



UGANDA

March 2022

2021 ARTICLE IV CONSULTATION AND FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUESTS FOR MODIFICATIONS OF PERFORMANCE CRITERIA—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR UGANDA

In the context of the 2021 Article IV Consultation and First Review under the Extended Credit Facility Arrangement and Requests for Modifications of Performance Criteria, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its March 9, 2022, consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 9, 2022, following discussions that ended on December 8, 2021, 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 February 23, 2022
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staff[s] of the IMF and the World Bank.
- A **Statement by the Executive Director** for Uganda.

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

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

International Monetary Fund
Washington, D.C.



IMF Executive Board Concludes First Review Under the Extended Credit Facility Arrangement and 2021 Article IV Consultation with Uganda

FOR IMMEDIATE RELEASE

- The Ugandan authorities are implementing their reform agenda steadfastly, in a complex environment still marked by the pandemic, and remain committed to the Extended Credit Facility Arrangement.
- The IMF Board today completed the first review of the ECF Arrangement and 2021 Article IV Consultation with Uganda. Approval of the first review enables the immediate disbursement of about US\$ 125 million.
- Implementation of structural reforms—including through continued progress in strengthening governance—along with reduced financing needs and improved budget composition will help enhance private sector growth and improve social outcomes.

Washington, DC – March 9, 2022: The Executive Board of the International Monetary Fund completed the first review of the Extended Credit Facility (ECF) Arrangement and 2021 Article IV Consultation¹ with Uganda. The completion of the first review allowed an immediate disbursement equivalent to about US\$ 125 million for budget support, bringing the aggregate disbursement-to-date to US\$ 385 million.

Uganda's ECF Arrangement for a total of SDR 722 million (200 percent of quota) or about US\$ 1 billion at the time of program approval on June 28, 2021 (see [Press Release 21/197](#)), is aimed at supporting the near-term response to the COVID-19 pandemic and boosting more inclusive private sector-led long-term growth. Reforms focus on creating fiscal space for priority social spending, preserving debt sustainability, strengthening governance, and enhancing the monetary and financial sector frameworks.

The authorities have skillfully managed the second wave of the pandemic in July last year, which has however implied a lower growth rebound, and some additional fiscal support to cushion the revenue shortfall from the lockdown and expand cash transfers to the vulnerable. Real growth was revised down to 3.8 percent from 4.3 percent for FY21/22. The fiscal deficit will be higher than programmed at the time of the ECF approval (7.5 percent of GDP, up from

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.

6.5 percent) to accommodate new demands on security and social sectors approved in the supplementary budget. The social impact of the pandemic is, however, profound, with deep scars on human capital potentially persisting over the medium term.

In spite of a challenging environment and some technical and legislative delays, all quantitative performance criteria were met, and the reform agenda implementation is progressing. Of note, progress was made in strengthening fiscal transparency, the budgetary planning framework and the governance framework by: (i) institutionalizing the use of guidelines for prioritizing public investments and a framework for rationalizing tax expenditures, (ii) tracking, auditing, and publishing of COVID-19 spending and (iii) upgrading the anti-corruption legislation, among others.

At the conclusion of the Executive Board's discussion, Mr. Bo Li, Deputy Managing Director and Acting Chair stated:

"The Ugandan authorities remain firmly committed to their economic program amidst a challenging environment. Program performance has been satisfactory. All quantitative targets were met, except one, and all but three structural benchmarks for 2021 were completed.

"The slight relaxation of the fiscal deficit in fiscal year 2021/22 relative to the programmed target was necessary to mitigate the impact of the pandemic's second wave and address higher security tensions. Returning to the programmed fiscal consolidation path remains essential to keep debt sustainable while creating more space for private sector credit. Enhanced domestic revenue mobilization, rationalization of non-priority spending, and shifting the composition of spending towards priority social areas will help achieve the fiscal objectives and address Uganda's large development needs. Improving budget preparation—including through fewer supplementary budgets—and strengthening cash and arrears management remain essential.

"The banking system is well-capitalized and financial stability risks should continue to be minimized. Further monetary policy accommodation is needed as fiscal support is removed but uncertain external conditions call for monetary policy to remain data dependent. Greater exchange rate flexibility is needed to preserve external buffers, with foreign exchange interventions limited to smoothing excessive exchange rate fluctuations.

"Accelerating the momentum on structural reforms is essential to limit pandemic scars and help move Uganda towards its goal of middle-income status. Progress on governance reforms—including through regular audits of COVID-19 expenditures, publication of beneficial owners' information and enhanced scrutiny of politically exposed persons—should be sustained. Accelerating financial inclusion, fostering climate adaptation policies and improving trade integration are also essential for building a faster-growing greener economy."

Table 1. Uganda: Selected Economic Indicators, FY2019/20-2022/23

	2019/20	2020/21	2021/22	2022/23
	Act.	Act.	Proj.	Proj.
Output				
Real GDP Growth (%)	2.9	3.4	3.8	6.0
Prices				
Headline Inflation - average (%)	2.3	2.5	3.5	4.6
Core Inflation - average (%)	2.2	3.5	3.0	4.4
Central Government Finances (FY)				
Revenue (% GDP)	13.2	14.4	14.8	14.6
Expenditure (% GDP)	20.3	23.7	22.2	19.3
Primary Balance (% GDP)	-5.0	-6.7	-4.4	-1.8
Fiscal Balance (% GDP)	-7.1	-9.4	-7.5	-4.7
Public Debt (% GDP)	41.9	49.1	52.9	53.1
Money and Credit				
Broad Money (% change)	23.2	8.5	9.1	11.5
Credit to Private Sector (% change)	8.8	8.3	12.0	13.5
Policy Rate, EOP (%)	7.0	6.5	6.5	...
Balance of Payments				
Current Account (% GDP)	-6.7	-10.2	-8.0	-8.8
Reserves (in months of next year's imports)	3.9	4.2	3.8	3.3
External Debt (% GDP)	28.6	31.7	34.1	34.1
Exchange Rate				
REER (% change)	2.3	1.3



UGANDA

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION AND FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA

February 23, 2022

EXECUTIVE SUMMARY

Context. The authorities have reacted to the COVID-19 crisis in an appropriate manner, including through increased spending on health and a rollout of the vaccination program. Nevertheless, the deterioration of socio-economic indicators during the pandemic could create scars that would significantly lower growth if left unaddressed.

Program status. In June 2021, the IMF's Executive Board approved a 36-month arrangement under the Extended Credit Facility (ECF) in an amount equivalent to 200 percent of quota. Full implementation of the ECF-supported program will help support Uganda's economic recovery from the COVID-19 crisis and boost the country's growth potential, thereby contributing to the achievement of the SDGs over the long run.

Program performance. Program performance has been broadly satisfactory, against the backdrop of a challenging environment. All end-September QPC and ITs were met, with the exception of the IT on tax revenues against the backdrop of the slowdown in the economy. Despite some delays, all but three structural benchmarks for 2021 were completed. The benchmarks on the beneficial ownership registry, the upgrade of the national social registry, and the introduction of a sanction regime for unauthorized spending have not been completed and were reset for end-June 2022 to allow for inter-agency consultations, and proper legislative and technical requirements.

Requests. The Ugandan authorities request modification of the QPCs for March 2022 on the primary balance to reflect the slowdown of the economy and the fiscal response to the second wave of the pandemic; on the net claims on the government by the central bank to reflect tighter financing conditions and higher financing need; on the PV of new external borrowing on the back of delays in the case of some loans; and higher net international reserves to demonstrate their continued commitment in maintaining an adequate level of external buffer in light of riskier composition of external financing.

Risks to the program. Further waves of COVID-19 and rising security challenges represent the main risks. Uganda's moderate level of public debt and continued access to concessional financing would provide space to still achieve program objectives.

Approved By
**Catherine Pattillo and
 Bikas Joshi**

The mission team consisted of Mr. Mati (head), Messrs. Bannister, Csonto, and Melina (AFR), Mr. Murara (FAD), Mr. Chen (SPR), Ms. Huang (MCM), and Mr. Markevych (LEG). The mission was assisted by Ms. Karpowicz (Resident Representative) and Ms. Sozi (local economist). Discussions were held remotely from Washington DC during November 29 – December 8, 2021, and in Kampala during December 9 – December 16, 2021. The team met with his Excellency Mr. Museveni, President of Uganda; Mr. Kasaija, Minister of Finance, Planning and Economic Development; Mr. Kamuntu, Minister of Water and Environment; Mr. Ggoobi, Permanent Secretary and Secretary to the Treasury; and Mr. Atingi-Ego, Deputy Governor of the Bank of Uganda (BoU) and other senior officials of the government and the BoU. Staff also had productive discussions with representatives of Parliament, the private sector, civil society organizations, and development partners. Ms. Abu Sharar, Mr. Ouattara and Ms. Khandelwal provided excellent assistance for the preparation of this report.

CONTENTS

CONTEXT	<u>5</u>
RECENT ECONOMIC DEVELOPMENTS	<u>7</u>
PROGRAM PERFORMANCE	<u>11</u>
MACROECONOMIC OUTLOOK AND RISKS	<u>12</u>
POLICY DISCUSSIONS	<u>15</u>
A. Addressing COVID-19 Needs and Creating Fiscal Space for Priority Spending	<u>15</u>
B. Preserving Uganda’s Debt Sustainability and Preparing for Oil	<u>17</u>
C. Strengthening the Monetary and Exchange Rate Policy Framework	<u>21</u>
D. Safeguarding Financial Sector Stability	<u>24</u>
E. Structural Reforms – Raising Medium-Term Growth Potential and Accelerating Structural Transformation	<u>25</u>
PROGRAM MODALITIES, CAPACITY BUILDING, AND OTHER ISSUES	<u>30</u>
STAFF APPRAISAL	<u>32</u>

BOXES

1. Bringing Uganda’s Students Back in School Durably _____	<u>6</u>
2. Estimating Reform Gains _____	<u>14</u>
3. Sticky Lending Rates and Monetary Policy Transmission _____	<u>23</u>
4. Audit of COVID-19-Related Expenditures in FY 2020/21 _____	<u>26</u>

FIGURES

1. COVID-19 Developments _____	<u>34</u>
2. Real Sector Developments _____	<u>35</u>
3. External Sector Developments _____	<u>36</u>
4. Fiscal Developments _____	<u>37</u>
5. Monetary Developments _____	<u>38</u>
6. Financial Sector Developments _____	<u>39</u>
7. Other Financial Sector Developments _____	<u>40</u>

TABLES

1. Selected Economic and Financial Indicators, FY2019/2026/27 _____	<u>41</u>
2a. Fiscal Operations of the Central Government, FY2019/2026/27 (Billions of Ugandan Shillings) _____	<u>42</u>
2b. Fiscal Operations of the Central Government, FY2019/2026/27 (Percent of GDP) _____	<u>43</u>
3. Monetary Accounts, FY2019/2026/27 (Billions of Ugandan Shillings) _____	<u>44</u>
4a. Balance of Payments, FY2019/2026/27 (Millions of U.S. Dollars) _____	<u>45</u>
4b. Balance of Payments, FY2019/2026/27 (Percent of GDP) _____	<u>46</u>
5. Banking Sector Indicators, March 2017–Sept 2021 (Percent) _____	<u>47</u>
6. Proposed Access and Phasing Under the ECF Arrangement _____	<u>48</u>
7. External Financing Requirements, FY2019/20–2026/27 (Millions of U.S. Dollars) _____	<u>49</u>
8a. Projected External Borrowing Program July 1, 2021 to June 30, 2022 _____	<u>50</u>
8b. Projected External Borrowing Program July 1, 2022 to June 30, 2023 _____	<u>51</u>
9. Decomposition of Public Debt and Debt Service by Creditor, FY2020/21–FY2022/23 _____	<u>52</u>
10. Indicators of Capacity to Repay the IMF, 2021–30 _____	<u>53</u>

ANNEXES

I. Status of Key Recommendations for the 2019 Article IV Consultation _____	<u>54</u>
II. Recent Changes in the Oil Sector Regulatory Framework _____	<u>55</u>
III. Risk Assessment Matrix _____	<u>56</u>
IV. Fiscal Anchor _____	<u>58</u>
V. External Sector Assessment _____	<u>61</u>
VI. Financial Sector Structure and Developments _____	<u>64</u>
VII. Anti-Money Laundering and Anti-Corruption _____	<u>70</u>
VIII. Capacity Development _____	<u>75</u>

APPENDICES

I. Letter of Intent _____	<u>76</u>
Attachment I. Memorandum of Economic and Financial Policies _____	<u>78</u>
Attachment II. Technical Memorandum of Understanding _____	<u>104</u>