5	24.3	23.1	22.1	23.6	22.8	22.5	22.2	23.2	21.2	19.7	21.0	21.8	21.7	22.5	19.8	22.8
Regulatory tier 1 capital to risk-weighted assets ¹	21.4	21.2	20.3	19.1	20.9	20.3	19.9	19.7	20.8	18.8	17.3	18.6	19.1	19.0	19.8	17.3	20.4
Asset quality																	
NPLs to total gross loans	4.7	4.0	4.4	6.0	6.2	5.8	5.3	4.1	4.2	4.0	3.9	5.3	6.9	8.3	7.7	10.5	6.3
NPLs to total deposits	3.5	2.9	3.2	4.3	4.2	4.1	3.7	2.9	3.1	2.9	2.9	3.9	4.9	5.8	5.4	7.4	4.1
Specific provisions to NPLs	55.1	53.1	47.3	64.8	53.9	62.1	55.4	48.9	53.7	51.9	45.4	41.6	47.2	54.3	51.8	60.4	43.4
Earning assets to total assets	69.6	70.0	70.7	69.6	69.3	68.9	71.5	71.5	70.4	69.5	69.6	69.2	70.1	68.0	69.2	67.3	67.5
Large exposures to gross loans	34.8	36.0	35.4	37.9	33.6	32.3	37.2	38.3	35.2	40.0	43.5	40.9	42.2	41.5	42.7	42.4	37.8
Large exposures to total capital	95.4	103.4	102.2	113.6	97.7	96.4	109.7	113.2	104.5	126.4	140.8	123.5	123.9	121.5	118.7	133.2	99.8
Earnings and profitability																	
Return on assets	3.6	3.3	3.2	2.0	2.4	2.1	2.2	2.6	2.5	2.8	2.7	2.6	2.8	2.2	2.5	1.3	1.4
Return on equity	21.0	20.4	18.9	12.4	14.2	12.8	13.1	16.0	15.6	17.7	17.2	16.0	16.8	13.8	14.9	8.3	8.3
Net interest margin	12.5	12.2	11.8	11.6	11.4	11.5	11.3	11.0	11.0	10.9	11.0	11.3	11.6	11.9	12.3	12.8	12.7
Cost of deposits	4.3	4.1	3.9	3.7	3.6	3.7	3.7	3.5	3.4	3.3	3.3	3.3	3.4	3.4	3.4	3.5	3.3
Cost to income	72.0	72.4	73.2	80.1	76.6	75.8	74.8	68.7	68.7	68.6	68.5	69.2	68.4	67.9	67.3	67.2	66.9
Overhead to income	41.9	43.2	45.3	46.7	45.4	41.9	41.1	40.0	40.1	42.9	42.7	41.9	41.1	37.4	37.8	29.8	30.4
Liquidity																	
Liquid assets to total deposits	42.7	41.1	40.6	42.5	45.4	46.5	41.8	44.0	44.2	46.4	46.0	46.4	42.5	43.4	45.4	51.5	48.8
Market sensitivity																	
Foreign currency exposure to regulatory tier 1 capital	-5.1	-6.7	-8.2	-3.2	-2.6	-6.7	-1.4	-6.9	-5.4	-5.7	-3.4	-5.9	-7.6	-6.2	-7.1	8.5	-8.1
Foreign currency loans to foreign currency deposits	72.3	72.8	63.0	57.6	73.7	65.0	64.3	64.5	58.8	61.3	60.8	59.2	60.5	60.4	59.2	58.2	62.6
Foreign currency assets to foreign currency liabilities	104.8	104.9	100.6	97.3	100.8	95.4	95.2	97.1	102.9	101.4	102.0	101.8	97.4	96.7	96.0	99.2	96.7

Source: Bank of Uganda.

¹ Under new rules, effective in December 2016, designed to ensure compliance with Basel III financial standards, tier one capital requirements were raised to 10.5 percent from 8 percent, while the total regulatory capital ratio was raised to 14.5 percent from 12 percent. However, Systemically Important Banks (SIBs) will be required to maintain tier one capital of 11.5 percent 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.

Annex I. Progress in Achieving Millennium Development Goals

	Initial Year 1990	Last Year 2013/14	Target	Status
GOAL 1: ERADICATE EXTREME POVERTY AND HUNGER				
Poverty headcount ratio at \$1.25 a day (PPP, % of population)	87	35	44	M
Malnutrition prevalence weight for age (% of children under 5)	26	14	13	NM
GOAL 2: ACHIEVE UNIVERSAL PRIMARY EDUCATION				
Total enrollment, primary (% net)	67	91	100	NM
Primary completion rate, total (% of relevant age group)	60	53	95	NM
Persistence to last grade of primary, total (% of cohort)	38	25	95	NM
GOAL 3: PROMOTE GENDER EQUALITY AND EMPOWER WOMEN				
Ratio of female to male primary enrollment (%)	80	102	100	M
Ratio of female to male secondary enrollment (%)	...	88	100	NM
Ratio of female to male tertiary enrollment (%)	39	79	100	NM
GOAL 4: REDUCE CHILD MORTALITY RATE				
Mortality rate, under-5 (per 1,000)	179	66	60	M
Mortality rate, infant (per 1,000 live births)	107	44	36	NM
GOAL 5: IMPROVE MATERNAL HEALTH				
Contraceptive prevalence (% of women ages 15–49)	15	30	95	NM
Maternal mortality ratio (per 100,000 live births)	780	360	195	NM
GOAL 6: COMBAT HIV/AIDS, MALARIA AND OTHER DISEASES				
Incidence of tuberculosis (per 100,000 people)	624	179	trend reversal	M
Tuberculosis case detection rate (all forms)	13	69	trend reversal	NM
Prevalence of HIV, total (% of ages 15–24)	12	7	trend reversal	NM
GOAL 7: ENSURE ENVIRONMENTAL SUSTAINABILITY				
Forest area (sq. km)	25	14	trend reversal	NM
Terrestrial protected areas (% of total surface area)	8	12	trend reversal	M
CO2 emissions (kg per PPP \$ of GDP)	0	0	trend reversal	NM
Improved sanitation facilities (% of population with access)	26	34	63	NM
Improved water source (% of population with access)	42	75	71	M
GOAL 8: DEVELOP A GLOBAL PARTNERSHIP FOR DEVELOPMENT				
Total debt service (% of exports of goods and services)	81	10	27	M
Telephone lines (per 100 people)	0	0.6	50	NM
Mobile cellular subscriptions (per 100 people)	0	50	50	M
Sources: World Bank Development Indicators, TAC mdgTrack, and Ugandan authorities.				

Annex II. Implementation of 2011 FSAP Recommendations

Recommendations	Status
A. Banking Structure and Stability	
1. Refocus bank licensing strategy and merger/acquisition review based on the quality, market segment, and viability of the business models of potential entrants/merged banks.	Implemented
2. Issue agent banking regulations and consider instituting an end date for exclusivity agreements with agents.	Work in progress
3. Develop options for increasing the supply of long term finance to dilute the dominant position of NSSF.	Work in progress
B. Regulatory Framework for Banking	
1. Enact the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Bill.	Implemented
2. Institute a program of formal annual communication with the home supervisor.	Partially implemented
3. Develop measures to monitor possible contagion from operations in other jurisdictions.	Partially implemented
4. Amend regulatory requirements on classification and provisioning in respect of "watch loans."	Not implemented
C. Systemic Liquidity and Crisis Management	
1. Improve capacity for liquidity forecasting and enhance collaboration between MoFPED and BoU.	Partially implemented. Rolling daily and monthly forecasts being conducted, and open lines of communication with key BoU Departments, MoFPED and commercial banks. Plans to incorporate longer-dated liquidity instruments for liquidity management.
2. Accelerate the upgrade of the Central Securities Depository (CSD) to enable electronic trading and settlement of government securities transactions.	Work in progress. Upgrade planned for 2017-18
3. Monitor closely the compliance with risk concentration limits and prudential regulation regarding inter-bank lending.	Implemented
4. Operationalize a financial crisis management framework.	Implemented
5. Analyze emergency scenarios and develop plans for providing liquidity on an emergency basis should banks face challenges under current tight monetary conditions.	AFE LOLR TA under consideration.
6. Provide training to market participants on the pricing and trading of securities including repo operations	Implemented
7. The UBA, in cooperation with BoU, should consider devising predetermined rediscount asset categories for collateral, and should develop industry standards for prearranged common crisis response protocols.	Part of enhanced ELA framework being developed

D. Payments, Remittances and Securities Settlement Systems	
1. Draft a comprehensive NPS bill taking into consideration recent market and infrastructure Developments.	In progress. Draft NPS Policy submitted to MoFPED and expected to go to Cabinet by end-April. Draft NPS Bill prepared with Fund TA support Once policy is approved NPS Bill will be submitted to Parliament.
2. Issue interim regulation to define and further strengthen BoU's oversight and regulatory actions.	Not implemented. Pending approval of Amended BoU Act.
3. Create within BoU a small department or division—independent of the operational side—to be responsible for the NPS oversight and regulation.	Implemented.
4. Establish an NPS Council.	Partially implemented. It is established in the new policy.
5. Design appropriate participation of MFIs and cooperatives in the payments system by allowing for functionalities relevant to the sector.	Not implemented. RTGS is restricted to supervised financial institutions.
6. Implement dematerialization of private sector securities and interlink the USE, CSD and the UNISS to allow full DvP.	Work in progress. Awaiting resolution of some operational problems at CSD.
7. Revise the current settlement agent arrangement for the USE CSD.	Work in progress. USE request to join RTGS approved by BoU, but not yet implemented.
8. USE should adopt an electronic trading system to reduce settlement time and BoU should finalize the implementation of its electronic trading system.	Work in progress. Upgrade planned for 2017-18.
9. Develop a comprehensive and clear framework for nonbank correspondents providing banking related and payments services.	Work in progress. This is within the policy and will be covered by the Act, once approved.
10. Issue an overarching regulation to govern mobile payments and e-money issuance.	Work in progress. Mobile Money guidelines issued, but not e-money, which is part of the Act.
11. Enter into a memorandum of understanding with UCC to coordinate the review and audit of Systems deployed by MNOs for effecting mobile payments.	Implemented. UCC signed off on the MoU in December 2016.
E. Access to Finance	
1. Suspend the government's program for forming new Savings and Credit Cooperatives (SACCOs), and restrict government lending to SACCOs. Support the development of a smaller number of self-formed SACCO unions.	Partially implemented
2. Allow Microfinance Deposit-Taking to use "Microfinance Bank" in their names.	Implemented.

F. Housing Finance	
1. Develop underwriting guidelines for use by providers of mortgages for housing purposes.	Not implemented
2. Institute alternative methods of valuing properties for stamp duty, to relieve the burden on the Office of the Government Value and accelerate the settlement process.	Implemented
G. Capital Markets	
1. Prepare and implement a post-assessment plan to enhance compliance with the International Organization of Securities Commissions (IOSCO) principles.	Work in progress
2. Evaluate options for the automation of trading at the USE in anticipation of regional integration.	Implemented. The USE rolled out an automated trading system in September 2015.
3. Demutualize the USE.	Work in progress. Expected to be completed before May 30, 2017.
4. Expand the number of settlement banks and link with the real-time gross settlement (RTGS) system.	Not implemented
H. Insurance	
1. Consider plans to establish Uganda –re and whether NSSF ought to have a controlling interest in it.	Implemented
2. Participate in the preparation of the single EAC Act on insurance in accordance with IAIS principles.	Implemented.
3. Uganda insurance Regulatory Authority is understaffed especially in relation to its core function.	Implemented
4. Recent amendments to the insurance Act have facilitated banc assurance but require some complementary amendments to FIA to permit arrangements to operate.	Implemented
I. Pensions	
1. Appoint the BOARD of URBRA and prepare licensing requirements.	Implemented. URBRA Board appointed August 31, 2012, for a 5-year term. Licensing regulations and tools in place.
2. Form the National Pensions Policy Group to include representatives of all relevant stakeholders.	Work in progress. Group not in existence, but Pension Reform Task Force reviewed the Retirement Benefits Liberalization Bill in 2011, and submitted its report to Parliament.
3. Prepare an actuarial review of the Armed Forces Pension Scheme.	Not implemented

Annex III. 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.	High Short to Medium Term	High. This would reduce the growth dividend and increase the risk of debt distress	<ul style="list-style-type: none"> - Continue to build capacity and strengthen public investment - Improve public financial management
Further deepening of the ongoing drought and pest infestation.	Medium Short Term	High. This would adversely affect the poor, cut growth, raise inflation, and pressure public spending and the current account.	<ul style="list-style-type: none"> - Spray against Fall Army Worm. - Use targeted programs to vulnerable groups and reprioritize spending. - Guard against second-round effects on inflation.
Tax revenue shortfalls, including from new tax exemptions	Medium Short Term	High. This would reduce the fiscal space and threaten debt sustainability	<ul style="list-style-type: none"> - Follow up on recent TAs - Build URA capacity
Potential External Risks			
Policy and geopolitical uncertainties: <ul style="list-style-type: none"> • Intensification of the risks of fragmentation/ security dislocation in part of the Middle East, Africa (including regional conflicts), and Europe. 	High Short to Medium Term High Short to medium Term	Medium. This would adversely impact (i) the current account of the balance of payments by reducing tourism and exports; and (ii) the financial account of the balance of payments by reducing foreign direct investment and portfolio inflows.	<ul style="list-style-type: none"> - Maintain exchange rate flexibility; - Accelerate reforms to enhance competitiveness.

Annex III. Risk Assessment Matrix (RAM) ¹

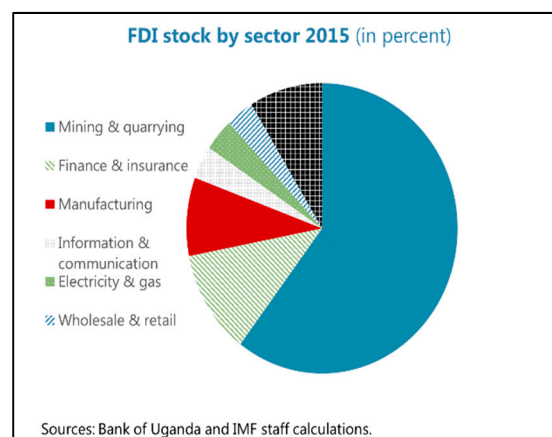
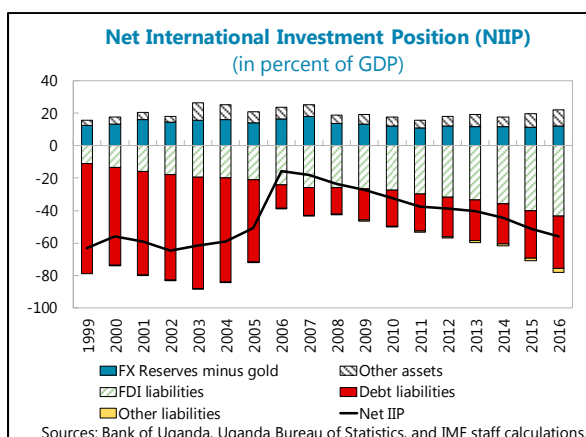
Source of Risks	Likelihood / Time Horizon	Expected Impact on Economy	Policy Response
<p>Financial conditions:</p> <ul style="list-style-type: none"> • Significant further strengthening of the US dollar and/or higher rates. • European bank distress. • Reduced financial services by correspondent banks (“CBR withdrawal”). 	<p style="text-align: center;">High Short Term</p> <p style="text-align: center;">Medium Short Term High Short to Medium Term</p>	<p>High. This would reduce capital inflows—negative affect on the banking sector and credit growth due to reduced portfolio investment in government securities; higher domestic borrowing costs; and reduced imports.</p>	<ul style="list-style-type: none"> - Maintain exchange rate flexibility; - Address bottlenecks in the banking sector and further strengthen financial sector supervision; - Improve macroeconomic fundamentals and business environment. - Enhance effective implementation of the AML/CFT regime
<p>Weaker-than-expected global growth:</p> <ul style="list-style-type: none"> • Significant China slowdown and its spillovers. • Significant slowdown in other large EMs/frontier economies. • Structurally weak growth in key advanced and emerging economies. 	<p style="text-align: center;">Low/ Medium Short to Medium Term Medium Short Term High/ Medium Medium Term</p>	<p>Medium. This would reduce tourism and exports and foreign direct investment and portfolio inflows.</p>	<ul style="list-style-type: none"> - Maintain exchange rate flexibility; - Accelerate reforms to address structural weakness affecting competitiveness.
<ul style="list-style-type: none"> • Lower energy prices. 	<p style="text-align: center;">Low Short to Medium Term</p>	<p>Medium. Lower energy prices would be positive in the near term, but may reduce oil sector investment and growth in the medium-term.</p>	<ul style="list-style-type: none"> - Maintain exchange rate flexibility; - Facilitate oil sector development.
<p>^{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.</p>			

Annex IV. External Sector Assessment

Uganda's external position is broadly consistent with fundamentals and desirable policy settings in calendar year 2016. The current account balance improved and is consistent with the estimated norm. The real effective exchange rate does not seem to be misaligned. Reserve coverage is above the assessed adequacy level.

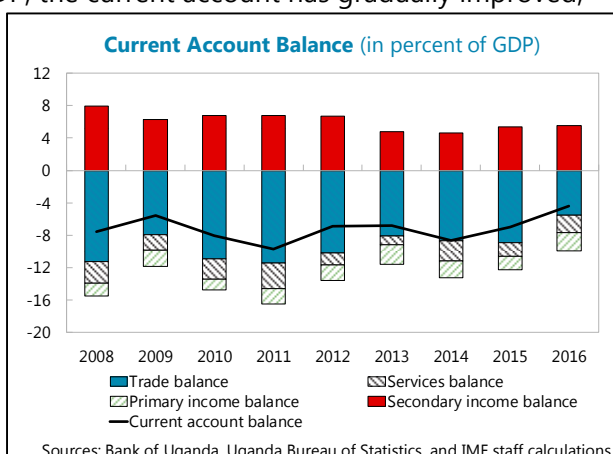
1. External sustainability is not a major concern. One indicator of external sustainability is the net international investment position (NIIP), which at end-2016 stood at -56 percent of GDP. External liabilities consisted mostly of FDI and debt, while international reserves constituted the bulk of external assets. The FDI stock is concentrated in the mining sector, most of which is oil-related investment and expected to improve the current account balance once oil exports start. Public sector loans accounted for almost three-quarters of external debt. The last debt sustainability analysis indicated that external public debt remains at a low risk of debt distress, though risks have increased.¹

2. The NIIP is projected to improve in the long run, though risks remain. In the medium term, 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. 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. Over the medium to long run, these investments are expected to produce a growth dividend, reduce the current account deficit, and thereby improve the NIIP outlook. Achieving this growth dividend is essential for maintaining external stability.

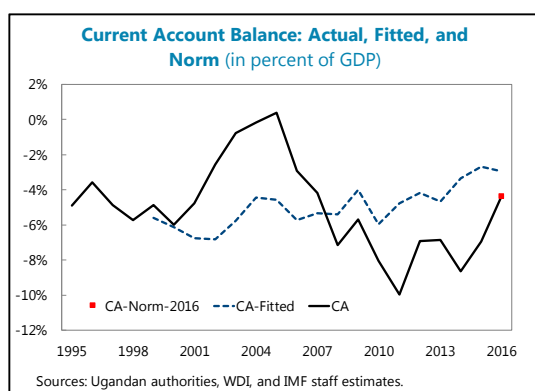


¹ [IMF Country Report No. 17/7](#).

3. The current account remained in deficit, though it narrowed as imports slowed. After reaching a trough in 2011 at -9.7 percent of GDP, the current account has gradually improved, reaching -4.4 percent of GDP in 2016, driven by the trade balance. While exports remained relatively stable as a share of GDP, imports declined, mostly related to FDI and other investment activities. Going forward, the current account deficit is projected to widen again, as the development of the oil sector and continued scaling up of infrastructure investment are expected to increase imports.



4. The 2016 current account is consistent with the level implied by fundamentals and desirable policies. Using the EBA-Lite current account model, Uganda’s norm is estimated at -4.4 percent of GDP in 2016.² This compares to an actual current account balance of -4.4 percent of GDP, implying no current account gap. The current account gap is contained by a large policy gap of 1.5 percent of GDP, driven mostly by an overly loose world fiscal policy. Put differently, a tightening in global fiscal policy in line with desirable policy settings and, thereby, higher savings in the rest of the world, allow Uganda to borrow more to finance a higher current account deficit than economic fundamentals would suggest. No adjustment in the real exchange rate is therefore needed to align the current account with its norm.



	Current account	Equilibrium REER
Current account (actual)	-4.4	
Current account norm	-4.4	
Current account gap	0.0	
of which: policy gap	1.5	
Real exchange rate gap 1/	-0.1	-9.0

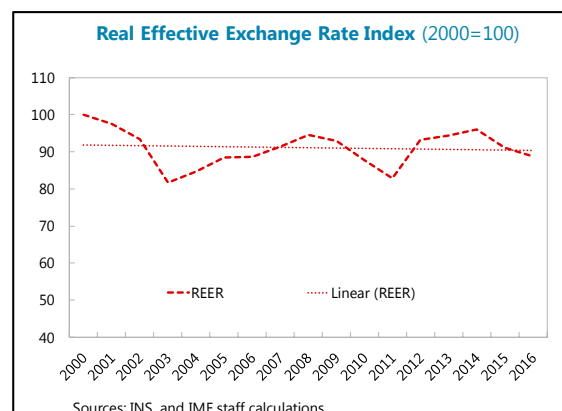
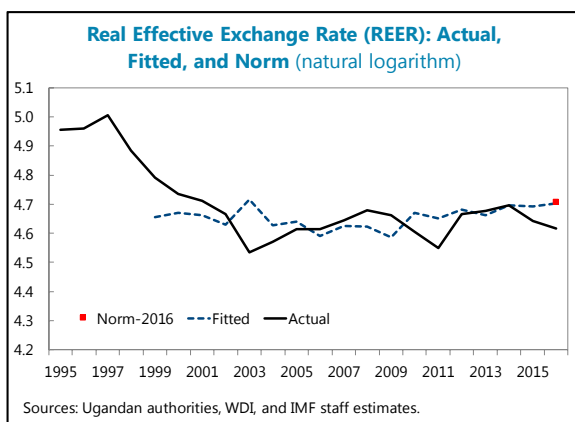
Source: IMF staff estimates.
1/ Positive numbers indicate overvaluation. Elasticity of current account to real exchange rate is 0.15.

5. The real effective exchange rate (REER) does not seem misaligned. The panel regression model for the REER index indicates an undervaluation of the real exchange rate of about 9 percent. In 2015, the exchange rate depreciated sharply, driven partly by external factors, while domestic factors related to election uncertainties also contributed.³ This sharp

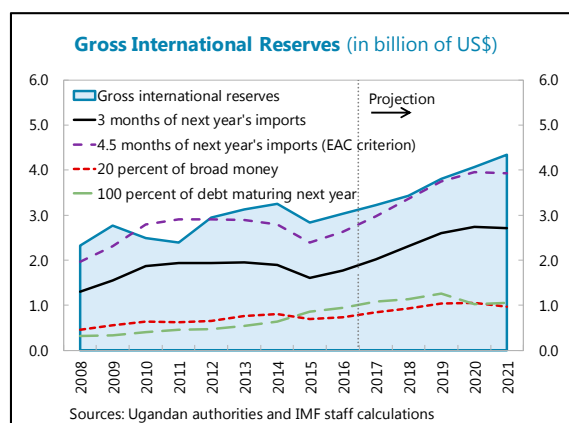
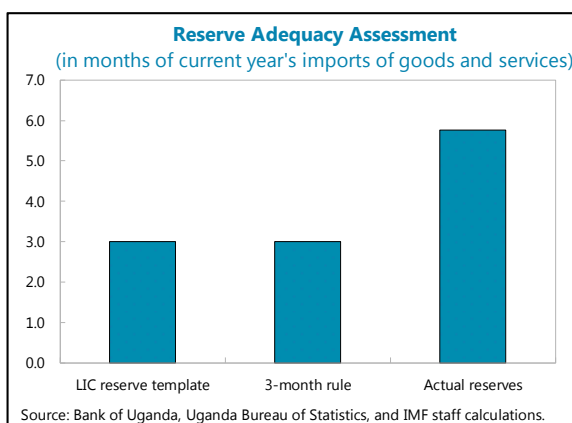
² Based on the External Balance Assessment (EBA-Lite) methodology (IMF Working Paper 13/272) and the Methodological Note on EBA-Lite (IMF Policy Paper; February 5, 2016).

³ See IMF Country Report No. 15/321.

depreciation seems to have had a lasting impact and a full reversal is not expected. These factors are not captured by the model. The staff-assessed REER gap is around zero, which is consistent with the staff-assessed current account gap. Using a simple linear trend line for the REER supports this assessment.



6. International reserves are higher than the adequate level. The availability of external buffers is another important aspect of external sustainability. At end-2016, gross international reserves stood at US\$3 billion, covering about 5 months of next year’s imports of goods and services. 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 3 months of imports would be adequate for Uganda, even when assuming a very low opportunity cost of holding reserves.⁴ The current stock of reserves exceeds this 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, the Bank of Uganda can purchase reserves opportunistically and would meet the EAC convergence criterion of 4½ months of imports.



⁴ Assessing Reserve Adequacy (ARA) board papers (IMF 2011, 2013, 2014).

Credit Shock Scenarios	Stress Test Results
When the tier 1 capital of a D-SIB would fall below the regulatory minimum of 8 percent following a deterioration of performing loans	<ul style="list-style-type: none"> The first D-SIB reaches the “breaking point”—i.e. when the capital of a D-SIB breaches the minimum capital adequacy ratio (CAR) —when 21 percent of its assets become nonperforming. This is an improvement over December 2015, when the first DSIB reached the breaking point at just 13 percent of its assets.
The impact of a deterioration in the performing loans on capital for all banks	<ul style="list-style-type: none"> The least resilient bank will breach the minimum CAR when 8.3 percent of its performing loans become nonperforming—an improvement of 1.5 percent from the previous quarter.
The impact of the increase in the industry NPL ratio to 15.6 percent—a rise of 5.2 percent, which is equivalent to the annual increase in the year to December 2016.	<ul style="list-style-type: none"> All banks would meet the minimum capital adequacy ratio of 8 percent. Three banks would breach the minimum paid-up capital requirement.
Loan concentration: The effect of the default of the single largest borrower in each bank	<ul style="list-style-type: none"> Results show that three banks would break the minimum paid up capital requirement—an improvement over the past six months. Loan concentration is mostly problematic for small banks.
Liquidity Shock Scenarios	
<p>Bank run scenario: Tests the impact of a bank run over a 7-day period</p> <ul style="list-style-type: none"> Assumes a daily withdrawal rate of 5 percent for demand and savings deposits, and 3 percent for term deposits 	<p>Failing banks:</p> <ul style="list-style-type: none"> Day 5: 3 Banks Day 7: 8 Banks.
<ul style="list-style-type: none"> Withdrawal of single largest depositor in each bank: Withdrawal of the three largest depositors in each bank. 	<ul style="list-style-type: none"> All banks have adequate liquidity buffers to absorb the shock. Only one bank’s liquid assets to total deposits ratio would fall below the 20 percent regulatory minimum.
Ad Hoc Tests	Stress Test Results
<p>Sectoral credit shock scenarios</p> <ul style="list-style-type: none"> Shocks are 5 pp higher than the December 2016 NPL ratios in both shilling and foreign currency, for all sectors. 	<ul style="list-style-type: none"> All banks would meet the minimum capital adequacy ratio of 8 percent.

<ul style="list-style-type: none"> Combined extreme credit shock to agriculture (NPL ratio of 29.4%) and manufacturing (NPL ratio of 18.8%) concurrently. 	<ul style="list-style-type: none"> Only 1 bank is unable to meet the required minimum core paid-up capital of Ush. 25 billion.
<p>Concentration risk:</p> <ul style="list-style-type: none"> The 3 largest exposures per bank become NPLs The 5 largest exposures per bank become NPLs 	<ul style="list-style-type: none"> 4 banks are unable to meet the minimum CAR of 8 percent and an additional 5 banks breach the minimum core capital requirement of Ush. 25 billion. 7 banks are unable to meet the minimum CAR of 8 percent and an additional 5 banks breach the minimum core capital requirement of Ush. 25 billion.
<p>Liquidity shock:</p> <p>Bank run scenario: Tests the impact of a bank run over a 7-day period</p> <ul style="list-style-type: none"> Assumes a daily withdrawal rate of 10 percent for demand-shilling deposits, 5 percent for demand-foreign deposits, 5 percent for term-shilling deposits and 3 percent for term-foreign deposits. 	<p>The liquid-assets to total deposits ratio declines from a pre-shock level of 51.5 percent to:</p> <p>Day 3 – 40 percent, with 4 banks failing Day 5 – 31 percent, with 9 banks failing Day 7 – 21 percent, with 10 banks failing.</p>
<p>Interest rate risk</p> <ul style="list-style-type: none"> Test measures the impact on CAR of a 50 percent drop in net interest income caused by changes in nominal interest rates 	<ul style="list-style-type: none"> 1 bank is unable to meet the required minimum core paid-up capital and 22 banks are loss making, however the system CAR remains above the regulatory minimum.
<p>Exchange rate risk</p> <ul style="list-style-type: none"> Test measures the impact on banks' CAR and their net open FX position of a 10, 15, and 30 percent exchange rate depreciation 	<ul style="list-style-type: none"> All banks are adequately capitalized to withstand the exchange rate shocks.
<p>Combined exchange rate and interest rate shocks</p> <ul style="list-style-type: none"> Test measures the impact on banks' CAR when a 10, 15, and 30 percent exchange rate depreciation is combined with a drop of 50 percent in net interest income 	<p>15% Depreciation – CAR of 15.6%, with 1 bank failing 30% Depreciation – CAR of 15.6%, with 2 banks failing 50% . Depreciation – CAR of 15.5%, with 2 banks failing</p>

Appendix I. Letter of Intent

Kampala, Uganda,
June 20, 2017

Ms. Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, DC 20431
USA

Dear Madame Lagarde:

On behalf of the Government of Uganda, we would like to provide you with an update on the progress we have achieved under our economic program under the Policy Support Instrument (PSI) for Uganda in the context of the current eighth and last review.

Over the course of this program, we have maintained stability in a complex international and regional environment. We have scaled up our infrastructure investment while keeping debt on a sustainable path. We further strengthened our inflation targeting framework and are in the process of finalizing the development of a master repo agreement. We advanced key structural reforms including the adoption of the PFM Act and its Regulations and the Charter of Fiscal Responsibility; we expanded the Treasury Single Account (TSA) framework to local governments; and ensured the adoption of key amendments to laws which will help secure Uganda's timely exit from the FATF Gray list. Government established and issued National Identification Cards under the new national identification system, which will support efforts to strengthen revenue collection, promote the identification of financial sector clients, and combat money laundering and the financing of terrorism.

In the current fiscal year, economic growth has slowed. Following the 4.8 percent recorded in FY15/16, the difficult global and regional environment, compounded by a drought that affected agriculture and subdued credit growth, are likely to result in growth of 3.9 in FY16/17. Low credit growth to the private sector, at an average of only 6.4 percent as of Q3 FY16/17, is a result of the tightening of lending standards by banks. In its turn, the tightening of standards is reflective of banks' risk aversion towards lending following a rise in non-performing loans (NPLs). The gradual reduction of the Central Bank Rate (CBR) to 11 percent in April 2017 is likely to lend support to increased credit to the private sector.

The current account deficit is projected to narrow to 4.7 percent of GDP in 2016/17, owing mostly to increased receipts from exports and decreased expenditure on both Government and private sector imports. Although export receipts increased to 11 percent of GDP, they remain

constrained, partly as a result of lower than expected agricultural output. The external capital account was financed by surpluses in the financial accounts of the balance of payments. FDI rose by USD 61 million and portfolio flows recorded a net inflow of USD 11 million.

The prolonged drought which started around October 2016 to the end of February 2017, and the Fall Armyworm attack resulted in severe crop failure in several parts of the country. The Government intervened by providing food relief to households in the affected districts. The Government also allocated resources for the procurement of fast maturing seed and plantlets for the March - May planting seasons to address the short-run food security concerns. To control the spread of the Fall Armyworm and to mitigate its negative effects on crops in the affected areas, Government constituted a National Inter-agency Task Force and provided funds through supplementary funding of Shs. 2.1 billion to procure pesticides and provide necessary technical backstopping to the farmers. Government is also undertaking research into the control of the pest, and has allocated Shs 168 million to the National Agricultural Research Organization for this purpose.

The banking sector remains sound and resilient with banks well capitalized and liquid. Despite reducing from 10.5 percent in December 2016 to 6.3 percent in March 2017, mainly due to write-offs and debt restructuring, NPLs remain high, and are likely to weigh on bank capital and financial intermediation in the near term. Nevertheless, stress tests show that the system remains strong. We continue to monitor developments closely.

Against this challenging backdrop, we have made good progress on our economic and financial program. We have observed all end-December quantitative assessment criteria and the majority of indicative targets through March. The reserve accumulation floor was exceeded and the inflation consultation clause was respected. We have also made progress on key structural reforms, including preparations for the amendments to the Bank of Uganda Act and for adopting a manual setting out national parameters, shadow prices and conversion factors to be used in all economic project appraisals prior to admission into the Public Investment Plan. These will be completed in the coming months.

On the fiscal side, we continued our efforts to enhance domestic revenue mobilization. In the first three quarters of the year, we mobilized Shs 9,277 billion, which is a remarkable amount given the lower-than-projected economic growth. Still, the indicative target setting a tax floor for end March 2017 was missed by a small margin. Our efforts focused on improving compliance, with measures including implementation of the Taxpayer Registration Expansion Program (TREP) to increase compliance in the informal sector; tax audits and collection of arrears; implementation of the Regional Electronic Cargo Tracking System (RECTS) to improve on customs enforcement; and tax education, among others. The tax measures introduced in the FY16/17 budget have been particularly useful, especially the excise duty on petrol & diesel, ready-to-drink spirits, sugar and VAT on bulbs other than fluorescent bulbs.

Expenditure was lower than projected due to the under-execution of externally financed projects, largely as a result of capacity constraints in project implementation, challenges with land

acquisition and delays in the procurement process. The need for food relief, among other pressing needs, led to some increase in current spending towards the end of the fiscal year.

As a result of the revenue collection progress and under execution of externally-financed expenditure, we met the deficit quantitative assessment criteria (QAC) in December 2016, and expect the deficit to be 3.5 percent of GDP at the end of the current fiscal year.

In the context of a complex situation of muted private sector credit growth, concerns about the rate of increase in our debt obligations, and given the fact that there are available resources in the Consolidated Fund, we decided to stick to the budget's original legal authorization in terms of issuance of domestic debt. To accommodate revenue shortfalls and domestic spending pressures above the original budget embedded in the supplementaries we decided to draw down our available resources with Bank of Uganda in the Consolidated Fund. Unfortunately, we will thus not be able to repay the advance taken from BoU last year, as contrary to our original plans. We understand that this financing decision makes monetary policy management difficult. Bank of Uganda will manage the complex situation using available instruments. Going forward, we plan to continue strengthening fiscal-monetary policy co-ordination, in particular ensuring more certainty around the treasury issuance schedule. We are committed to ensure that financing of the fiscal deficit does not result in money creation.

The granting of two government guarantees to the Uganda Development Bank (UDB), however, resulted in a breach of the IT on issuance of guarantees. The guarantees were necessitated by the need to recapitalize the UDB to lend at affordable rates to priority sectors, particularly in light of sluggish growth in private sector credit.

On the monetary side, core and headline inflation reached 5.1 percent and 7.2 percent respectively in May 2017. The increase in headline inflation was largely on account of a food price spike related to the widespread drought that occurred in the first half of the year, whose adverse effects on the food supply have persisted to date. However, lower international food prices and weak domestic demand partly offset the food price effect on headline inflation and second-round effects are not expected to be significant. BoU continued its easing cycle that started in April 2016, and since then the CBR was reduced by 600 bps to 11 percent, successfully keeping inflation within the bands of the inflation consultation clause. International reserves remain at adequate levels, with the net international reserves floor exceeding the agreed floor by US\$147.43 million.

On structural reforms, we continued to make progress, although there were some delays. We made progress on improving our AML/CFT regime with the approval of the Anti-Terrorism (Amendment) Bill 2017, Capital Markets Authority Act (Amendments) and the Insurance Bill. These laws will facilitate the speedy tracing, identification and freezing of terrorist assets and pave the way for exiting the FATF gray list, which is due for consideration in the next International Cooperation Review Group (ICRG) meeting planned for June 2017. The report on the stock of domestic arrears as at June 2016 (Shs 2,701 billion) was published. According to preliminary calculations, the stock of domestic arrears was reduced to Shs 2,300 billion in

December 2016 resulting from clearance of outstanding payments by Ministries, Departments and Agencies (MDAs). Accounting officers were asked to migrate all electricity and telephone utilities from the post-paid to the prepaid systems by 30th June 2017 to prevent reoccurrence of utilities arrears and thereafter, no funds will be released to non-compliant Ministries and Agencies.

On Public Investment Management (PIM), the Appraisal User Manual and Development Committee Guidelines have been completed while the manual setting out national parameters, shadow prices and conversion factors is still being developed. We did not meet the benchmark follow-up on value-for-money audits by March 2017 as consultations on the Treasury instructions, which provide for procedures for follow up and reporting on progress of the recommendations by Auditor General, took longer than anticipated. However, they have since then been finalized and will be issued to MDAs by June 2017. On the other hand, the process to put in place a regulatory system for mobile money has commenced with the preparation of a policy framework and the principles on the national payments system, which will be presented to cabinet for consideration. The amendments to the BoU Act were not presented to Parliament by March due to extensive consultations among stakeholders. We plan to present to Cabinet the proposed amendments by end June 2017. In addition, the National Risk Assessment has been concluded by the Financial Intelligence Authority, and is expected to be submitted to Cabinet in May 2017.

Looking ahead, for FY 2017/18, we expect real GDP growth to rebound to 5 percent, supported by the contribution of large infrastructure investments, strengthened credit growth (which is expected to reach 12%), and the end of the drought. Inflation is projected to remain in line with its medium-term target. The current account deficit is likely to increase reflecting 6.8 percent of GDP. The level of international reserves will remain adequate at around 4.0 months of future imports. However, risks would continue to be to the downside, including weak implementation of public investment and regional developments; tightening global financing conditions, including the slowdown of growth in China.

On the fiscal side, in next years' budget we will continue our efforts to increase the tax to GDP ratio by at least ½ percentage points through tax measures and enhanced compliance. In this regard, we are preparing a medium-term national revenue mobilization strategy, and aim to take advantage of the G-20 Medium-Term Revenue Strategy initiative, together with the IMF, DFID, WB and other key players. We also plan to increase development expenditures to accommodate US\$ 303.3 million for oil roads, while maintaining social spending at appropriate levels and ensuring that the borrowing levels remain reasonable to avoid crowding out the private sector or increasing the risk of debt distress. We expect the deficit to rise to 5.6 percent of GDP in FY17/18.

On the monetary side, we continue enhancing our inflation-targeting framework and stand ready to adjust the CBR depending on the inflation expectations. We shall continue reforms to improve our operations both for the conduct of monetary policy and government securities, particularly with regard to primary dealership reforms. We will also continue strengthening our oversight and supervisory frameworks through consolidated supervision, setting up a contagion matrix to

monitor risk, and adopting Basel III among others, and will continue to monitor developments in the financial sector closely.

Based on our program performance, we request the completion of the eighth and last review under our PSI. We plan to request a successor PSI agreement in the fall to continue to strengthen our economic performance. We consent to the publication of the staff report and the letter of intent for the 2017 Article IV consultation and the Eighth Review of the PSI.

Sincerely yours,

/s/

Honorable Matia Kasajja
Minister of Finance, Planning, and
Economic Development

/s/

Prof. E. Tumusiime Mutebile
Governor Bank of Uganda

Attachments:

2 tables (Quantitative Assessment Criteria and Indicative Targets; Structural Benchmarks).

Table 1.1. Uganda: Quantitative Assessment Criteria and Indicative Targets for December 2015–March 2017¹
(Cumulative change from the beginning of the fiscal year, unless otherwise stated)

	Jun. 30, 2016 ²				Sep. 30, 2016 ³				Dec. 31, 2016 ³				Mar. 31, 2017 ³			
	Program	Adjusted Target	Outturn	Result	Program	Adjusted Target	Outturn	Result	Revised program	Adjusted Target	Prel.	Result	Revised program	Adjusted Target	Prel.	Result
(Billions of Ugandan shillings)																
Quantitative Assessment Criteria																
Ceiling on the overall deficit of the Central Government	5,382	3,798	4,260	Not Met	1,590	561	1,074	Not Met	3,646	1,192	1,054	Met	4,688	1,136	1,220	Not Met
(Millions of US dollars)																
Ceiling on the stock of external payment arrears incurred by the public sector ⁴	0	...	0	Met	0	...	0	Met	0	...	0	Met	0	...	0	Met
Minimum increase in net international reserves of the Bank of Uganda ⁵	-150	-145	174	Met	41	42	31	Not Met	18	15	163	Met	18	7	313	Met
(Percent)																
Share of oil revenue placed in the Petroleum Fund	100	...	100	Met	100	...	100	Met	100	...	100	Met	100	...	100	Met
(Billions of Ugandan shillings)																
Indicative targets																
Ceiling on cumulative changes in temporary advances from Bank of Uganda to the central government ⁶	0	...	479	Not Met	n.a.	...	n.a.	n.a.	-516	...	-233	Not Met	-726	...	-444	Not Met
Floor on tax revenue	11,040	...	10,833	Not Met	2,756	...	2,695	Not Met	5,867	...	5,815	Not Met	8,936	...	8,833	Not Met
Expenditures on poverty alleviating sectors	3,032	...	3,241	Met	893	...	1,146	Met	1,824	...	2,060	Met	2,782	...	3,053	Met
Ceiling on the issuance of guarantees by the Government/Bank of Uganda	0	...	0	Met	0	...	0	Met	0	...	0	Met	0	...	92	Not Met
Net change in the stock of domestic arrears ⁷	-80	...	n.a.	n.a.	n.a.	...	n.a.	n.a.	-77	...	-375	Met	n.a.	...	n.a.	n.a.
(Annual percentage change)																
Inflation consultation clause																
Outer band (upper limit)	8.0	...	...	...	8.0	...	...	...	8.0	...	...	...	8.0	...	...	...
Inner band (upper limit)	7.0	...	...	...	7.0	...	...	...	7.0	...	...	...	7.0	...	...	...
Core inflation target ⁸	5.0	...	6.7	Met	5.0	...	6.4	Met	5.0	...	5.9	Met	5.0	...	5.6	Met
Inner band (lower limit)	3.0	...	...	...	3.0	...	...	...	3.0	...	...	...	3.0	...	...	...
Outer band (lower limit)	2.0	...	...	...	2.0	...	...	...	2.0	...	...	...	2.0	...	...	...

¹ Defined in the Technical Memorandum of Understanding (TMU). Values for December 31, 2015, June 30, 2016, and December 31, 2016 are quantitative assessment criteria except as marked. Values for other dates are indicative

² Proposed targets are measured as the change from June 2015, except as marked.

³ Proposed targets are measured as the change from June 2016, except as marked.

⁴ Assessed on a continuous basis.

⁵ The NIR outturn is assessed using program exchange rates.

⁶ As the issues regarding this target have been addressed by the Amendments to the PFM Act (2015), the target was set up until June 2016, but it was then reinstated at the seventh review.

⁷ The outturns are not available because a reconciliation process has not been completed yet. This target will be measured semiannually for quarters ending June 30 and December 31 since the seventh review.

⁸ Annual percentage change, twelve-month period average core inflation.

Table 1.2. Uganda: Structural Benchmarks

Policy Measure	Macroeconomic Rationale	Date	Status
Ministry of Finance to submit to Parliament amendments to the Bank of Uganda Act containing provisions to support implementation of inflation targeting in line with international best practices, including establishing the capital of the BoU as an adequate percent of monetary liabilities, and limiting the size of intra-year advances to the government to 10 percent of tax revenues of the previous year.	To strengthen monetary policy independence and credibility of the central bank.	March 2017	Not met. Draft Cabinet Memo on the Principles for Amending the BoU Act to be presented to Cabinet, thereafter, Bill to be drafted by First Parliamentary Council for Parliament's approval. Approval of redrafted Cabinet Memo pending.
Ministry of Finance to publish reconciled reports signed by the PS/ST on the stock of unpaid bills of all government entities contained in the central government votes at end-December of each fiscal year.	To facilitate control and reduction of unpaid bills.	March 2017 for December 2016 report	Not met. Reports were reconciled but are yet to be published.
Ministry of Finance to publish reconciled reports signed by the PS/ST on the stock of domestic arrears of all government entities contained in the central government votes at end-June of each fiscal year.	To facilitate control and reduction of unpaid bills and arrears.	December 2016 for the June 2016 report	Not met. Implemented with delay in April 2017

Table 1.2. Uganda: Structural Benchmarks (continued)

Policy Measure	Macroeconomic Rationale	Date	Status
<p>The Ministry of Finance to strengthen the AML/CFT framework in line with the international standard, and to liaise with Parliament to ensure the following: (i) amending the AML Act to give the FIA the sole authority to appoint its own staff, and enable the FIA and supervisory bodies to provide international cooperation to their foreign counterparts; (ii) amending the Capital Markets Authority Act and Insurance Regulatory Act to give regulators adequate supervisory powers to monitor compliance with AML/CFT obligations; and (iii) providing the legal basis and procedural mechanisms for the freezing of terrorist assets under UNSCR 1267 and 1373.</p>	<p>To strengthen the financial system safeguards</p>	<p>December 2016</p>	<p>Not met. Implemented with delay in March 2017. Amended Anti-Money Laundering Law approved in March, 2017. Amended Insurance Regulatory Act approved in March, 2017.</p>
<p>Ministry of Finance should finalize, publish and disseminate the Appraisal User Manual to all Ministries, Departments and Agencies.</p>	<p>To provide guidelines and procedures for undertaking a project through each stage of the project cycle.</p>	<p>December 2016</p>	<p>Not met. Work ongoing.</p>

Table 1.2. Uganda: Structural Benchmarks (concluded)

Policy Measure	Macroeconomic Rationale	Date	Status
Ministry of Finance should update and publish Development Committee guidelines to ensure compliance with the Appraisal User Manual.	To promote compliance with the Appraisal User Manual.	December 2016	Met.
Ministry of Finance to further strengthen the AML/CFT framework in line with the international standard by liaising with Parliament to amend the Anti-Terrorism Act to adequately criminalize the financing of terrorism.	To facilitate the speedy tracing, identification and freezing of terrorist assets, helping to secure Uganda's timely exit from the FATF Gray list.	December 2016	Not met. Implemented with delay in April, 2017.
Ministry of Finance to establish a framework for following up and reporting on the implementation of the recommendations of value-for-money audits conducted by the Auditor General's office.	To improve public investment efficiency.	March 2017	Not met. Ongoing consultations on the Treasury instructions for the follow up and reporting by the Auditor General on the progress of audit recommendations.
Ministry of Finance and BoU to prepare and submit to Cabinet a policy to regulate mobile money banking.	To strengthen financial sector oversight and consumer protection	April 2017	Not met. Work on the preparation of a draft policy framework and the principles on the national payments system has commenced, and is expected to be submitted to Cabinet for consideration.
Ministry of Finance to produce a manual setting out national parameters, shadow prices and conversion factors to be used in all economic project appraisals prior to admission into the Public Investment Plan.	To improve public investment efficiency.	March 2017	Not met. Manual preparation ongoing and expected to be completed in the coming months.



UGANDA

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION AND EIGHTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT—SUPPLEMENTARY INFORMATION

June 27, 2017

Approved By

The African Department

- 1. This supplement reports on monetary policy developments since the staff report was prepared.** These developments do not alter the thrust of the staff appraisal.
- 2. The Bank of Uganda's Monetary Policy Committee (MPC) cut its policy rate by 100 bps to 10 percent on June 19.** This brings the cumulative rate cut to 700 bps since April 2016. The MPC expects core inflation to remain close to the 5 percent target over the next 12-18 months. However, in a change from the April MPC meeting, it now sees a risk that growth in FY17/18 could be weaker than projected. Against this background, emphasizing its stable inflation outlook, the MPC decided to lower the policy rate to support economic activity. They noted that a weaker exchange rate and higher food price inflation are the main risks to core inflation.
- 3. Staff encourages the Bank of Uganda to monitor closely food price inflation, exchange rate depreciation, and second-round effects.** Staff agrees that, with the rate cut, core inflation is likely to stay within a +/- 2 percent band around the 5 percent target. Staff also agrees that food price inflation, shilling depreciation, and second-round effects that are more pronounced than in the recent past are the main risks to the inflation outlook. The MPC should stand ready to tighten policies if signs emerge that these risks materialize.



UGANDA

July 6, 2017

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION AND EIGHTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT—FURTHER SUPPLEMENTARY INFORMATION

Approved By
**Roger Nord (AFR) and
Zuzana Murgasova (SPR)**

Prepared by the African Department

- 1. This supplement reports on new information received by staff on the incurrence of external payment arrears by Uganda since the staff report was prepared.** These developments do not alter the thrust of the staff appraisal.
- 2. Staff has been informed that Uganda has incurred external arrears to a Norwegian company in May 2017.** Payment of the debt was due on May 17, 2017, and resulted in a non-observance of the continuous assessment criterion (CAC) on the zero ceiling of external payment arrears on June 17, 2017. The Ugandan authorities have not yet cleared these arrears, have written to the creditor, and undertake to clear the arrears during July 2017.
- 3. Staff supports a waiver of the CAC on external arrears in order to complete the Eighth Review under the PSI on the grounds that the authorities are taking corrective action.** The authorities have committed to take corrective action by ensuring that payment is made during July 2017. Staff regrets the incurrence of external arrears and encourages the authorities to pay without further delay.



UGANDA

June 21, 2017

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION AND EIGHTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT—INFORMATIONAL ANNEX

Prepared By

The African Department
(in consultation with other departments)

CONTENTS

FUND RELATIONS	2
JOINT WORLD BANK-IMF WORK PROGRAM	6
STATISTICAL ISSUES	10

FUND RELATIONS

Uganda: Financial Position in the Fund as of May 31, 2017

Summary of IMF members' quota, reserve tranche position, SDR holdings, outstanding credit, recent lending arrangements, projected payments due to the IMF, and historical transactions with the IMF.

Membership Status: Joined: September 27, 1963;

Article VIII

General Resources Account:	SDR Million	%Quota
<u>Quota</u>	361.00	100.00
<u>IMF's Holdings of Currency (Holdings Rate)</u>	361.01	100.00
<u>Reserve Tranche Position</u>	0.00	0.00
SDR Department:	SDR Million	%Allocation
<u>Net cumulative allocation</u>	173.06	100.00
<u>Holdings</u>	47.00	27.16

Outstanding Purchases and Loans: None

Latest Financial Arrangements:

<u>Type</u>	<u>Date of Arrangement</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>
ECF ¹	Sep 13, 2002	Jan 31, 2006	13.50	13.50
ECF	Nov 10, 1997	Mar 31, 2001	100.43	100.43
ECF	Sep 06, 1994	Nov 17, 1997	120.51	120.51

¹ Formerly PRGF.

Overdue Obligations and Projected Payments to Fund ¹

(SDR Million; based on existing use of resources and present holdings of SDRs):

	<u>Forthcoming</u>				
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Principal	...	...	...	...	...
Charges/Interest	<u>0.35</u>	<u>0.70</u>	<u>0.70</u>	<u>0.70</u>	<u>0.70</u>
Total	<u>0.35</u>	<u>0.70</u>	<u>0.70</u>	<u>0.70</u>	<u>0.70</u>

¹ When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of Multilateral Debt Relief Initiative (MDRI):

MDRI-eligible debt (SDR Million) ¹	87.73
Financed by: MDRI Trust	75.85
Remaining HIPC resources	11.88

Debt Relief by Facility (SDR Million)

<u>Delivery</u> <u>Date</u>	<u>Eligible Debt</u>		
	<u>GRA</u>	<u>PRGT</u>	<u>Total</u>
January 2006	N/A	87.73	87.73

Implementation of Catastrophe Containment and Relief (CCR): Not Applicable

As of February 4, 2015, the Post-Catastrophe Debt Relief Trust has been transformed to the Catastrophe Containment and Relief (CCR) Trust.

Decision point - point at which the IMF and the World Bank determine whether a country qualifies for assistance under the HIPC Initiative and decide on the amount of assistance to be committed.

Interim assistance - amount disbursed to a country during the period between decision and completion points, up to 20 percent annually and 60 percent in total of the assistance committed at the decision point (or 25 percent and 75 percent, respectively, in exceptional circumstances).

Completion point - point at which a country receives the remaining balance of its assistance committed at the decision point, together with an additional disbursement of interest income as defined in footnote 2 above. The timing of the completion point is linked to the implementation of pre-agreed key structural reforms (i.e., floating completion point).

Safeguards Assessments:

Under the Fund's safeguards policy, assessments with respect to the PSI are voluntary. An update assessment of the Bank of Uganda (BOU) was completed on April 10, 2007 and concluded that the BOU had strengthened its safeguards framework since the 2003 assessment. The main achievements included implementation of international financial reporting standards, publication of financial statements, establishment of an audit committee, and strengthening of the internal audit function. Staff recommended addressing remaining vulnerabilities in the legal and internal control areas.

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-April, 2017, the official exchange rate was USh. 3644.63 per U.S. dollar. Uganda has accepted the obligations of Article VIII,

¹ The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

Sections 3, 4 and 5 and the exchange system is free of restrictions on the making of payments and transfers for current international transactions.

Article IV Consultation:

The Executive Board concluded the last Article IV consultation on June 29, 2015. The next Article IV consultation will be held in accordance with the decision on consultation cycles adopted by Decision No. 14747, as amended. Board discussion of the 2017 Article IV consultation is scheduled for July 5, 2017.

Technical Assistance:

Uganda has continued to receive extensive technical assistance from both IMF and East AFRITAC (regional technical assistance center).²

During the period under review, the FAD Fiscal Transparency Evaluation (FTE) report was published in May 2017, following the FTE mission in May 2016—a key sectoral milestone. TA missions in the fiscal sector included: transitioning from output-based to program-based budgeting (November 2016); taking stock of expenditure arrears and strengthening commitment controls (January 2017); revenue forecasting (February 2017); and cash management and Treasury Single Account (January 2017). The cash management mission provided advice on drafting cash management guidelines, strengthening institutional arrangements, and improving the cash forecasting template. A Public Investment Management Assessment mission (PIMA) held in March 2017 made recommendations for enhancing project prioritization and ensuring consistency with the medium-term fiscal framework, and to strengthen project monitoring and evaluation.

In the monetary area, there were technical assistance missions on the Lender of Last Resort in July 2016; Risk-Based Supervision of Insurance (in September 2016) and a Workshop held in February 2017); and Developing Supervisory Procedures for Agency Banking (February 2017). In November 2016, an AFRITAC East mission assisted the BoU in strengthening its oversight responsibilities for financial market infrastructure.

National Accounts Workshops were convened by East AFRITAC (in October 2016 and February 2017) as well as technical assistance missions (in October 2016 and January 2017), in support of the preparation for GDP rebasing through implementation of supply and use tables (SUTs). The mission

² For a description of technical assistance provided prior to November 2016, see the staff report for Uganda: Seventh Review Under the Policy Support Instrument (IMF Country Report No. 17/7). Refer to the staff report for Uganda First Review Under the Policy Support Instrument (IMF Country Report No. 13/375) for the details on technical assistance for the second half of 2013; to the staff report for Uganda Second Review Under the Policy Support Instrument (IMF Country Report No. 14/195) for the details on technical assistance for the first half of 2014; to the Third Review Under the Policy Support Instrument (IMF Country Report No. 14/344) for the details on technical assistance for the second half of 2014; to the 2015 Article IV Consultation and Fourth Review Under the Policy Support Instrument (IMF Country Report No. 15/175) for technical assistance for the first half of 2015; and to the staff report for Uganda: Fifth Review Under the Policy Support Instrument (IMF Country Report No. 15/321) for the details on technical assistance through February 2016. For a description of technical assistance provided prior to June 2016, see the staff report for Uganda: Sixth Review Under the Policy Support Instrument (IMF Country Report No. 16/145).

assisted with the development of quarterly estimates of gross fixed capital formation for the public and private sectors, in both current and constant prices, and assisted the Uganda Bureau of Statistics (UBOS) to formulate a plan for integrating the current annual and quarterly systems for estimating GDP. Government Finance Statistics missions were held (in November 2016 and April 2017) and an EAC-wide GFS Workshop was held in November 2016.

Resident Representative:

The Fund has maintained a resident representative in Uganda since July 1982. Currently, the Resident Representative is Ms. Clara Mira.

JOINT WORLD BANK-IMF WORK PROGRAM

Title	Products	Provisional Timing of Missions (if relevant)	Expected Delivery Dates
World Bank	<p>The current portfolio consists of 18 national projects with a net commitment of \$2.2 billion in IDA credits and grants, and another \$255 million in IDA credits for 7 regional projects. In line with the national development agenda, roughly half of the portfolio is supporting infrastructure investments in energy, roads, urban development, and ICT. Other key sectors include agriculture, water, urban development, education, health, and private sector competitiveness.</p> <p>The Bank took a decision to resume new lending to Uganda following review of the country's portfolio in consultation with the Government of Uganda during the period August 2016 – May 2017. The Bank continues to work actively with the Ugandan authorities to address the outstanding performance issues in the portfolio including delays in project effectiveness, disbursement and concerns around social safeguards.</p> <p>The Bank is committed to support the country's development. Over the medium term, new IDA resources are targeted for use in Uganda, and these will be deployed in key areas outlined in the World Bank's Country Partnership Framework (CPF) endorsed by the Bank's Board on April 21, 2016. New operations include significant support to areas such as improving intergovernmental fiscal transfers through the use of the Program for Results instrument.</p>		
	Uganda Intergovernmental Fiscal Transfers Program-for-Results operation (US\$200 million equivalent) has been prepared and negotiated.		Board presentation is expected on June 27, 2017

Title	Products	Provisional Timing of Missions (if relevant)	Expected Delivery Dates
	<p>Programmatic technical assistance on domestic revenue mobilization is being implemented with initial focus on scope for improved yield from existing tax handles (e.g. customs, excise). Analytical findings could underpin future budget support (no earlier than 2019).</p>	Ongoing	Through December 2018
	Economic update series (two per year)	Ongoing	Next update expected in Summer/Fall 2017
	Debt Management: TA to ongoing establishment of a debt management unit which involves consolidation of functions across departments in MOFPED.	September 2017	Through June 2018
	Public Investment Management: Building on previous TA from the Bank and other partners, further support to MOFPED in areas of methodology for feasibility studies, setting of parameters, pipeline of projects, and financing framework. There will be parallel TA to strengthen the framework for PPPs, including understanding of fiscal and financial risks.	October 2017	Through December 2018
IMF	<p><u>Statistics</u></p> <ul style="list-style-type: none"> • Accounts for Natural Resources • AFE: Consumer Prices/Producer Price • AFE: National Accounts • AFE: Government Finance Statistics • AFE: Consumer Prices/Producer Price • AFE: Training: GFS – Automating Compilation and Accelerating Dissemination • AFE: Government Finance Statistics-Revolving Compilation and Dissemination Issues 	<p>June 2017</p> <p>October 2017</p> <p>November 2017</p> <p>November 2017</p> <p>December 2017</p> <p>January 2018</p> <p>April 2018</p>	<p>July 2017</p> <p>November 2017</p> <p>December 2017</p> <p>December 2017</p> <p>January 2018</p> <p>February 2018</p> <p>May 2018</p>

Title	Products	Provisional Timing of Missions (if relevant)	Expected Delivery Dates
	<p><u>Fiscal issues</u></p> <ul style="list-style-type: none"> • Mainstreaming International Taxation • Cash Management • Implementation of PFM Recommendations • AFE: Strengthening Medium-Term Budget Frameworks (MTBFs) • Follow-up on FTE • Tax Administration • Tax and Customs • AFE: Medium-Term Budget Frameworks (MTBF-2) • AFE: Strengthening the Medium-Term Approach to Budgeting • AFE: Improving the coverage and quality of fiscal reporting • AFE: EAC – Improving budget documentation • FAD HQ Follow-up Mission • Forecasting GDP for the Budget • Revenue forecasting • Follow-up on cash management 	<p>June 2017</p> <p>June 2017</p> <p>August 2017</p> <p>August 2017</p> <p>September 2017</p> <p>September 2017</p> <p>September 2017</p> <p>October 2017</p> <p>October 2017</p> <p>October 2017</p> <p>October 2017</p> <p>October 2017</p> <p>January 2018</p> <p>February 2018</p> <p>February 2018</p> <p>February 2018</p> <p>February 2018</p>	<p>July 2017</p> <p>July 2017</p> <p>September 2017</p> <p>September 2018</p> <p>October 2017</p> <p>October 2017</p> <p>October 2017</p> <p>November 2017</p> <p>November 2017</p> <p>October 2017</p> <p>February 2018</p> <p>March 2018</p> <p>March 2018</p> <p>March 2018</p> <p>March 2018</p>

Title	Products	Provisional Timing of Missions (if relevant)	Expected Delivery Dates
	<p><u>Monetary and Financial Sectors</u></p> <ul style="list-style-type: none"> • AFE: National Training: Assist the Authorities in implementing RBS • AFE: National Training: Development of supervisory framework for digital channels and products • Financial Sector Stability • Inflation Targeting • Monetary Operational Framework Modernization, including liquidity forecasting • AFE: National Training: Enhancing Stress Testing Frameworks • AFE: National Training: Assist the Authorities in implementing RBS for Insurance Companies • AFE: Review FMI Assessments; provide further training • AFE: Regional Workshop on Insurance Supervision <p><u>Institute for Capacity Development</u></p> <p>Joint IMF/Bank of Uganda Workshop on Forecasting and Policy Analysis</p>	<p>July 2017</p> <p>July 2017</p> <p>August 2017</p> <p>August 2017</p> <p>August 2017</p> <p>September 2017</p> <p>October 2017</p> <p>November 2017</p> <p>December 2017</p> <p>December 2017</p> <p>January 2018</p>	<p>July 2017</p> <p>July 2017</p> <p>September 2017</p> <p>September 2017</p> <p>September 2017</p> <p>October 2017</p> <p>November 2017</p> <p>December 2017</p> <p>January 2018</p> <p>January 2018</p>
	2017 Article IV consultation and Eighth review of the PSI	May 2017	July 2017
	Request for PSI	September 2017	November 2017
Joint Work Program	Joint DSA update	September/ October 2017	November 2017

STATISTICAL ISSUES

(as of May 9, 2017)

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 issued a press release announcing that the NSDP will be launched by end-November.

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. The Uganda Bureau of Statistics (UBOS) has developed supply and use tables (SUT) that include preliminary product balances for 155 activities by 161 products. Rebased GDP estimates for FY2009/10 were released in November 2014. In January 2016, a mission assisted with developing quarterly expenditure approach accounts in current and constant prices. In March 2016, an STA mission provided TA on developing financial accounts by institutional sector. In October 2016, an East AFRITAC mission provided TA on compiling the SUT for 2015. UBOS plans to release the SUT for 2015 in June 2018.

Labor market indicators, such as employment and wages/earnings, are infrequently compiled and disseminated. UBOS aims to compile and disseminate 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 released in January 2010 were replaced in June 2014 by 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 (GFSY) budgetary central and local government data and monthly budgetary central government data on a cash basis following the Government Finance Statistics Manual 2014 (GFSM 2014). East AFRITAC is providing technical assistance to the national authorities to expand the coverage and improve the quality of these statistics. 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. With the support of East AFRITAC, the authorities have recently achieved substantial progress in the area of GFS. They have expanded the coverage to the general government sector and have compiled, but not disseminated, general government GFS for fiscal years 2013/14 and 2014/15. In addition, according to current plans, Uganda will disseminate estimates of the stock of financial assets and liabilities by 2017 and will complete implementation of GFSM 2014 by the end of 2017.

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 7 of the 13 encouraged FSIs for deposit takers, an FSI for households, and 2 FSIs for real estate markets. All FSIs are reported on a quarterly basis for posting on the IMF's FSI website.

External Sector Statistics (ESS):

The BOU compiles quarterly balance of payments and international investment position (IIP) statistics based on *BPM6*. The oldest time series of *BPM6*-based quarterly balance of payments and IIP are Q1-2001 and Q1-1999, respectively. As part of the EAC under the DFID Balance of Payments Module 2, Uganda should continue developing source data for services, specifically construction services, address intra-EAC trade discrepancies and apply a common approach to estimating cross-border informal trade. Separating balance of payments transactions from other flows, such as revaluations and other volume changes, may improve measurement of IIP financial stocks.

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.

In July 2006, a Report on the Observance of Standards and Codes (ROSC) was published.

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 (June 13, 2017)

	Date of Latest Observation	Date Received	Frequency of Data ^{4/}	Frequency of Reporting ^{4/}	Frequency of Publication ^{4/}	Memo Items:	
						Data Quality - Methodological Soundness ^{5/}	Data Quality - Accuracy and Reliability ^{6/}
Exchange Rates	May 12, 2017	May 19, 2017	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ^{1/}	March, 2017	April 30, 2017	M	M	M		
Reserve/Base Money	April, 2017	June 5, 2017	M	M	M		
Broad Money	April, 2017	June 5, 2017	M	M	M		
Central Bank Balance Sheet	April, 2017	June 5, 2017	M	M	M		
Consolidated Balance Sheet of the Banking System	April, 2017	June 5, 2017	M	M	M		
Interest Rates ^{2/}	May 12, 2017	May 19, 2017	D	M	M		
Consumer Price Index	May, 2017	May 31, 2017	M	M	M	O,LO,O,O	O,O,LO,O,O
Revenue, Expenditure, Balance and Composition of Financing ^{3/} - Central Government	April, 2017	June 6, 2017	M	M	M	O,LNO,O,LO	O,O,O,O,LO
Stocks of Central Government and Central Government-Guaranteed Debt	FY2015/16	October, 2016	A	A	A		
External Current Account Balance	Q2 FY2016/17	April, 2017	Q	Q	Q		
Exports and Imports of Goods and Services	April, 2017	June, 2017	M	M	M	LO,LO,LO,LO	LO,O,O,O,LO
GDP/GNP	Q2 FY2016/17	April, 2017	Q	Q	Q	LO, LO,O,LO	LO,O,LO,O,O
Gross External Debt	FY2015/16	April, 2017	A	A	A		
International Investment Position ^{7/}	December 2016	April 2017	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/ Reflects the assessment provided in the data ROSC (published on July 12, 2006, and based on the findings of the mission that took place during the February 9-22, 2006) for dataset corresponding to the variable in each row. The data ROSC mission did not cover monetary and financial statistics. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis of recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO) and not available (NA).

6/ Same as footnote 5, except referring to international standards concerning source data, statistical techniques, assessment and validation of source data, assessment and revision studies.

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

**Statement by Mr. Mkwezalamba, Executive Director for Uganda and
Ms. Gasasira-Manzi, Advisor to the Executive Director
July 7, 2017**

The Ugandan authorities thank staff for the constructive policy dialogue during the mission on the 2017 Article IV Consultation and the eighth and final review of the economic program under the Policy Support Instrument (PSI). They broadly agree with staff's assessment of the country's macroeconomic policies and challenges in the staff report and welcome the useful analysis in the selected issues paper.

Uganda has maintained macroeconomic stability and made notable progress on the program under the PSI. However, both external and domestic challenges have contributed to disruption in trade and tightened financial conditions, while an influx of refugees from conflicts in the region has exerted significant pressure on social amenities and resources. These challenges have been compounded by subdued credit growth and the effects of climate change that resulted in a drought, which undermined agricultural production and food security. In response to these challenges, the authorities are taking deliberate measures to turn the economy around by enhancing agricultural production and accelerating the pace of industrialization.

The authorities have benefitted from the Fund's policy advice and engagement, and have implemented key recommendations from the previous Article IV consultation. They maintain their commitment to sound macroeconomic policies and seek the support of Executive Directors for the completion of the eighth and last review under the PSI. They intend to request a successor PSI arrangement in the Fall as they continue to strengthen their economic performance.

Program Performance

Performance under the current PSI has been broadly satisfactory. All end-December 2016 and continuous Quantitative Assessment Criteria (QAC) and most indicative targets were met through March 2017. The reserve accumulation floor was exceeded and the inflation consultation clause was observed. The indicative target on poverty alleviating expenditures were met. Despite a minor underperformance in revenue, owing to the slowdown in economic activity, the overall deficit remained lower than programmed at end-December 2016. There was a breach on the indicative target on the zero-ceiling for government guarantees as the government granted two guarantees to the Uganda Development Bank (UDB). This resulted from the need to recapitalize the UDB to avail affordable lending rates to priority sectors, and shore up private sector credit required to support sustained growth.

Despite some delays, the authorities continued to make progress on structural reforms. Progress was made on improving the AML/CFT regime with the approval of the Anti-Terrorism (Amendments) Bill 2017, Capital Markets Authority Act (Amendments), and the Insurance Bill, paving the way for exiting the FATF gray list. The pending reforms are related to the amendments to the Bank of Uganda (BOU) Act, publishing the report for the end-December 2016 unpaid bills, and the policy on regulation of mobile money.

Recent Economic Developments and Outlook

Growth slowed down in FY2016/17 to 3.9 percent from 4.7 percent recorded in FY15/16. The slowdown is attributed to the impact of an unusually long drought and the fall army worm outbreak that held back agricultural activity in the first part of the year, the slow recovery in private sector credit, and a slow execution of externally-financed public investment projects. Growth is expected to pick up to 5 percent in FY2017/18 with the improved weather conditions and recovery in private sector credit.

Inflation edged up, mainly reflecting the effects of the drought that affected food production in many parts of the country. Headline inflation in May 2017 was 7.2 percent and core inflation stood at 5.1 percent, in line with the BOU target of 5 percent. At its June 2017 Monetary Policy Committee (MPC) meeting, the BOU lowered its policy rate by 100 basis points to 10 percent, to ease the monetary policy stance consistent with the need to support economic growth and achieve the medium-term inflation target.

The external position was broadly consistent with fundamentals in 2016, with the current account deficit projected to narrow in 2016/17 owing mostly to increased export earnings and decreased Government and private sector imports. However, the current account deficit is expected to temporarily widen over the medium term on account of increased imports related to investments in infrastructure and the oil sector. International reserves stood at 5.1 months of prospective imports, in line with the agreed convergence criterion of 4½ months of imports in the East Africa Community (EAC) Monetary Union protocol.

Fiscal Policy

The medium term fiscal framework remains anchored to the Charter of Fiscal Responsibility (CFR). The Charter aims to achieve an overall fiscal deficit of no more than 3 percent of GDP by FY2020/21, in line with the EAC convergence criteria, and government debt below 50 percent. The fiscal deficit for FY2016/17 is expected to be lower than anticipated at about 3.6 percent, owing to the slow execution of externally-financed public investment. However, for FY 2016/17, it is expected to widen to about 5.5 percent, owing to the expansionary fiscal stance to support government's infrastructure development plan. On the other hand, the authorities remain committed to safeguarding debt sustainability. As of December 31, 2016, Uganda's external and domestic public debt amounted to about 33.8 percent of GDP, and although it is trending upwards, the authorities are committed to keeping it below the Charter's ceiling.

Progress has also been made in domestic revenue mobilization, although revenue performance remained subdued due to the slowdown in economic activity. Tax revenue is projected to reach 14.6 percent of GDP in FY2017/18 compared to 13.6 percent estimated for FY 2016/17. The authorities' revenue mobilization strategy will focus on tax administration and building a stronger compliance culture. This will be enhanced through taxpayer education, strengthening detection of non-compliant taxpayers, recovery of tax arrears, and combatting smuggling, undervaluation and under declaration. The automation of online assessments and electronic tracking of transit goods is also underway.

The authorities intend to compress current expenditure in FY 2017/18 by 0.4 percent of GDP compared to FY 2016/17, while protecting social spending. The authorities remain committed to the clearance of arrears and have earmarked resources in the FY 2017/18 budget for this purpose. In addition, the authorities are implementing measures to ensure avoidance of the recurrence of arrears. These include sanctions for all accounting officers who accumulate new arrears, withholding of future disbursements for government departments that delay payments for goods and services, use of prepaid payments for utilities, and full utilization of the Integrated Financial Management and Information System (IFMIS).

The authorities remain committed to social empowerment programs and continue to allocate resources to projects under the Youth Livelihood Program and the Uganda Women Entrepreneurship Program (UWEP). In addition, a pilot program under the Social Assistance Grant for Empowerment (SAGE), in which senior citizens receive cash transfers, is ongoing.

Under-execution of externally financed projects was largely due to capacity constraints in project implementation, land acquisition, and delays in the procurement process. Steps are being taken to eliminate delays in procurement and build capacity across government to improve project cycle management, including through amendment of the Public Procurement and Disposal of Public Assets (PPDA) Act. The authorities appreciated recent Fund Technical Assistance on Public Investment Management, and remain committed to fully implement the recommendations.

Monetary and Financial Sector Policies

The inflation targeting framework has served Uganda well. BOU continued its easing cycle that started in April 2016, and since then, the Central Bank Rate (CBR) has been reduced by 700 basis points to 10 percent, successfully containing inflation within the target. Expectations are for an increase in headline inflation in the near term and core inflation remaining within the band, around the 5 percent target. The monetary policy stance will continue to be guided by the inflation forecast as well as a careful assessment of both domestic and external risks.

The banking sector remains sound and resilient with banks well capitalized and liquid. Non-performing loans (NPLs) remain a concern as there are still many in the watch category. Following the failure of a large commercial bank last year, the BOU is stepping up measures to strengthen its supervision and monitoring framework to ensure stability, including through focusing on banks' risk management frameworks.

The authorities continue to make progress on financial deepening with the introduction of agency banking, Islamic banking, and mobile banking. They also plan to expedite the pension and insurance sector reforms to mobilize domestic savings and finance for long term capital. In addition, the Microfinance Institutions and Money Lenders Act was passed to regulate the activities of microfinance institutions, including Savings and Credit Cooperative Organizations (SACCOs), money lenders, and credit institutions, while promoting savings and enhancing inclusion. Further, to support private sector credit growth, the government plans to reduce domestic borrowing in the short to medium term. Given the implications to

monetary policy management, the authorities plan to strengthen fiscal-monetary policy coordination.

Structural Reforms

The authorities are progressing with the reform agenda aimed at promoting an environment conducive for investment and private sector development. To this end, they are developing demarcated industrial and business parks; investing in infrastructure to reduce the cost of doing business, especially in the energy and transport sectors; and supporting Small and Medium Enterprises (SMEs) through skills development as well as improving access to financing.

The agricultural sector remains the mainstay of the Ugandan economy contributing significantly to food production, export earnings, and employment creation. In view of the sector's susceptibility to the vagaries of weather, the authorities plan to adopt pro-active mitigation measures, including fast-tracking irrigation and vigorously promoting agro-processing and extraction of minerals to boost industrialization. This two-pronged approach is expected to address unemployment and deliver inclusive growth and development.

The government is putting in place measures to improve public sector efficiency and eliminate corruption. The leadership code was amended to permit confiscation of properties acquired through corruption, and a directorate was established in the Inspectorate of Government to handle high profile cases. The Financial Intelligence Authority has also been strengthened to adequately enforce the AML/CFT, in collaboration with international financial intelligence authorities.

Conclusion

The authorities remain committed to reinvigorating growth and achieving poverty reduction and equality. The implementation of an economic reform program supported by the IMF's Policy Support Instrument (PSI) has been instrumental in achieving economic stability and supporting durable and inclusive growth. It has also helped catalyze support, both financial and capacity building, from other development partners towards the socio-economic transformation agenda.

Adequate support is particularly important at a time when the authorities are experiencing pressures emanating from the influx of nearly one million refugees from regional conflicts. A solidarity conference held in Uganda on June 30, 2017 raised pledges of \$358 million from the international community out of the \$2billion estimate required to help Uganda tackle one of the world's fastest growing refugee crises.

The Ugandan authorities continue to value the engagement with the Fund. Considering the country's satisfactory performance and strong commitment to pursue reforms, they look forward to Executive Director's support towards the completion of the eighth and last review of the PSI.