IMF Country Reports 23/040

Uganda: Second and Third Review under the Extended Credit Facility Arrangement; and Requests for a Waiver of Nonobservance of Performance Criterion and Rephasing of Access; Press Release; and Staff Report

INTERNATIONAL MONETARY FUND

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IMF Country Report No. 23/40

UGANDA

January 2023

SECOND AND THIRD REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUESTS FOR A WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, AND REPHASING OF ACCESS

In the context of the Combined Second and Third Reviews under the Extended Credit Facility Arrangement, the Request for Modification of Performance Criteria and the Financing Assurance Review, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its January 17, 2023, consideration of the Staff Report on issues related to the IMF arrangement.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on January 17, 2023, following discussions that ended on December 19, 2022, 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 December 20, 2022.
- 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.

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International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes the Combined Second and Third Reviews under the Extended Credit Facility Arrangement for Uganda

FOR IMMEDIATE RELEASE

- The IMF Executive Board today completed the combined second and third reviews under the Extended Credit Facility (ECF) Arrangement for Uganda. Approval of the combined second and third reviews enables the immediate disbursement of the equivalent of SDR 180.5 million, about US$240 million.

- The Ugandan authorities are persevering in their reforms despite facing multiple shocks from an unfavorable external environment and new public health challenges. The authorities remain committed to implementing reforms supported by the ECF.

- Maintaining macroeconomic stability, improving budget composition, and reducing government financing needs will help boost private sector growth and improve people's livelihoods. Continued resolute and timely implementation of structural reforms, including anticorruption and governance measures, remains key for the success of the program.

Washington, DC – January 17, 2023: The Executive Board of the International Monetary Fund (IMF) concluded the combined second and third reviews under the ECF Arrangement for Uganda. Further, the Executive Board granted a waiver of nonobservance of a performance criterion on the stock of net international reserves of the Bank of Uganda.

The completion of the combined 2nd and 3rd reviews allowed an immediate disbursement equivalent to SDR 180.5 million, about US$240 million, bringing the aggregate disbursement-to-date to US$625 million.

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

The Ugandan authorities have managed to preserve macroeconomic stability while sustaining the post-COVID-19 recovery despite rising pressure from global shocks and successive domestic shocks, including new public health challenges. The economy is projected to grow by 5.3 percent in FY 22/23 (revised down from 6 percent at the time of the 1st review in March 2022), while headline inflation is expected to rise to 8.3 percent (marked up from 4.6 percent at the 1st review). The forecast revisions reflect the impact of the war in Ukraine, tighter external financial conditions, drought and rising domestic borrowing costs. Risks to the outlook remain elevated, including from higher imported inflation, lower external demand, climate change, and public health outlook.

Tight macro policies and continued exchange rate flexibility will help strengthen external buffers. Fiscal consolidation and monetary tightening are essential to bring overall domestic absorption more in line with domestic production, reduce the current account deficit, and contain the decline in reserves.

Notwithstanding the challenging environment and a heavy reform agenda, all but one quantitative performance criteria and most indicative targets for March, June and September 2022 were met and the authorities have taken important steps to advance structural reforms. Steps have been taken to strengthen the governance and anticorruption frameworks by (i) amending the regulations to include assets that are beneficially owned in the asset declarations, (ii) publishing information on compliance with the Leadership Code Act and on applications to access the declarations, and (iii) amending the law to establish a central registry for beneficial ownership information of legal entities, with forthcoming regulations expected to allow timely access to the beneficial ownership registry. The adoption of the tax expenditure rationalization plan will jump-start efforts to streamline the system and mobilize tax revenue in an efficient and equitable way.

Executive Board Assessment[1]

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

"The Ugandan authorities remain committed to their economic program amidst a challenging environment. Most quantitative targets were met in 2022. Six of the twelve structural benchmarks due between March and December 2022 have been completed. A structural benchmark on the asset declaration regime was converted into a prior action for the review and has been met. Sound program implementation in the period ahead remains important to ensure economic resilience and support the country's social and developmental objectives.

"The slight relaxation of the fiscal deficit in fiscal year 2022/23 relative to the programmed target was necessary to support vulnerable households and introduce cost-of-living adjustments in the public sector, amid a deteriorating external environment and the sharp acceleration in inflation. The temporary deviation of the reserve cover is also appropriate given the tighter global financial conditions and the authorities' commitment to continued successful program implementation. Returning to the programmed fiscal consolidation path and reserve cover remains essential to keep debt sustainable and maintain external buffers. Enhanced domestic revenue mobilization, including via the elimination of inefficient tax exemptions, rationalization of non-priority spending, and shifting the composition of spending towards priority social areas will help achieve the fiscal objectives and address large development needs. The introduction of the Parish Development Model was a welcome development.

"The banking system is well-capitalized and financial stability risks should continue to be minimized. Monetary policy should continue to tighten to achieve the core inflation target. Continued exchange rate flexibility is needed to preserve external buffers, with foreign

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

exchange interventions limited to smoothing excessive exchange rate fluctuations. Continued improvements in Bank of Uganda's autonomy and governance framework would be important.

"Accelerating the momentum on structural reforms is essential to help move Uganda towards attaining its goal of middle-income status. Priorities include enhancing domestic revenue mobilization, strengthening governance, transparency, the anti-corruption framework and the AML/CFT regime, advancing the financial inclusion agenda, and climate adaptation measures."

Table 1. Uganda: Selected Economic Indicators, FY2020/21-FY2023/24				
	FY2020/21	FY2021/22	FY2022/23	FY2023/24
	Act.		Rev. Prog.	
Output				
Real GDP Growth (%)	3.5	4.7	5.3	6.0
Prices				
Headline Inflation - average (%)	2.5	3.4	8.3	7.2
Core Inflation - average (%)	3.5	3.2	7.5	6.8
Central Government Finances				
Revenue and Grants (% of GDP)	14.3	14.1	15.1	15.5
Expenditure (% of GDP)	23.7	21.5	20.2	19.0
Primary Balance (% of GDP)	-6.7	-4.3	-1.8	-0.3
Fiscal Balance (% of GDP)	-9.4	-7.4	-5.1	-3.5
Public Debt (% of GDP)	49.0	50.6	50.9	49.6
Money and Credit				
Broad money (% change)	8.5	10.0	14.5	12.6
Credit to Private Sector (% change)	8.3	11.0	8.3	12.8
Policy Rate, EOP (%)	6.5	7.5	...	...
Balance of Payment				
Current Account Balance (% of GDP)	-9.5	-7.9	-9.2	-10.7
Reserves (in months of next year's imports)	4.9	3.7	3.0	3.1
External Public Debt (% of GDP)	31.6	31.3	31.9	32.4
Exchange Rate				
REER (% change)	0.6	3.7	...	...

Source: Uganda authorities and IMF staff estimates and projections

UGANDA

December 20, 2022

SECOND AND THIRD REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUESTS FOR A WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, AND REPHASING OF ACCESS

EXECUTIVE SUMMARY

Context. The outlook has become more challenging in recent months. While COVID-19 infections declined significantly, an outbreak of Ebola has raised new public health concerns. Moreover, the economic outlook has been negatively affected by the spillovers from the war in Ukraine and the tightening of global financial conditions. The authorities have reacted to the shocks in an appropriate manner, including through support to vulnerable households, and monetary policy tightening to contain inflation.

Program status. In June 2021, the IMF's Executive Board approved a 36-month arrangement under the Extended Credit Facility (ECF) in an amount equivalent to 200 percent of quota. The 1st review under the ECF-supported program was concluded in March 2022. Full implementation of the program will help support Uganda's economic recovery from the series of external shocks and boost the country's growth potential, thereby contributing to the achievement of the SDGs over the long run.

Program performance. Against the backdrop of a challenging environment, most Quantitative Performance Criteria (QPCs) and Indicative Targets (ITs) were met in March, June, and September 2022. Six of the 12 structural benchmarks due between March and December 2022 have been completed (five with delay). A structural benchmark on the asset declaration regime was converted into a prior action for the review and has been met.

Requests. The authorities request modifications to the following December 2022 ITs: floors on the primary budget balance, NIR, support to vulnerable households, social spending, tax revenues, repayment of outstanding domestic arrears, and the ceiling on net claims on the government by the central bank. The authorities request a downward revision of the primary budget balance floor due to the projected nominal increase in the primary fiscal deficit target in FY22/23 and a change in the planned within-year distribution of spending; an increase in the IT floor on tax revenues reflecting stronger expected revenue performance; a downward revision of the ceiling on net claims on the government by the central bank; a decline in the floor on social

spending; an increase in the floor on support to vulnerable households; and a temporary lowering of the NIR floor reflecting tighter global financial conditions. The faster repayment of outstanding domestic arrears warrants increasing the corresponding floor. In light of the challenging external environment and the expected continued successful implementation of the program, including the return to the 4-month reserve target by the end of the program, the authorities request a waiver for the nonobservance of the September QPC on net international reserves due to the temporary nature of the deviation. Finally, the authorities request the rephasing of access to facilitate disbursement before the end of the month in future reviews.

Risks to the program. The Ebola outbreak, rising security challenges, and further spillovers from the war in Ukraine represent the main risks. Uganda's moderate level of public debt and continued access to concessional financing would provide space to achieve program objectives.

Approved By
Catherine Pattillo and Eugenio Cerutti

The mission team consisted of Mr. Nabar (head), Messrs. Bannister, Csonto and Melina (AFR), Ms. Khandelwal (AFR), Mr. Chen (SPR), Ms. Huang (MCM), and Ms. Duasing (LEG). The mission was assisted by Ms. Karpowicz (Resident Representative) and Ms. Sozi (local economist). Ms. Basutli (OED) participated in official meetings. Discussions were held remotely from Washington D.C. during October 31 – November 22, 2022 and on December 19, 2022. The team met with Mr. Kasaija, Minister of Finance, Planning and Economic Development, Mr. Ggoobi, Permanent Secretary and Secretary to the Treasury, Mr. Atingi-Ego, Deputy Governor of the Bank of Uganda (BoU), and other senior officials of the government and the BoU. Staff also had productive discussions with representatives of the private sector, civil society organizations, and development partners. Ms. Abu Sharar provided excellent assistance for the preparation of this report.

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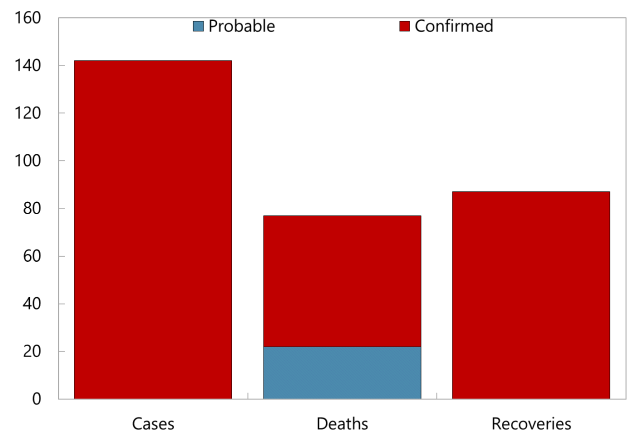
CONTEXT

1. **Macro outlook.** The recovery from the pandemic is expected to continue, but the outlook has become more challenging in recent months. Growth has slowed because of weakening domestic demand and spillovers from the war in Ukraine. Inflation has increased, reflecting drought and higher imported commodity prices, such as food, fuel and fertilizer. Price pressures have broadened to services and goods beyond fuel and food.

2. **COVID-19 infections have subsided, but an outbreak of Ebola presents a new health threat.** On September 20, the first death from the Ebola Sudan strain was confirmed in the Mubende district, about 100 miles west of the capital. The number of confirmed cases has increased to 142 (as of December 18), including in 8 adjacent districts. Two rural districts were subject to lockdown measures. The national task force was activated and World Health Organization has reached out to development partners to step up funds for prevention, fill gaps in coordination, and improve contact tracing.

Text Figure 1. Ebola Outbreak (As of Dec. 4, 2022)
(Number of people affected)



Sources: Ugandan Ministry of Health, WHO and staff calculations

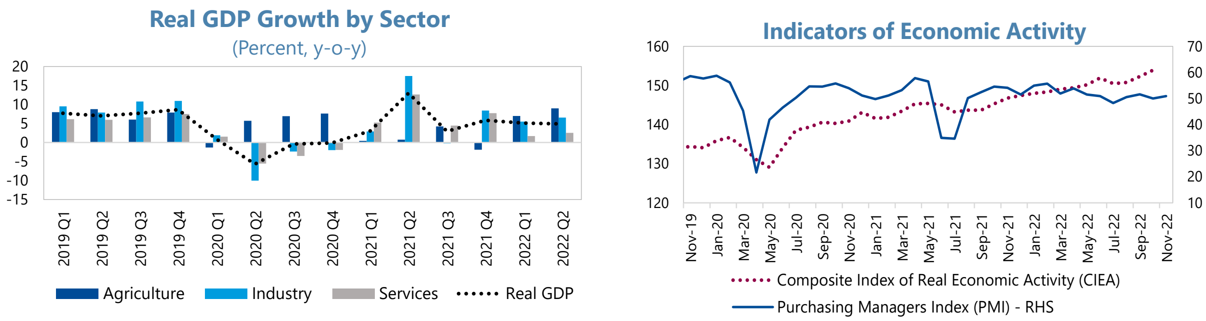
3. **Program performance.** The second review scheduled for June 2022 was not completed in time due to delays in completing structural benchmarks and a prior action. All quantitative targets, except for the floor on tax revenues, were met at the March 2022 test date, all but two end-June indicative targets were met (floor on social spending and ceiling on central bank claims on the government), all but three end-September quantitative targets (floors on net international reserves, social spending and tax revenues) were met. Delays in inter-agency coordination and the legislative timetable have slowed reform implementation. Recently, progress on structural benchmarks has gained momentum and implementation of some measures with deadlines over March–October is ongoing.

RECENT ECONOMIC DEVELOPMENTS

4. **Economic recovery is constrained by the spillovers from the war in Ukraine.** Driven by the reopening of the economy as COVID-19 infections subsided, real GDP grew by 4.7 percent in FY21/22—0.9 percentage point higher than projected at the time of the 1st review. Since Russia's invasion of Ukraine, inflation has risen significantly, and higher uncertainty and borrowing costs have weighed on investment. Following some deterioration in the summer, however, the PMI

signaled either stable or improving business conditions between August and November, with new export orders returning to growth in November after contracting for six consecutive months.

Text Figure 2. Economic Activity

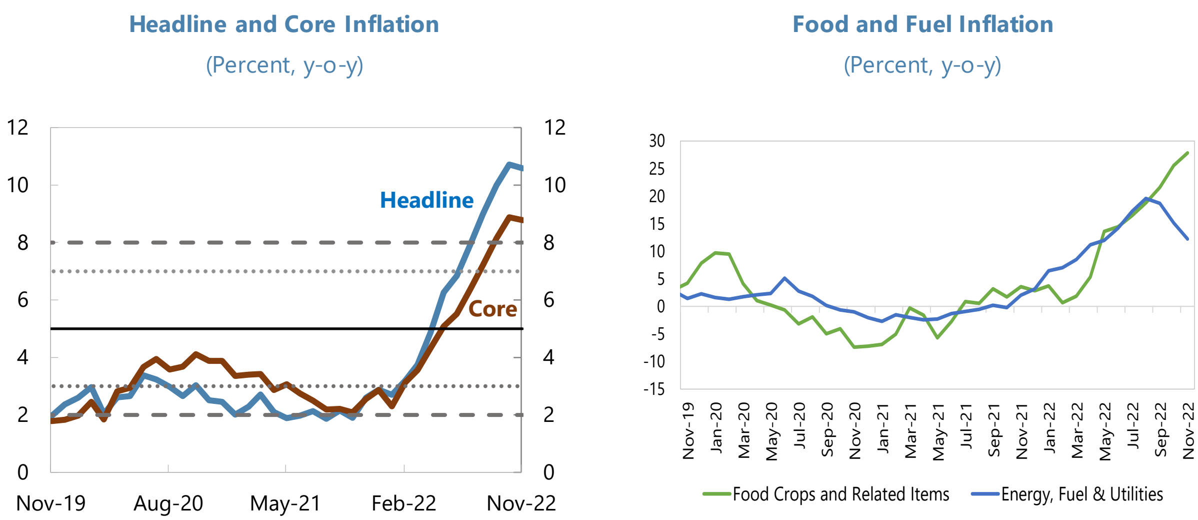


Note: Refers to Calendar Year
Source: Haver, IMF staff calculations

Source: Haver

5. Core inflation has risen above the Bank of Uganda (BoU)'s target of 5 percent. Headline y-o-y inflation reached 10.6 percent in November 2022, as food and energy prices increased by 27.8 percent and 12.2 percent, respectively. Core inflation registered at 8.8 percent in November reflecting the second-round effects of high food and energy prices on other goods and services, exceeding the BoU's target of 5 percent. The BoU has increased the central bank policy rate to 10 percent in October 2022, from 6.5 percent in May.

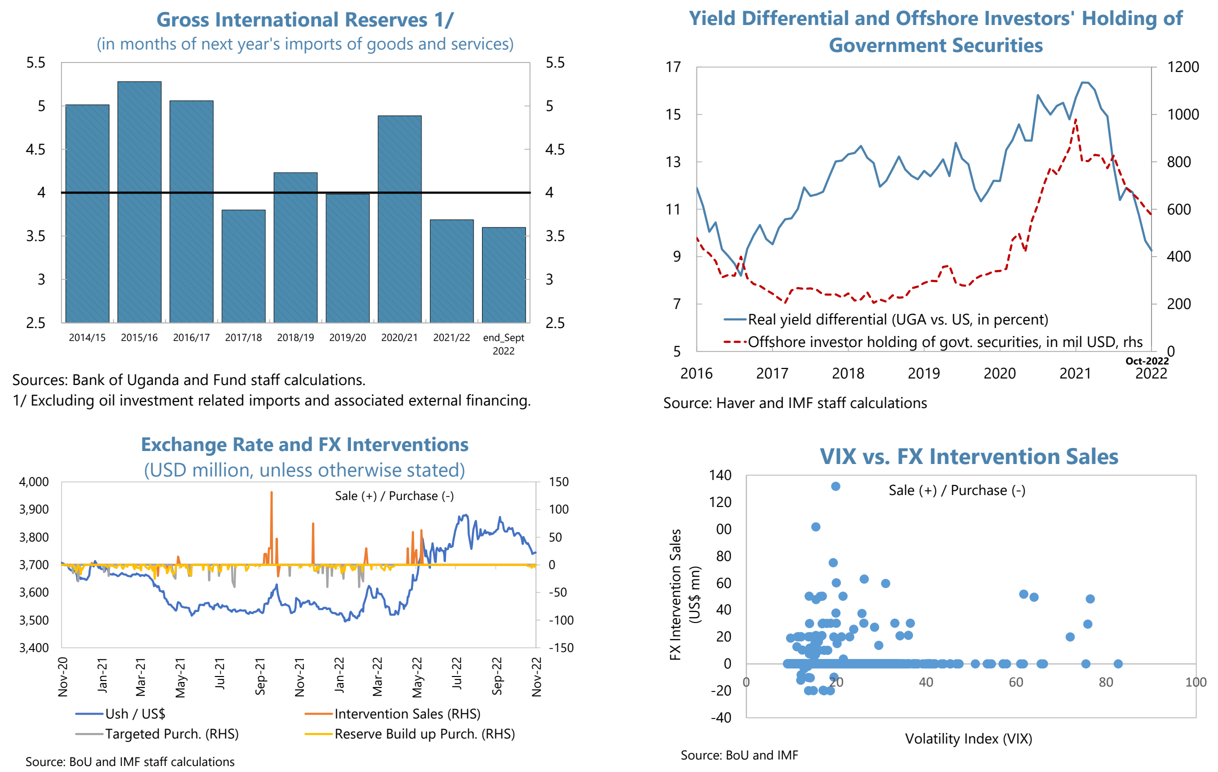
Text Figure 3. Inflation



Source: BoU and IMF Staff calculations
Note: * Black solid line denotes medium-term core inflation target (5 percent). Dash and dot lines show the outer and inner bands of average core inflation target.

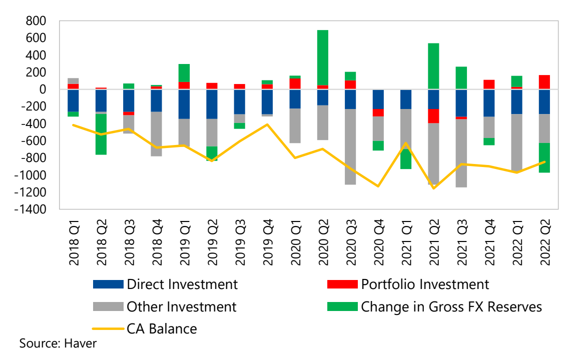
Source: Haver, IMF staff calculations

Text Figure 4. External Developments



6. The current account deficit remains high, while inflows have weakened since 2022Q2. The current account deficit has improved since mid-2021 but remains high due to stronger government and private sector oil imports and higher interest payments, partly offset by higher exports of goods (excluding non-monetary gold) and services. On the financing side, portfolio inflows have weakened, while foreign direct and other investment flows have been subdued (text chart). Reserves declined to US$4.1 billion in June from US$ 4.5 billion in March, driven by elevated government imports and BoU's interventions to smooth excess volatility in the shilling exchange rate. The subsequent decline to US$3.7 billion (or 3.6 months of import cover) in September, mainly reflects continued high FX demand to finance government imports. The shilling depreciated 9 percent vis-à-vis the US dollar between end-February and end-July; however, it gained about 3½ percent at end-November from end-July.

Text Figure 5. Financial Account (Net)
(USD million)



7. Private sector credit growth has slowed down. Although it remains broadly in line with nominal GDP growth, in real terms, commercial bank credit to the non-bank private sector contracted by 0.9 percent year-on-year in September 2022 (compared to growth of 7.1 percent in December 2021). Subdued private credit growth reflects, in part, crowding out effects of government borrowing and risk aversion of financial institutions. Credit demand is expected to remain subdued because of rising borrowing costs (due to the rise in the policy rate), the increase in the cost of imported goods on account of currency depreciation, and due to the reduced purchasing power of customers. The non-performing loan (NPL) ratio stood at 5.2 percent and the core capital adequacy ratio remained broadly unchanged at 22.9 percent in September 2022.

8. The fiscal deficit for FY21/22 came in slightly below the program target. At 7.4 percent of GDP, the overall fiscal deficit in FY21/22 was below the 1st review target (7.5 percent). Higher than-expected-tax revenues in the final quarter of the fiscal year after the lockdown was lifted, and under-execution of capital spending—which reflected lower-than-expected external financing—offset the grants shortfall and the increase in interest and other spending. While public debt has increased in recent years, its level at end-FY21/22 (at 50.8 percent of GDP, including the stock of BoU advances) was lower than the level projected at the time of the 1st program review, mainly due to higher nominal GDP. Amid concerns about revenue performance and tight global financing, non-interest expenditure was under-executed in the first quarter of FY22/23 and amounted to 12 percent of the yearly target (against 26 percent in the same quarter of FY21/22). However, tax revenues and grants were 21 percent of the amount targeted for the entire financial year (close to the performance of 22 percent in Q1 of FY21/22), leading to a primary fiscal surplus well in excess of the September QPC floor.

9. The authorities have started rolling out a subnational transfer program aimed at supporting rural communities. The Parish Development Model (PDM) aims at providing parishes with public infrastructure and funds to support lending to subsistence households (around 39 percent of the total) through cooperatives. The initiative has gained prominence in light of the cost-of-living crisis, which comes against the backdrop of the rising poverty headcount ratio (over 40 percent of the population now lives on less than $1.90 a day).

PROGRAM PERFORMANCE

10. Most QPCs and ITs have been met for the end-March, end-June, and end-September test dates (MEFP, Table 1). All end-March quantitative performance criteria were met, and all but one indicative target were met. The IT on tax revenues was missed, in part reflecting a lockdown-induced shortfall in receipts prior to the January 2022 lifting of containment measures. All but two end-June indicative targets were met. Against the backdrop of financing constraints, partly driven by the postponement of the 2nd review disbursement under the ECF-supported program, the IT on BoU net credit to government was not met. At the same time, the IT on social spending was not met due to delays in releasing funds to the education sector. In September, the QPCs on the primary balance and net credit to the government were met by a large margin, reflecting strict expenditure control. The QPC on the floor on reserves was not met against the backdrop of tighter external financial conditions and continued high government imports. While the ITs on the support to vulnerable households and the repayment of outstanding domestic arrears were comfortably met, the ITs on social spending and tax revenues were not met, the latter by a small margin (2 percent). The missed social spending floor was due to delays in executing expenditures by the relevant agencies as some of the funds were released toward the end of the quarter.

11. Recent progress on structural benchmarks has reduced the backlog of pending reforms (MEFP, Table 2b). Six of the 12 SBs with deadlines between March and October 2022 have been completed (of which five with delay). The Charter of Fiscal Responsibility (CFR) was adopted by Parliament ahead of the program deadline (SB, Structural Benchmark, July 2022). The SBs on the GFSM2014 framework (May 2022), the tax exemption rationalization plan (June 2022), the unified registry of social assistance programs (June 2022), the expansion of credit bureau coverage (August 2022) and implementing regulations for the Financial Institutions Act (September 2022) were completed after the deadline. While the SB to lower barriers to access asset declarations (March 2022) was not met due to legal barriers, the authorities completed a new prior action on the implementation of the asset declaration framework (MEFP, Table 2a). The establishment of legal and regulatory mechanisms for timely access to accurate basic and beneficial ownership information for legal entities (September 2022) was not met pending issuance of regulation which is expected to be completed in the first quarter of 2023. The SB on strict sanctions regime for unauthorized spending (June 2022) was deemed not feasible. The authorities noted that the regulation proposed under the SB would dilute the strict sanctions – including custodial sentences – already provided for in the PFM Act. A proposed new SB (June 2023) will focus on enforcement of the provisions through the publication of decisions arising from investigations that led to sanctions for the period starting from FY 2020/21 onwards (MEFP, Table 2c). The authorities have requested a reprogramming of the remaining four SBs to allow more time for internal consultations, technical review, and accommodate possible legislative delays.

MACROECONOMIC OUTLOOK AND RISKS

12. The macroeconomic outlook hinges on the spillovers from the war in Ukraine and steady reform implementation. As a result of the negative spillovers from the war (slower global growth, higher global inflation and resulting acceleration of advanced economy monetary policy tightening), drought, and rising domestic borrowing costs, real GDP growth for FY 22/23 and FY 23/24 has been revised down to 5.3 and 6 percent (from 6 and 6.5 percent, respectively, at the time of the 1st review). Over the medium term, growth is assumed to return to its pre-pandemic trend of 6-7 percent, predicated on governance reforms boosting confidence and private investment, development of the oil sector, and more efficient and productive government spending.

13. Core inflation is expected to return to target over the forecast horizon. Headline inflation is expected to average 8.3 percent in FY22/23 and gradually decelerate towards 5 percent over the medium term. Core inflation is projected at 7.5 percent in FY22/23, before converging back to the 5 percent target over the medium term, as monetary policy is tightened, supply improves (including stronger agricultural production) and the pressure from global factors eases. Going forward, the use of cleaner energy supported by the Electricity Access Scale-up Project recently approved by the World Bank, will ease the impact of high oil prices on consumers.

Text Table 1. Uganda: Key Economic Indicators

	2020/21	2021/22		2022/23		2023/24		2024/25	2025/26	2026/27
	Act.	1st review	Act.	1st review	Rev. Prog.	1st review	Rev. Prog.	Proj.		
Real GDP growth (percent)	3.5	3.8	4.7	6.0	5.3	6.5	6.0	6.6	7.1	7.0
Core inflation, average (percent)	3.5	3.0	3.2	4.4	7.5	5.0	6.8	5.0	5.0	5.0
Credit to non-government sector (percent nominal growth)	8.3	12.0	11.0	13.5	8.3	14.0	12.8	13.2	14.3	15.5
Net lending/borrowing (percent of GDP)	-9.4	-7.5	-7.4	-4.7	-5.1	-3.5	-3.5	-3.5	-3.2	-1.5
Public debt (percent of GDP)	49.0	52.9	50.6	53.1	50.9	52.1	49.6	48.6	47.1	44.0
Current account balance (percent of GDP) 1/	-9.5	-8.0	-7.9	-6.6	-7.1	-5.1	-5.7	-5.7	-6.2	-4.9
Gross International Reserves (months of imports) 1/	4.9	4.2	4.0	4.0	3.7	4.1	4.0	4.2	4.6	5.0

Source: Uganda authorities and IMF staff estimates and projections
1/ Excluding oil project financing and investment related imports and exports.

14. **Risks to growth are tilted to the downside (Annex I).** Key risks to the outlook include greater than anticipated deterioration in domestic demand from the erosion of consumer purchasing power and the effect of higher borrowing costs on investment; further rebalancing of offshore investors' portfolios away from frontier exposures, with negative impacts on the shilling and sentiment, especially because the reserve cover ratio is at its lowest level since FY2011/12; and social unrest due to increases in living costs. A stronger tightening of global financial conditions would also weigh on financial sector stability given that FX credit accounts for around 30 percent of bank loans. Potential security challenges and health-related concerns also add to the risks: if there are new surges of Ebola cases, authorities may have to reinstate lockdown measures; and, with only half of the target population fully vaccinated, Uganda remains exposed to new COVID-19 waves. Over the medium-term, slower-than-expected reform implementation could lead to slower growth and worse fiscal and balance of payment outcomes. With mostly rain-fed agriculture and inadequate preparedness and adaptation efforts, Uganda remains very vulnerable to climate shocks. An upside risk is a positive impact on spending and growth from the PDM. As a net food exporter, Uganda could also benefit from higher export receipts on its goods traded in the region.

POLICY DISCUSSIONS

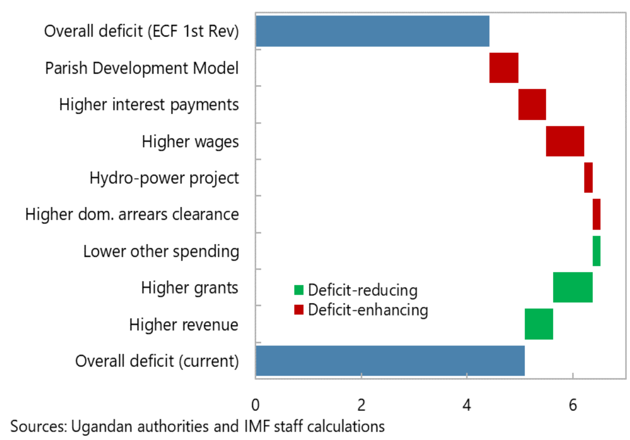
Policies aim to mitigate the consequences of tighter external financial conditions and elevated commodity prices, while creating the conditions for inclusive, private-sector-led growth. Although fiscal policy needs to remain on a steep path of consolidation, in light of the considerable worsening of the global outlook since the 1st review, a slightly more accommodative stance in FY 22/23 relative to 1st review target is warranted. This includes the rollout of the PDM, which will help protect rural households in the near term. Tightening the monetary policy stance will ensure that inflation returns to target in the medium term. Continued exchange rate flexibility will reinforce the effects of fiscal and monetary tightening and rein in the current account deficit by bringing domestic absorption more in line with production. More broadly, policies should continue to focus on preserving debt sustainability while creating space for social spending, advancing reforms to improve governance and reduce corruption vulnerabilities, and raising potential growth.

A. Implementing High-Quality Fiscal Support While Preserving Debt Sustainability and Preparing for Oil

15. Although the fiscal deficit remains on a steep consolidation path, the FY22/23 overall fiscal balance target will widen by 0.4 percent of GDP compared to the 1st review mainly to accommodate the rollout of the Parish Development Model (PDM), higher interest payments and higher wages (MEFP, ¶21). The FY22/23 primary balance is expected to remain unchanged from the 1st review in percent of GDP (-1.8 percent). The authorities are rolling out a subnational fiscal transfer program – the PDM – aimed at supporting subsistence households (accounting for 39 percent of the total) in rural areas through funds distributed by savings and credit cooperatives (SACCOs) (MEFP, ¶18-19). This could mitigate adverse impacts on rural poverty and boost food security against the backdrop of rising fertilizer and fuel prices. Moreover, it could contribute to the formalization, financial inclusion and social integration of households relying on subsistence agriculture in line with one of the key objectives of the Third National Development Plan (NDPIII) that lays out the development strategy for the period FY20/21-FY24/25.[1] Notwithstanding the implementation risks related to SACCOs' registration, the PDM could also contribute to lowering income inequality as funds are intended to be distributed disproportionately to benefit smaller communities. Funds have already been disbursed to more than 50 percent of the SACCOs (around 8,251 out of a total 10,594). Risks around governance and the monitoring of the use of transfers will be addressed through the development of a module to track access to funds and report on their drawdown by households (proposed new SB, June 2023). The budgetary impact of the PDM is 0.5 percent of GDP per year over four years. Compared to the 1st review, interest expenditures and public sector wages will also be higher (by 0.5 and 0.7 percent of GDP, respectively), with the former reflecting higher and more expensive borrowing and the latter addressing higher cost of living. Most (66 percent) of the increase of the government wage bill will be absorbed by programs for human capital development (education and health). An additional hydro power project and higher domestic arrears clearance (0.2 and 0.1 percent of GDP, respectively) will contribute positively to growth.

Text Figure 6. FY22/23: Contribution to Higher Deficit

(Percent of GDP)



Source: MoFPED, IMF Staff calculations

16. The small increase in the fiscal deficit relative to the 1st review target will be financed mostly by additional external borrowing. The deficit target will increase from the 1st review target

[1] The NDPIII is also the authorities' poverty reduction strategy that has been reviewed by the World Bank.

of 4.7 to 5.1 percent of GDP and will be mostly financed by additional external borrowing from commercial banks (US$440 million). Higher domestic revenues from recently updated fees on land transactions, among others, an increase in the grant share of investment financing, SDR use and the ECF disbursements will contribute to closing the fiscal financing gap.[2] The repayment of BoU advances will rectify the breach of the Service Level Agreement (SLA) in FY21/22 and allow full compliance in FY22/23.[3]

Text Table 2. Uganda: FY22/23: Contribution to Higher Government Wages
(Percent)

Programs	Share
Human capital development	66.1
Regional development	11.0
Governance and security	9.2
Agro-industrialisation	6.4
Public sector transformation	4.3
Private sector development	1.1
Others	1.8
Total	**100.0**

Source: MoFPED and IMF Staff calculations

17. In case downside risks materialize, non-priority investment projects will be reduced to safeguard the fiscal goals of the program (MEFP, ¶25). This could be done by implementing a temporary freeze on new project commitments or by delaying projects that have not started or have yet to receive financing.

18. Spending composition will remain appropriate, prioritizing social spending (MEFP, ¶26-27). In FY21/22 social spending increased by 0.2 percent of GDP—slightly less than projected at the 1st program review—and is targeted to increase by 0.6 percent of GDP over the medium term. Security spending declined by 0.9 percent of GDP—in line with expectations at 1st program review—and is targeted to decline by 1.2 percent of GDP over the medium term, although at a slower pace than initially envisioned.

Text Table 3. Uganda: BoU Financing to the Government
(Percent of GDP)

	FY21/22	FY22/23	FY23/24
Net financing	0.2	-0.6	-0.6
Deposit withdrawal	-0.1	0.0	0.0
Petroleum fund withdrawal	0.1	0.0	0.0
BoU advances	0.2	-1.2	-0.6
Memo item:			
Outstanding BoU advances	*2.1*	*0.7*	*0.0*

Source: MoFPED and IMF Staff calculations

[2] The commercial loan, recently approved by Parliament, will be provided by a consortium of finance institutions arranged by Standard Chartered Bank, and will have a 10-year maturity, a grace period of 4 years, and the interest rate will be the Euribor plus a 1.9 percent margin. Upfront fees will be 1.5 percent of the loan amount, while insurance fees will be 9.34 percent of the loan amount.

[3] An SLA between MoFPED and the BoU and its addendum were signed in 2022 to govern central bank financing of the government. It is an understanding between BoU and MoFPED on the responsibilities and quality of service that BoU will deliver in clearing and settlement of payments, including debt payments, cash management services, management of Letters of Credit and bank account management. The SLA also governs the repayment over next two years of past advances.

Text Table 4. Uganda: Fiscal Operations, FY21/22-FY23/24
(Percent of GDP)

	FY21/22		FY22/23		FY23/24	
	1st review	Current	1st review	Current	1st review	Current
Total revenue and grants	**14.8**	**14.1**	**14.6**	**15.1**	**15.1**	**15.5**
Revenue	13.6	13.4	14.1	13.9	14.8	14.4
Tax	12.9	12.6	13.4	13.0	13.9	13.5
Nontax	0.8	0.9	0.8	0.9	0.9	0.9
o/w: Oil revenues	0.0	0.0	0.0	0.0	0.0	0.0
Grants	1.1	0.7	0.5	1.2	0.4	1.1
Expenditures and net lending	**22.2**	**21.5**	**19.3**	**20.2**	**18.7**	**19.0**
Primary current expenditures	9.6	10.1	8.1	9.2	8.1	8.9
o/w: Parish Development Model	0.0	0.0	0.0	0.5	0.0	0.5
Interest expenditures	3.1	3.1	2.9	3.3	2.8	3.2
Development expenditures	9.0	7.9	8.1	7.1	7.6	6.8
External	3.6	2.9	3.7	3.5	3.0	3.3
Domestic	5.4	5.0	4.4	3.7	4.6	3.5
Net lending and investment	0.1	0.2	0.0	0.2	0.0	0.0
Other spending (arrears clearance)	0.4	0.4	0.2	0.4	0.1	0.1
Overall balance	**-7.5**	**-7.4**	**-4.7**	**-5.1**	**-3.5**	**-3.5**
Overall balance excl. PDM	**-7.5**	**-7.4**	**-4.7**	**-4.6**	**-3.5**	**-3.0**
Primary balance	**-4.4**	**-4.3**	**-1.8**	**-1.8**	**-0.7**	**-0.3**
Primary balance excl. PDM	**-4.4**	**-4.3**	**-1.8**	**-1.3**	**-0.7**	**0.1**
Memorandum items:						
Social spending	4.0	3.7	3.5	3.7	3.6	3.7
Security spending	2.7	2.6	1.4	2.0	1.4	1.4

Source: MoFPED and IMF Staff calculations

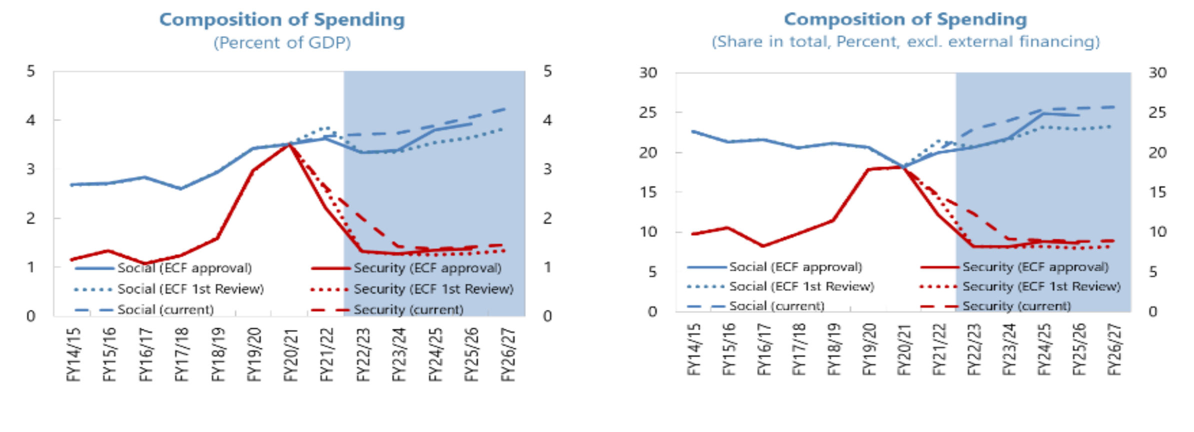
19. Over the medium term, revenue-based fiscal consolidation remains essential to return debt to below 50 percent of GDP (MEFP, ¶22-24). While the PDM will widen the deficit over the next three years, the full implementation of the Domestic Revenue Mobilization Strategy (DRMS) — including tax administration measures and tax exemption rationalizations (SB, June 2022) cumulatively leading to an increase of 0.5 percent of GDP per year in tax revenue—expenditure prioritization, and an improvement in spending efficiency will contribute to lowering the deficit below 3 percent of GDP by FY2026/27. Improvements to domestic revenue mobilization remain essential (Uganda's tax revenue share of GDP at 12 ½ percent in FY 2021/22 is below the average of 13.1 and 14.8 percent for low-income

Text Table 5. Uganda: Tax Revenue

	FY2021/22	FY2022/23	FY2023/24
Tax revenue (UGX bn)	**20,425**	**23,965**	**28,153**
Projected increase		**3,540**	**4,188**
Tax administration measures		878	615
of which:			
Electronic fiscal receipt and invoices			
Digital tax stamps		293	222
Automation of tax audit and e-tax 2			
Third party info for taxpayer registration		264	144
Arrears management		34	154
Tax exemption rationalization		162	417
Buoyancy		2,500	3,156
Tax revenue (percent of GDP)	**12.6**	**13.0**	**13.5**
Projected increase		0.5	0.5

Source: MoFPED and IMF Staff calculations and sub-Saharan African countries, respectively). The revenue-based consolidation will be supported by the recently adopted tax exemption rationalization plan (SB, June 2022) and the design of a medium-term ICT strategy supported by a plan for the procurement of a new Integrated Tax Administration System (proposed new SB, May 2023). Recent IMF technical assistance (July 2022) has identified key areas for repealing tax exemptions that would appreciably widen the revenue base, including under the VAT and excise regimes. The debt-to-GDP ratio, which will peak at 50.9 percent of GDP in FY22/23, will stay below the levels expected at the time of the 1st review thanks to a higher nominal GDP, and will decline below the anchor of 50 percent of GDP set in the new Charter for Fiscal Responsibility (SB, July 2022) by FY23/24. Nonetheless, building on the recently

Text Figure 7. Composition of Spending



Source: MoFPED and IMF Staff calculations

adopted tax exemption rationalization plan (SB, June 2022), further reductions in tax exemptions would widen the revenue base and reinforce the decline of the debt-to-GDP ratio over the medium term. To this end, priority should be given to rationalizing tax expenditures on direct income, including the personal and corporate income taxes and the most costly and inefficient tax expenditures under the VAT and excise taxes (MEFP, ¶23).

20. Reforms to strengthen public financial management will continue in three pillars (MEFP, ¶28):

- **Improving the budget preparation process,** including through ministries' submission for the budget of all foreseeable expenditures, and the avoidance of supplementary budgets, including by ensuring these are limited to unforeseeable unexpected shocks.

- **Reducing the outstanding stock of domestic arrears and preventing accumulation.** The clearance of domestic arrears continues to be prioritized in FY22/23 and over the medium term. The publication of decisions arising from investigations that led to sanctions for the period starting from FY20/21, with clear penalties for officers responsible for unauthorized spending commitments, and actions taken to enforce compliance (proposed new SB, June 2023) will aim to mitigate the new accumulation of arrears. Capacity is being developed to record multiyear commitments for capital expenditure, which will help reduce arrears from overdue capital payments.

- **Strengthening cash management.** Reform plans include: (i) the transition to program-based budgeting; (ii) the operationalization of an online module for all ministries, departments, and agencies for reporting of spending projections; and (iii) the preparation of an aggregate borrowing plan that considers the Government's consolidated cash position within and outside the TSA. The IMF has recently provided training to strengthen the financial oversight and fiscal risk reporting of state corporations.

21. Uganda's risk of debt distress is moderate (MEFP, ¶28). Fiscal consolidation and the continued prioritization of concessional financing will help keep debt sustainable over the medium term. The Debt Sustainability Analysis prepared during the 1st review indicates that the external debt burden and public debt indicators would remain below their respective thresholds and benchmarks under the baseline scenario. However, stress tests lead to breaches of the thresholds and benchmarks, indicating a moderate risk of overall and external debt distress. Compared with the 1st review, the composition of externally financed capital expenditures has shifted slightly towards grants. The authorities have also indicated their intention to borrow from external commercial banks in FY22/23, but the present value of newly contracted external public and publicly guaranteed debt is line with the target set at the 1st program review. Given the increase in nominal GDP, the medium-term path of the debt-to-GDP ratio has shifted downward relative to the first review.

B. Controlling Inflation

22. Monetary policy should continue on a tightening path. Despite the increase in the policy rate by 3.5 percentage points between May and October 2022, core inflation has risen above the target band of +/-3 percent around the 5 percent target. Inflation is expected to decline gradually throughout 2023, mainly due to anticipated moderation of global commodity prices, improved domestic harvests, and the tightening of monetary policy. Risks to inflation, however, are tilted to the upside, related to potential further global commodity price shocks, and possible adverse weather conditions. An extended period of increases in intermediate input prices could entrench higher inflation expectations among final goods producers and lead core inflation to remain higher for longer than projected in the baseline. In light of these risks, the BoU will need to tighten the stance further (lifting the real policy rate above the current level of around 3 percent and beyond staff's estimate of around 4.5 percent neutral rate[4], as warranted by evolving conditions) to help guide inflation back to the target in the medium term. This is important for preventing further broadening of price increases to other goods and services which, if left unchecked, would increase the potential for inflation to rise persistently above the target.

[4] See Uganda Selected Issues, No. 22/78 March 2022 The Neutral Rate of Interest and its Implications for Monetary Policy

23. Continued efforts are needed to improve monetary transmission (MEFP, ¶29). A recent technical assistance by the IMF confirmed that weakness in monetary transmission is driven by structural impediments such as market concentration, high cost of doing business, inefficient bankruptcy procedures and the crowding out effect of government borrowing. Against this backdrop, the authorities' continued actions to reform and deepen financial markets and reduce the effects of government crowding out would enhance the transmission of monetary policy. The capital market is still characterized by the low level of initial public offers and low liquidity. The National Social Security Fund (NSSF), the dominant investor in the public companies in Uganda, follows a 'buy and hold' strategy, while the mutual funds, whose size has grown remarkably in the last five years, only invest around 1~2 percent of their assets in the equity market. The authorities should spearhead the implementation of the Master Plan for the Capital Market, promote investor education to invigorate market activity, encourage more companies to list in the stock market, and create an enabling environment for private equity funds to catalyze growth of equity finance.

C. Preserving External Buffers

24. Against a backdrop of rising government debt repayments and continued high government imports, and the limited scope to buy FX given the tight global financial conditions, the stock of reserves has declined in recent quarters. The reserve cover fell to 3.6 months of imports in September, close to the lowest level over the past 10 years. Notwithstanding the challenging global environment, the NIR floor of 4 months of next year's imports of goods and services (excluding oil investment related financing and imports) should be restored over the next eighteen months. A robust FX buffer is critical for stability and for boosting investor confidence against the background of elevated government imports (about ¼ of FX reserves in FY22/23) and high government FX debt service (about ¼ of FX reserves in FY22/23). As global financing conditions improve, the BoU should continue its FX purchases as done in November and early December against a backdrop of shilling appreciation. Some foreign investors are also expected to return to the government bond markets as uncertainty around monetary tightening path in advanced economies fades.

25. The government and the BoU have to work urgently and together in rebuilding the reserve buffers (MEFP, ¶30). Continued fiscal consolidation (with strong front-loaded revenue mobilization and reconfiguration of expenditures to protect vital infrastructure and social spending) and monetary tightening would be needed to bring overall domestic absorption more in line with domestic production, lower the current account deficit, and contain the decline in reserves. Exchange rate flexibility (MEFP, ¶31) will reinforce the needed adjustment. More broadly, a flexible exchange rate is essential to preserve buffers and to cushion external shocks. In view of the recent appreciation of the shilling the REER has appreciated by about 2 percent at end-October relative to the average of 2021 (the external sector assessment at the time of the 1st review in March 2022 indicated the REER in 2021 was stronger than the level consistent with long-term fundamentals). A gradual buildup of reserves to US$4.6bn (4 months of import cover) by end-FY23/24 will be supported by BoU FX purchases and efforts to seek more external financing. FX sales to support the currency and mitigate depreciation need to be avoided, except in instances of disorderly market conditions that jeopardize financial stability. Securing further concessional financing will help limit the reliance on commercial borrowing and contain debt service costs. Strengthening project implementation capacity to improve timely action and structural reform momentum would help accelerate the activation of underutilized World Bank concessional loans.

D. Safeguarding Financial Sector Stability and Reforming the Financial Sector

26. Further strengthening financial sector resilience remains a priority (MEFP, ¶32). Banks, having sufficient capital buffers, continue to prudently write off bad loans to further strengthen asset quality. Although the NPLs vary across banks, all banks remain well capitalized thanks to the increase of minimum paid up capital for banks and the introduction of Basel III capital conservation buffer and DSIB buffer that require banks to keep additional capital on top of the core and total capital ratios. All the COVID-19 support measures expired at the end of September 2022. The share of outstanding Credit Relief Measure (CRM) loans to gross loans has declined from a peak of 30.2 percent in September 2020 to 9.9 percent in August 2022. The BoU stress tests indicate that if all performing past-due loans under the CRM move to NPL status and the CBR is raised to 12 percent by March 2023, the aggregate NPL ratio would rise from 5.2 percent to 9.7 percent and all banks except 4 would remain resilient to this shock. Foreign currency loans account for 32.7 percent of total loans but are adequately funded through foreign currency deposits (the FX loan-to-deposit ratio is around 59.5 percent, well below the regulatory ceiling of 80 percent). The credit risks associated with FX exposure are mitigated by the limit on borrowers to access FX credit above 1 year only if their cash flow is in the corresponding currency. Besides increasing the policy rate, BoU has raised the cash reserve requirement by 2 percentage points to 10 percent in June. The liquidity coverage ratio (LCR) of the banking sector decreased from 285.5 percent in September 2021 to 169.5 percent in September 2022, reflecting BOU's tight monetary policy stance. The BoU stress test shows that the consolidated liquidity coverage ratio (LCR) would decline to 149.1 percent and 5 banks will breach the minimum LCR requirement if all banks' liquidity buffers further decline by 10.7 percent. However, the BoU's standing lending facility remains available to any bank facing a short-term liquidity strain. Given that most loans are on variable rates, rising lending rates are expected to increase the debt burden on borrowers. The stress tests indicate that if BoU further increases the CBR to 12 percent to contain inflation while the banks continue to implement forward looking IFRS9 provisioning and write off bad loans at the current rate, the aggregate NPL ratio would rise from 5.2 percent to 5.7 percent, the core capital adequacy ratio would remain at about 21 percent, and all banks except two would be resilient to the shock. Against this background, safeguarding financial sector stability remains paramount. Priorities include: (i) paying close attention to financial sector exposures to risks arising from inflation, tightening of global financial conditions, increasing borrowing costs and capital outflows; (ii) timely monitoring of the impact on credit risk of restructured loans associated with COVID-19 measures; and (iii) implementing regular stress tests and monitoring of banks' loan classification to ensure alignment with international standards (IFRS 9).

27. The implementation of the financial sector reform agenda is advancing (MEFP, ¶33). The authorities issued regulations to the Financial Institutions Act that define fit and proper test criteria for bank shareholders (SB, September 2022). BoU is developing and implementing tools for AML/CFT risk-based supervision for the financial sector (SB, October 2022). While implementation of the supervisory tools is at an advanced stage for the banking sector, the implementation of the tools for the foreign exchange bureaus and money remittance sectors is expected to be completed by May 2023 (proposed reprogrammed SB; MEFP, ¶38). This should pave the way for the adoption of AML/CFT risk-based supervision by BoU. In order to further strengthen financial stability, BoU will adopt cybersecurity guidelines for financial services and issue the new corporate governance regulations (proposed new SB, December 2023). The BoU Board Committee will reach an agreement on the ownership structure for Credit Registration Bureau data consolidated at the Central Data Hub, facilitating the usage of data for the computation of credit scores for all borrowers and indicators for macroprudential regulations (proposed new SB, October 2023),

E. Focusing Structural Reforms on Governance and Private Sector Development

28. Structural reforms are key for unlocking growth potential and creating jobs for Uganda's rapidly growing population (MEFP, ¶34-44) and an essential part of the ECF-supported program. The following priorities—which are aligned with the National Development Plan (NDP III) — remain critical:

- **Mainstream transparency and PFM reforms:** The authorities should continue publishing tax expenditures and procurement contracts with information of beneficial owners. Continued compilation and publication of unpaid invoices quarterly will not only strengthen transparency but also prevent arrears formation.

- **Step up efforts to strengthen Uganda's anti-corruption framework:** Adoption of regulation to lower the barriers on access to asset declarations and to enforce the requirements to declare assets of spouses, children and owned beneficially (SB, March 2022) was not completed due to legal impediments. To improve transparency and support public accountability, the authorities have published information on statistics of timely submission of declarations by senior public officials and applications to access the declarations[5], and names of leaders who were found in breach of asset declaration requirements by the Leadership Code Tribunal[6] (prior action; MEFP, ¶35). The published statistical information includes asset declarations by the President, Vice President, Prime Minister, Deputy Prime Ministers and Attorney General. The Inspectorate of Government will continue to publish the information on an annual basis, and the Leadership Code of Tribunal will publish the information on sanctions as and when the adjudication process is completed (TMU, ¶39-40). To further promote transparency, the Directorate for Ethics and Integrity will publish, in

[5] https://igg.go.ug/media/files/publications/Declarations_non-compliance_2021_UnDMYCd.pdf

[6] https://lct.go.ug/download/sanctioned-leaders-and-public-officers-2021-2022/

relation to the strategic objectives of the National Anti-Corruption Strategy (NACS) 2019-2024, (i) the periodic assessment report against the agreed indicators and targets, and (ii) the annual report for 2022 on the prevalence of corruption and national anticorruption efforts, as guided by the NACS' monitoring and evaluation framework (proposed new SB, November 2023; MEFP¶35). Also, the MoFPED will publish decisions arising from investigations into unauthorized spending that led to sanctions for the period starting from FY20/21 (proposed new SB, June 2023).

- **Accelerate efforts to strengthen the AML/CFT regime:** Uganda's efforts to address the strategic deficiencies identified in the 2016 Mutual Evaluation Report had seen some delays and should be expedited, to enable the country's exit from the FATF's grey list. The Companies' Act has been amended in September 2022 to provide for the definition of beneficial owners, requirements for companies to maintain accurate and up-to-date beneficial ownership information, and establishment of a centralized beneficial ownership register. Stakeholders' consultation is currently underway on the draft regulations to establish a mechanism for timely access to the beneficial ownership information of legal entities (SB, June 2022) and expected to be gazetted by March 2023 (proposed reprogrammed SB).

- **Advance the financial inclusion agenda,** including through strengthening the digital finance infrastructure by establishing the National Switch and Central Data Hub, enhancing digital financial literacy in collaboration with multi-stakeholders, and extending financial services to rural residents by enlarging the agent banking network.

- **Foster climate adaptation,** with appropriate budgeting for the implementation of the disaster risk management plan recently approved by Cabinet and for projects aimed to strengthen water catchment ability and increasing forest coverage.

PROGRAM MODALITIES AND OTHER ISSUES

29. The proposed revisions to December 2022 ITs reflect the changing macroeconomic environment. The authorities request modifications to the following December 2022 ITs: floors on the primary budget balance, NIR, support to vulnerable households, social spending, tax revenues, repayment of outstanding domestic arrears, and the ceiling on net claims on the government by the central bank. The nominal increase in the primary fiscal deficit target in FY22/23 and a change in the planned within-year distribution of spending, relative to the first program review, necessitates a downward revision of the December 2022 IT on the primary budget balance floor. The upward revision of projected tax revenues in the first half of FY22/23 allows for increasing the floor on tax revenues for the December 2022 IT, while the ceiling on net claims on the government by the central bank is revised down slightly to accommodate within-year cashflow management of BoU advances to the government. Given the significant tightening of external financial conditions relative to the 1st program review and expected continued difficult conditions for frontier markets, the December 2022 IT on the NIR floor is proposed to be adjusted, such that gross reserves are allowed to decline from 4 months of imports to 3.6 months at end FY22/23, with an overall objective of bringing them back to the 4-month floor by end-FY23/24. The faster repayment of outstanding domestic arrears in FY22/23 warrants increasing the December 2022 IT on the corresponding floor. Finally, the authorities also requested an increase in the December 2022 IT floor on support to vulnerable households and a decline in the December 2022 IT floor on social spending.

30. Rephasing. The authorities have requested that the availability dates of disbursements linked to the 4th, 5th, and 6th reviews be changed to June 1, 2023; December 1, 2023; and June 1, 2024 (from June 28, 2023; December 28, 2023; and June 14, 2024, respectively) to facilitate disbursement before the end of the month in each case (Table 6b).

31. Structural benchmarks. The March 2022 SB on measures to lower the barriers to access to asset declarations was missed. As this is a key element of the governance agenda and to confirm authorities' commitment to the program, a new prior action for the combined 2nd and 3rd review was set (MEFP, Table 2a). Also, four SBs are proposed to be reprogrammed: introduce legal and regulatory mechanisms for timely and accurate access to beneficial ownership information (March 2023 from September 2022); issue treasury memoranda to address weaknesses raised by the FY20/21 audit (May 2023 from June 2022); the amendments of the BoU act (October 2023 from September 2022); and the development and implementation of tools for risk-based AML/CFT supervision (May 2023 from October 2022). Finally, the following new SBs are proposed to reinforce the goals of the program (i) improving the targeting and efficiency of social spending through tracking of the use of funds under the PDM (SB, June 2023); (ii) accurately identifying post-COVID-19 re-enrollment and teacher allocations across schools (SB, December 2023); (ii) domestic revenue mobilization through the design of a medium-term ICT strategy supported by a plan for the procurement of a new Integrated Tax Administration System (SB, May 2023); (iv) promoting financial inclusion and strengthening of financial stability through issuing a resolution on the ownership structure for data collected by the Central Data Hub as a prerequisite for the use of Credit Registration Bureau data (SB, June 2023) and (v) adopting the new corporate governance regulation in line with the principles provided in the Basel Committee on Banking Supervision's guidelines (SB, December 2023) ; and (vi) strengthening governance through the publication of the periodic assessment report against the agreed indicators and targets, and the annual report for 2022 on the prevalence of corruption and national anti-corruption efforts (SB, May 2023), and (vii) publishing of decisions arising from investigations into unauthorized spending that led to sanctions starting from FY20/21 (SB, June 2023).

32. The program is fully financed. New commercial syndicated loans are expected and the planned use of half of the August 2021 SDR allocation in FY22/23 will contribute to closing the fiscal financing gap. There are firm commitments for the first 12 months, and good prospects for financing for the remainder of the arrangement. Staff encouraged the authorities to persevere in seeking grants and concessional loans.

33. Uganda retains an adequate capacity to repay the Fund (Table 9). The total amount of Fund outstanding credit would peak at SDR1,083 million, or 300 percent of quota in 2024, equivalent to 2.9 percent of GDP, 19.6 percent of exports of goods and services and 53.4 percent of gross international reserves. Repayments to the IMF are expected to peak at 2.2 percent of exports of goods and services and 4.5 percent of reserves in 2029. Considering the strong track record of servicing debt and Uganda's moderate level of public debt and continued access to concessional financing, risks to Uganda's capacity to repay would remain moderate even if the downside risks discussed in Annex I were to materialize.

Text Table 6. Uganda: External Financing between FY20/21 and FY23/24

(Millions of US$)

	FY2020/21	FY2021/22		FY2022/23		FY2023/24	
	Actual	1st review	Actual	1st review	Rev. Prog.	1st review	Rev. Prog.
Financing needs	4,076	3,322	3,655	4,104	3,990	5,654	6,314
Current account deficit	3,837	3,536	3,591	4,194	4,418	5,196	5,515
Net payment to the IMF	0	0	0	0	0	0	0
Reserve accumulation (+=increase)	239	-214	65	-90	-428	458	799
Financing sources	3,373	3,308	3,039	3,850	3,641	5,400	6,081
ow World Bank 1/	374	199	199	126	126	126	126
ow AfDB	0	33	32	0	0	0	0
ow commercial banks	289	818	432	0	455	100	750
BOP financing gap	233	253	116	253	349	253	233
ECF	233	253	116	253	349	253	233
DSSI	0	0	0	0	0	0	0

Sources: Authorities and IMF staff estimates and projections.

1/ It includes Covid-19 Economic Crisis and Recovery Development Policy Financing approved by the Bank prior to FY20/21 and disbursed in FY20/21, UGIFT and financing for vaccination (both loans and grants, given the higher share of grants following the shift to moderate debt distress as a result of the previous DSA).

34. Work continues on implementing the 2021 safeguards assessment recommendations (MEFP ¶16). The revised principles amending the BoU Act (SB, October 2023) will be resubmitted to Cabinet and will address, inter alia, concerns raised on autonomy, specifically establishing a limit on the provision of credit to the government through various channels. These principles will then be incorporated into a draft amendment Bill which will be submitted to Parliament for adoption. Pending legal amendments, the BoU Board has resolved that only independent Board members shall sit at the central bank's audit committee, and the committee's charter will be revised accordingly. The currency masterplan has been approved and is being implemented to strengthen currency operations, and the BoU Board receives a half year currency operations report. Work is underway to reduce the cost of currency in circulation and review the foreign reserves investment policy.

35. Program risks and mitigation measures. The program faces manageable risks: further waves of COVID-19; a resurgence of Ebola cases; social unrest or security challenges; delayed implementation of fiscal measures and social spending; higher frequency and severity of natural disasters. In each of these cases, risks are mitigated by Uganda's moderate level of public debt, which would provide space to address risks and continue program implementation.

36. Data provision. Data provision is broadly adequate for surveillance and program monitoring. Further progress is needed in statistics, particularly fiscal and real sectors. Capacity development is well-aligned with program objectives, with priorities focusing on revenue mobilization, public financial management, banking supervision and governance, payment systems and central bank communications.

STAFF APPRAISAL

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

38. Risks to growth are on the downside, while inflation could turn out higher than projected. Key risks to the outlook include a larger-than-expected impact of the spillovers from the war in Ukraine, tighter global financial conditions, an intensification of the Ebola outbreak, a new Covid-19 wave, and delayed reform implementation. Materialization of such risks could drag growth below and drive inflation above the baseline forecast

39. Program performance. While most QPCs and ITs were met in March, June, and September 2022, the implementation of the structural reform agenda has been slower-than-expected against the backdrop of delays in inter-agency coordination and legal/legislative constraints. Given the deteriorating external environment and the sharp acceleration in inflation, staff supports the authorities' request for a small increase in the fiscal deficit target for FY 22/23 with the aim of providing support to vulnerable households and introducing cost-of-living adjustments in the public sector. The revised target strikes a balance between maintaining the path of fiscal consolidation while providing near-term support. The temporary deviation of the reserve cover is also appropriate given the tighter global financial conditions. Nonetheless, the authorities' commitment to medium-term fiscal consolidation and the 4-month reserve cover remains essential to achieving program objectives.

40. Revenue-based fiscal consolidation remains crucial to keep debt sustainable over the medium term while creating space for social spending. The full implementation of the DRMS and strong front-loaded revenue mobilization, including through the rationalization of tax expenditures, will help maintain the debt-to-GDP ratio on a declining path, and allow for an increase in social spending over the medium term. The adoption of the tax exemption rationalization plan (0.1 percent of GDP saving in FY 22/23 and 0.2 percent thereafter) is an important component of the revenue mobilization effort. Further reductions in tax exemptions will increase the revenue base and contribute to ensuring that the debt-to-GDP ratio remains on a declining path over the medium term. MoFPED should identify areas for repealing tax exemptions, outline the intended yields, and establish a clear timeline for implementation. Uganda's debt remains sustainable, with a moderate risk of debt distress.

41. **Monetary policy should continue to tighten to achieve the core inflation target.** In light of the acceleration in core CPI and the upside risks to inflation, the BoU will need to tighten the monetary policy stance further in a data-dependent manner to help guide inflation back to the target over the medium term.

42. **Tight macro policies and exchange rate flexibility will help strengthen external buffers.** The stock of FX reserves has declined in light of tighter global financial conditions and elevated government imports financed through central bank reserves. Continued fiscal consolidation (including reducing government imports) and monetary tightening are essential to bring overall domestic absorption more in line with domestic production, reduce the current account deficit, and contain the decline in reserves. In case global financial conditions turn out tighter than anticipated, making the cost of external commercial borrowing excessive, the authorities should stand ready to tighten the fiscal stance further. Exchange rate flexibility will reinforce the needed adjustment and is essential to preserve buffers. FX sales to support the currency and mitigate depreciation need to be avoided, except in instances of disorderly market conditions that jeopardize financial stability. Securing further concessional financing will reduce the reliance on external commercial borrowing and limit debt service costs. Strengthening implementation capacity and structural reform momentum would also help accelerate the activation of underutilized World Bank concessional loans.

43. **Financial stability risks should be minimized.** The banking sector remains well capitalized, while liquidity has declined. The limit on financial institutions' net open position in foreign currency has been lowered. Against this backdrop, safeguarding financial stability and strengthening the supervisory framework remain paramount.

44. **Structural reforms remain key to unlock Uganda's growth potential and require more proactive efforts.** Priorities include enhancing domestic revenue mobilization, strengthening the anti-corruption framework and the AML/CFT regime, advancing the financial inclusion agenda, and climate adaptation measures. The authorities should sustain efforts to improve transparency of implementation of the asset declaration framework including sanctions enforcement for violations. Making information publicly available on the implementation progress of the National Anti-Corruption Strategy will strengthen effectiveness of the strategy and improve public accountability. Staff encourages the authorities to expedite measures to complete the remaining items under their action plan as agreed with FATF to exit the grey list.

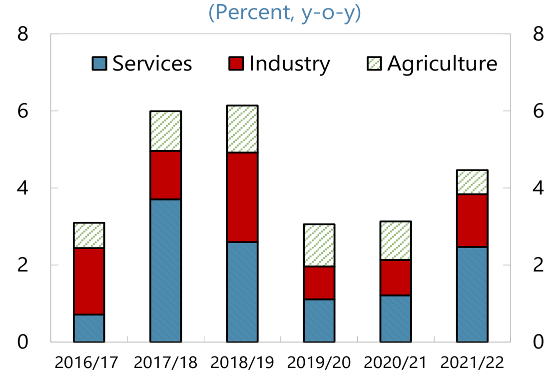
45. **The implementation of the safeguard's assessment recommendations will help strengthen BoU's independence.** The proposed BoU Amendment Act and the new risk management framework will help protect central bank autonomy and reinforce the credibility of the inflation-targeting monetary policy framework.

46. **Staff supports the authorities' requests for completion of the Combined Second and Third Review, as well as for the waiver of nonobservance of the end-September PC on net international reserves, the modification of ITs and SBs, and the rephasing of access under the ECF arrangement.**

Figure 1. Activity, Inflation and Exchange Rate Developments

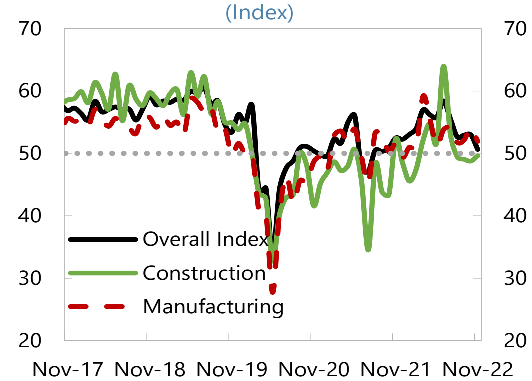
Driven by the strong recovery in services, growth in FY21/22 was higher than expected.

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



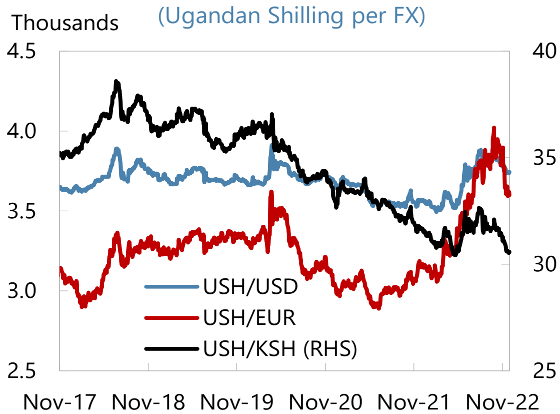
Business perceptions and other leading indicators remain positive though less optimistic, reflecting global trends.

Business Tendency Indicators
(Index)



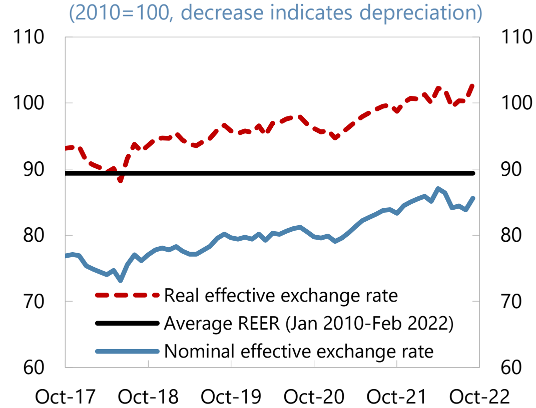
The Shilling has gained ground in recent months…

Nominal Exchange Rate
(Ugandan Shilling per FX)



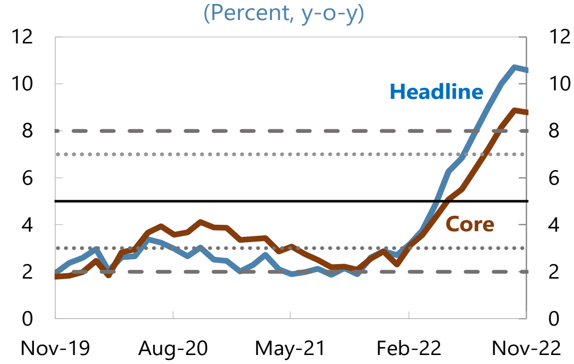
…contributing to a slight REER appreciation.

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



Core inflation remains above the target while headline inflation reached double-digit territory in September….

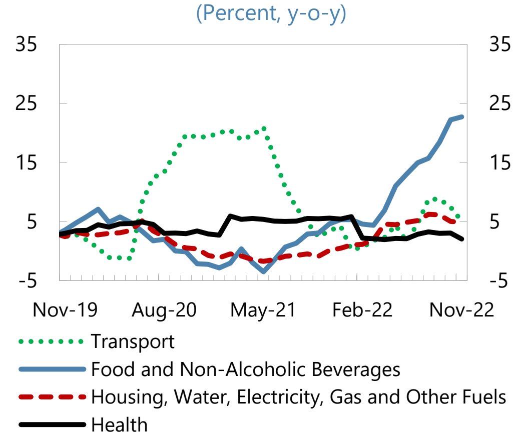
Inflation Rates*
(Percent, y-o-y)



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

…on the back of the sharp increase in food and energy prices.

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

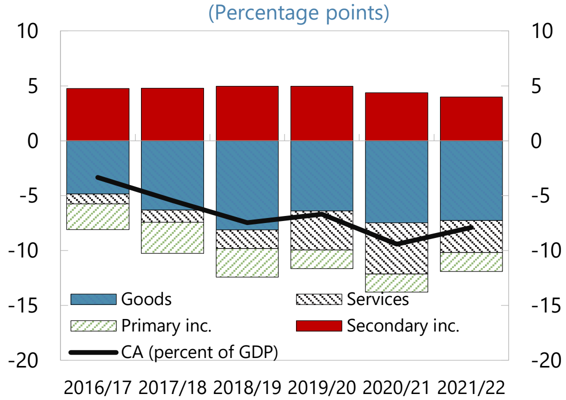


Source: Uganda Authorities and IMF staff calculations

Figure 2. External Sector Developments

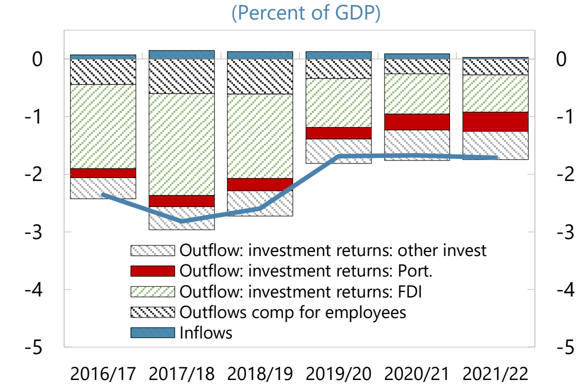
The current account deficit remained elevated despite improvements in services trade…

Contributions to Current Account
(Percentage points)



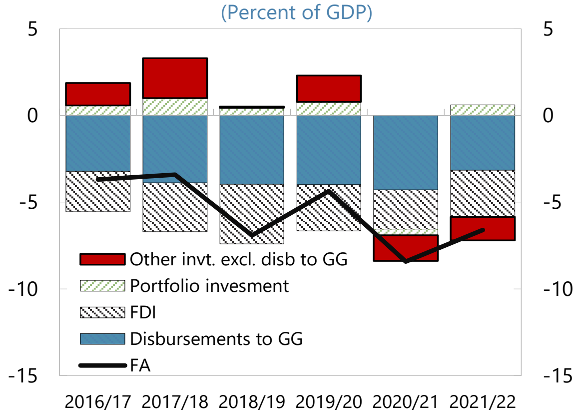
…and the primary income balance was stable at a low level.

Contributions to Primary Income Balance
(Percent of GDP)



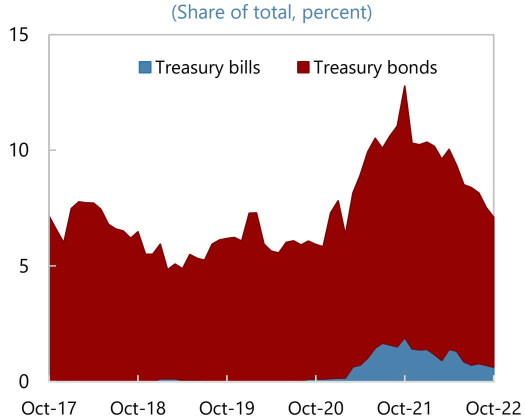
The deficit is mainly financed by FDI and budget and project support loans….

Financial Account
(Percent of GDP)



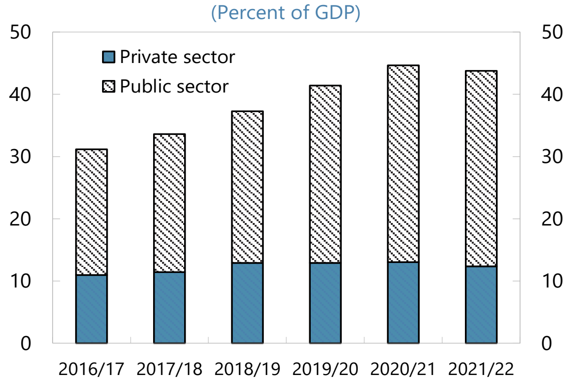
… and foreign investors' holding of government debt has declined but remains high.

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



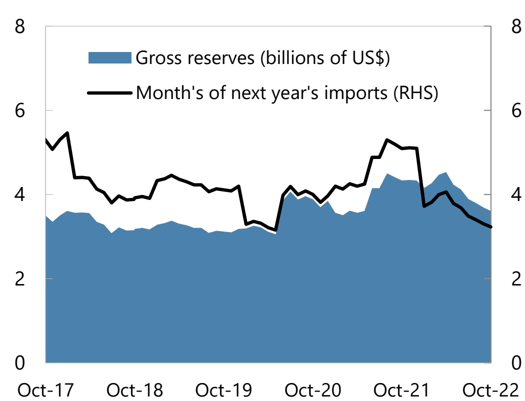
The government's foreign currency borrowing remained broadly unchanged.

External Debt
(Percent of GDP)



The reserve buffer has declined, reflecting in part tighter global financial conditions.

International Reserve Buffers



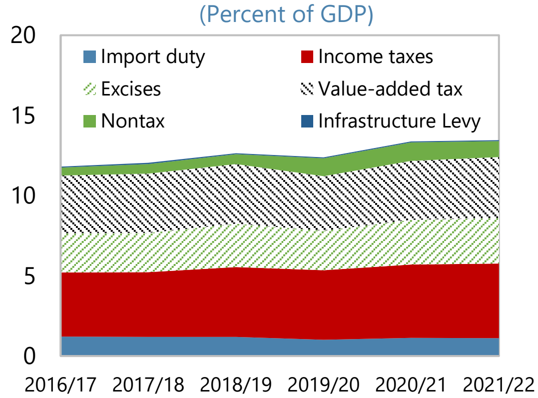
Source: BoU and IMF staff calculations

Figure 3. Fiscal Developments

Despite the underperformance of non-tax revenues, domestic revenues increased in FY21/22, mainly driven by VAT…

Tax & Non-tax Revenue

(Percent of GDP)

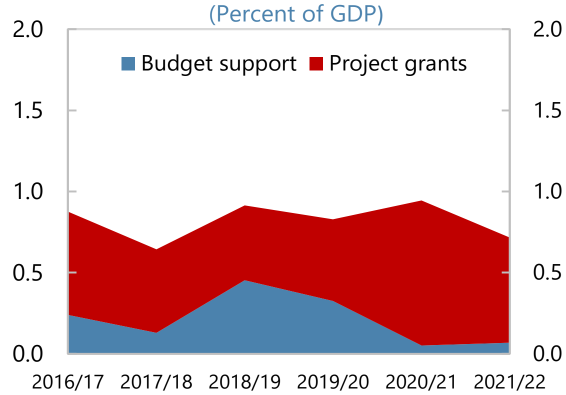


* Nontax revenues include oil revenues as well.

…while grants decreased.

Grants

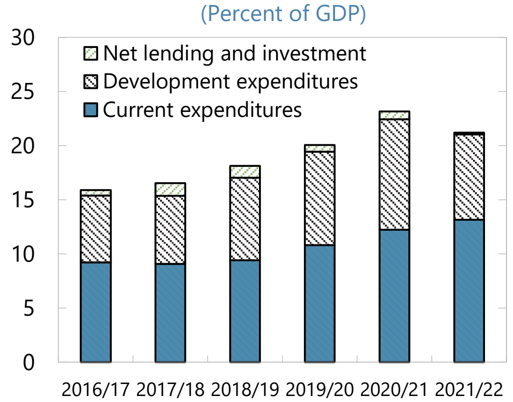
(Percent of GDP)



Revenue shortfalls were more than offset by low spending execution…

Total Expenditures

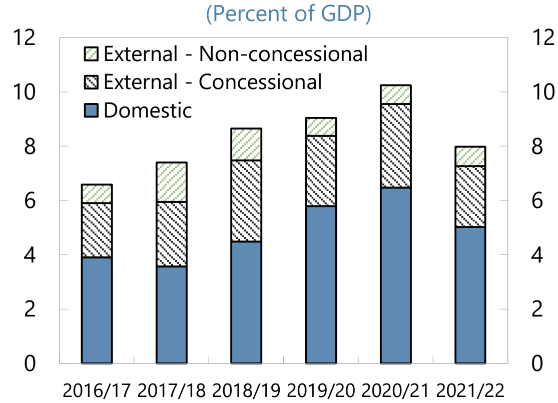
(Percent of GDP)



…and development expenditure were mainly financed domestically.

Development Expenditures

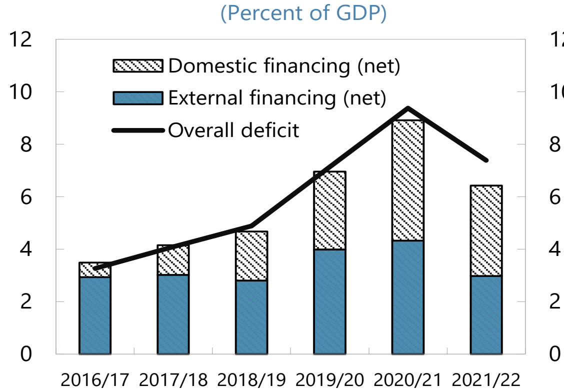
(Percent of GDP)



As a result, the fiscal deficit was lower than expected at the conclusion of the 1st program review…

Overall Deficit

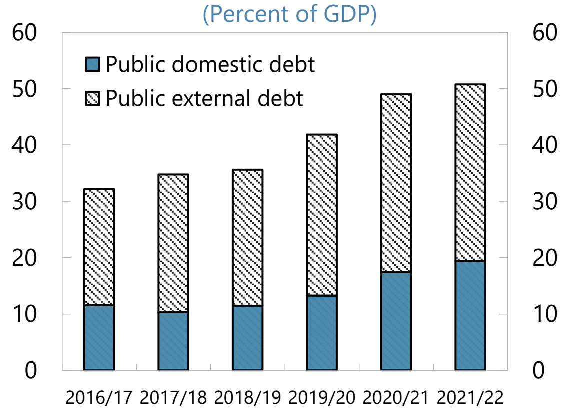
(Percent of GDP)



…while the debt composition remained broadly unchanged.

Public Debt

(Percent of GDP)

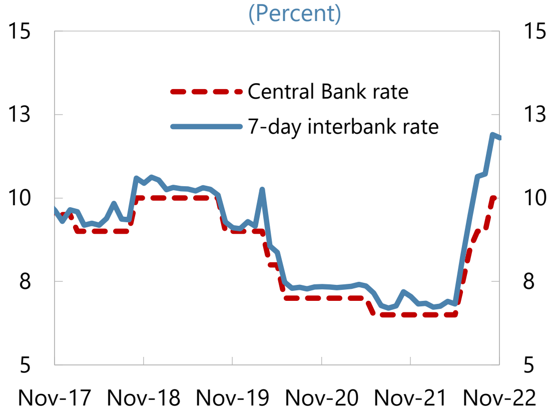


Source: BoU and IMF staff calculations

Figure 4. Monetary Developments

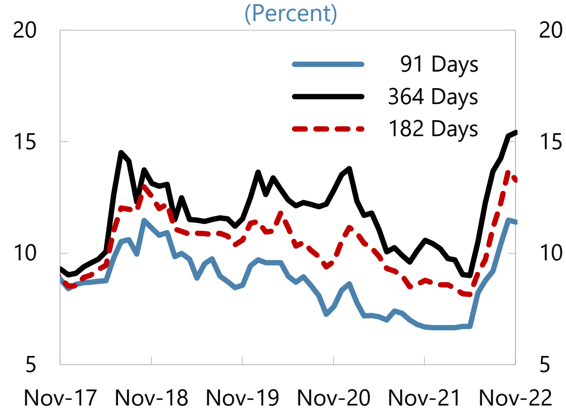
After being reduced to its lowest since 2011, the policy rate was increased rapidly to battle rising inflation...

Central Bank and Interbank Rates
(Percent)



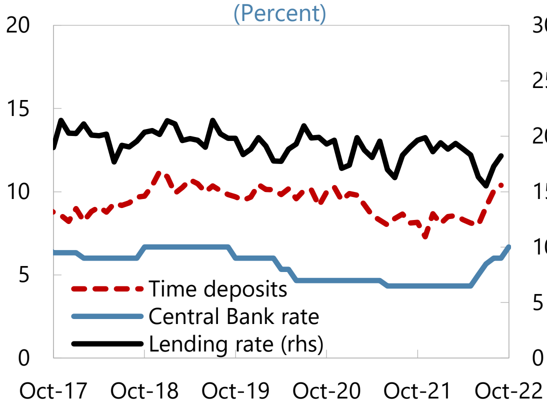
... and yields have also risen in response to inflation.

Evolution of Treasury Bill Rates
(Percent)



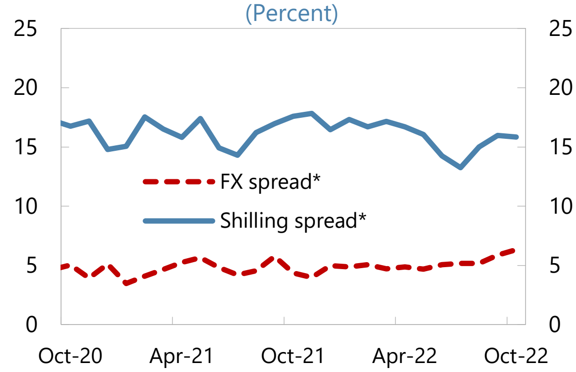
Lending rates have remained sticky...

Interest Rate Structure
(Percent)



...and the spread between FX and shilling rates was stable.

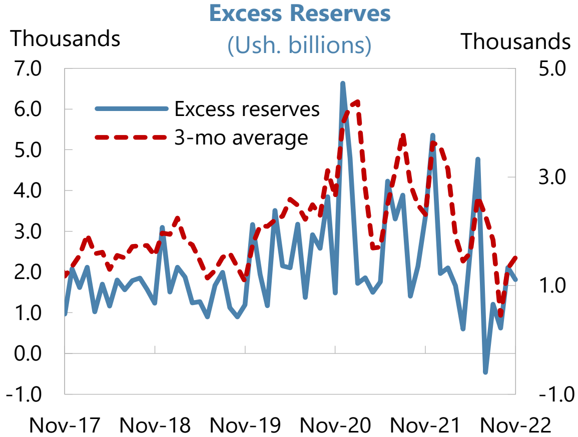
Interest Rate Spreads
(Percent)



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

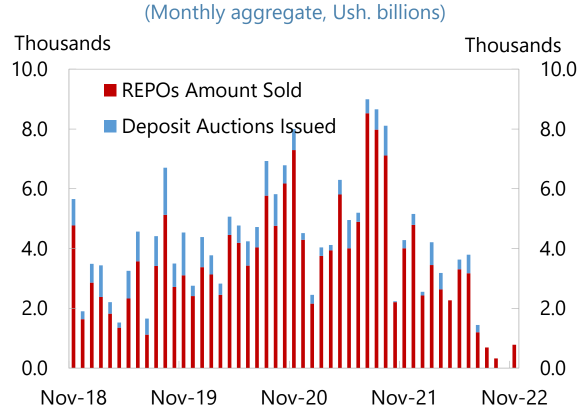
Excess liquidity has fallen as overall liquidity in the system has tightened...

Excess Reserves
(Ush. billions)



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

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

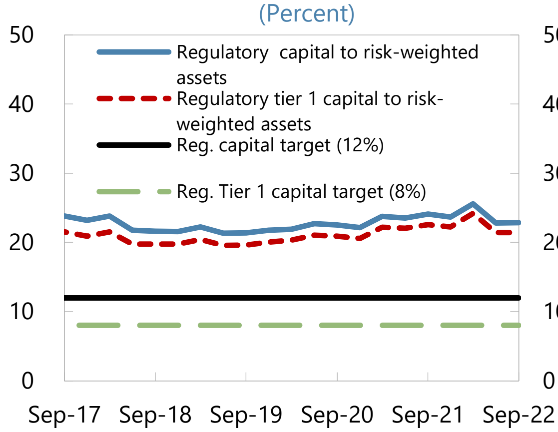


Source: BoU and IMF staff calculations

Figure 5. Financial Sector Developments

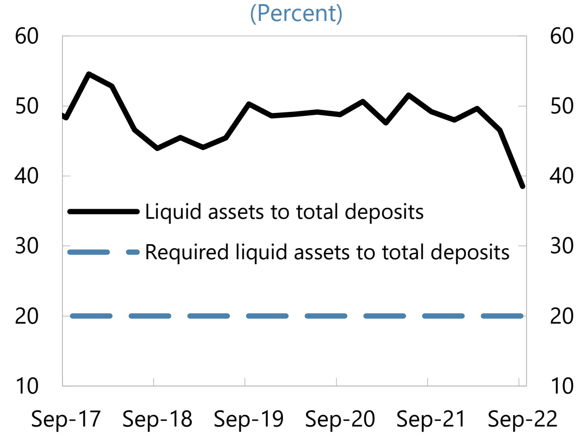
Banks remain well capitalized...

Selected Financial Sector Indicators
(Percent)



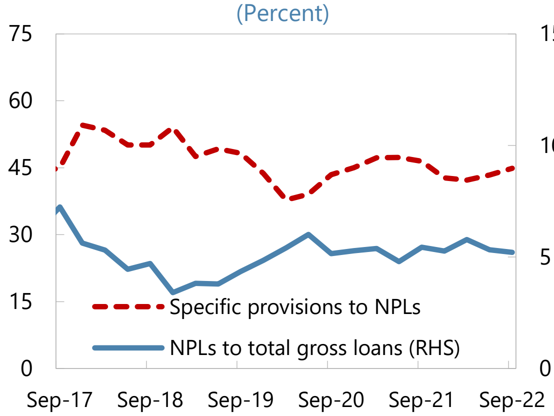
...although the liquidity buffers have declined.

Liquidity Ratio
(Percent)



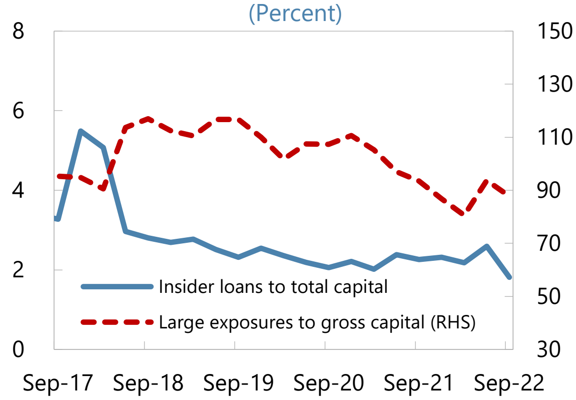
Asset quality appears to be gradually improving due to increase in loan write-offs...

Selected Asset Quality Indicators
(Percent)



...while provisioning continues to increase...

Asset Quality: Large Exposures [1]
(Percent)



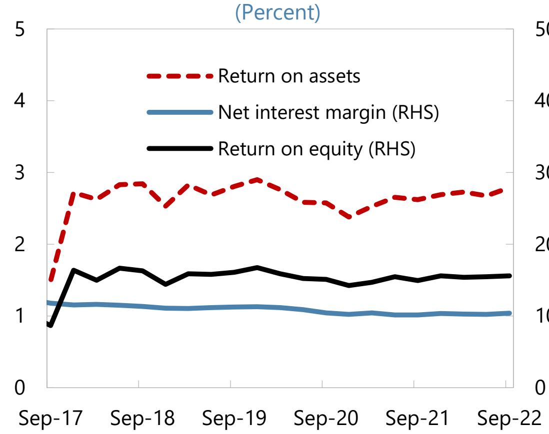
[1] Data include Crane bank that has been taken over and sold.

Source: BoU and IMF staff calculations

Figure 6. Other Financial Sector Developments

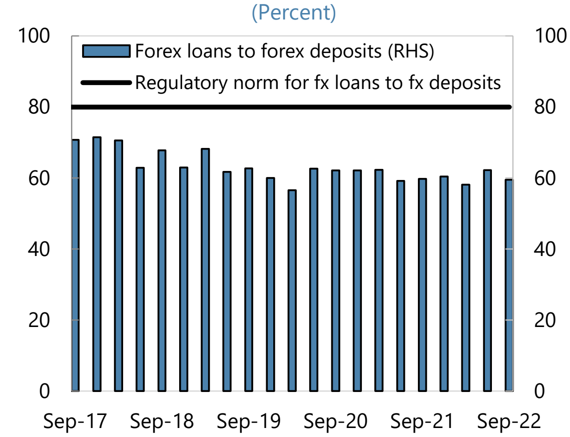
Banks' earnings have started showing some recovery.

Earnings and Profitability
(Percent)



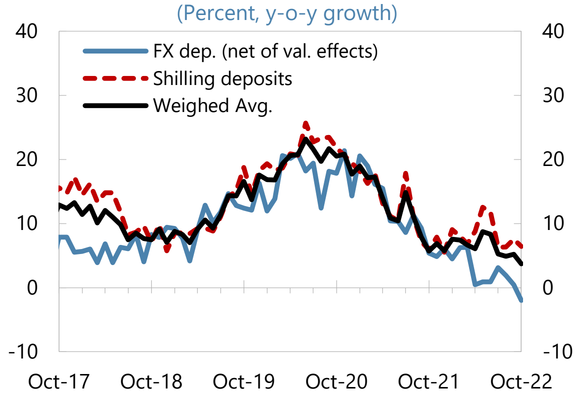
Foreign exchange loans remain below regulatory limits.

Market Sensitivity
(Percent)



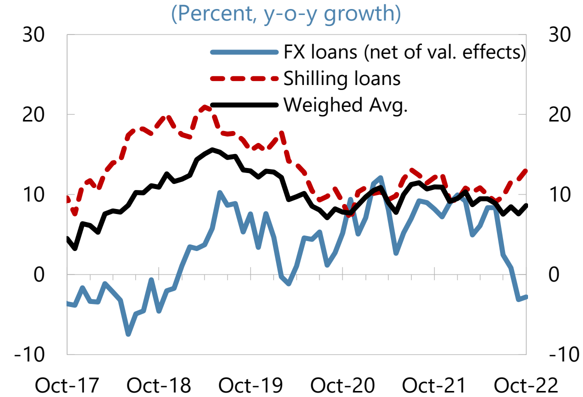
Forex deposit growth has lagged that of shilling deposits, and overall growth is coming down.

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



Private sector credit growth remains subdued.

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

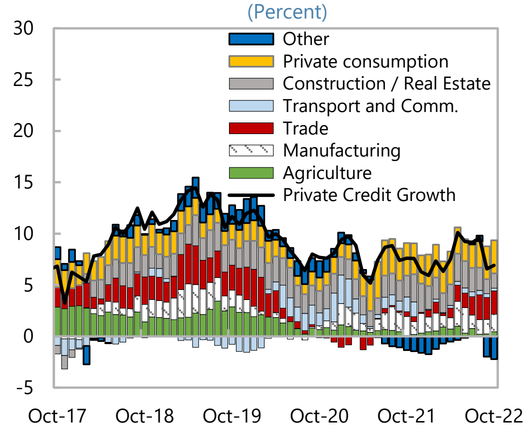


The stock market declined again after an initial recovery following the lifting of COVID containment measures

Stock Market Index
(Index)

Private sector credit growth is driven by consumption loans, construction, manufacturing and trade.

Contribution to Private Credit Growth
(Percent)



Source: BoU and IMF staff calculations

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

	2020/21	2021/22		2022/23		2023/24		2024/25	2025/26	2026/27
	Act.	1st Review	Act.	1st Review	Rev. Prog.	1st Review	Rev. Prog.	Proj.		
	(Annual percentage change, unless otherwise indicated)									
Output, prices, and exchange rate										
Real GDP	3.5	3.8	4.7	6.0	5.3	6.5	6.0	6.6	7.1	7.0
Non-Oil real GDP	3.5	3.8	4.7	6.0	5.3	6.5	6.0	6.2	6.1	6.0
GDP deflator	2.5	2.8	4.8	4.0	7.6	5.3	6.7	5.1	5.0	5.0
Headline inflation (period average)	2.5	3.5	3.4	4.6	8.3	5.0	7.2	5.5	5.0	5.0
Core inflation (period average)	3.5	3.0	3.2	4.4	7.5	5.0	6.8	5.0	5.0	5.0
Terms of trade ("–" = deterioration)	-6.7	8.1	2.5	1.1	-1.7	1.1	1.2	2.7	2.5	2.1
Exchange Rate (Ugandan Shilling/US$)	-1.5	…	-2.4	…	…	…	…	…	…	…
Real effective exchange rate ("–" = depreciation)	0.6	…	3.7	…	…	…	…	…	…	…
Money and credit										
Broad money (M3)	8.5	9.1	10.0	11.5	14.5	14.8	12.6	12.3	12.7	12.3
Credit to non-government sector	8.3	12.0	11.0	13.5	8.3	14.0	12.8	13.2	14.3	15.5
Bank of Uganda policy rate (percent)[3]	6.5	6.5	7.5	…	…	…	…	…	…	…
M3/GDP (percent)	22.0	22.5	22.0	22.8	22.3	23.3	22.2	22.2	22.3	22.3
NPLs (percent of total loans)[3]	4.8	5.4	5.3	…	…	…	…	…	…	…
	(Percent of GDP, unless otherwise indicated)									
Central government budget										
Revenue and grants	14.3	14.8	14.1	14.6	15.1	15.1	15.5	16.0	17.6	18.8
Of which: grants	0.9	1.1	0.7	0.5	1.2	0.4	1.1	1.0	0.8	0.6
Of which: oil revenue	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1	1.4	2.3
Expenditure	23.7	22.2	21.5	19.3	20.2	18.7	19.0	19.5	20.8	20.3
Of which: Current	12.2	12.7	13.1	11.0	12.5	11.0	12.0	11.7	12.2	12.2
Of which: Capital[4]	10.2	9.0	7.9	8.1	7.1	7.6	6.8	7.7	8.5	7.7
Primary balance	-6.7	-4.4	-4.3	-1.8	-1.8	-0.7	-0.3	-0.9	-0.7	0.7
Overall balance	-9.4	-7.5	-7.4	-4.7	-5.1	-3.5	-3.5	-3.5	-3.2	-1.5
Excluding budget support grants	-9.4	-7.5	-7.4	-4.7	-5.1	-3.5	-3.5	-3.5	-3.2	-1.5
Of which: Net domestic borrowing	4.6	3.0	3.4	2.1	2.0	1.2	0.4	1.6	0.6	-0.5
Public debt										
Public gross debt[5]	49.0	52.9	50.6	53.1	50.9	52.1	49.6	48.6	47.1	44.0
External[6]	31.6	34.1	31.3	34.1	31.9	34.0	32.4	31.8	31.8	31.0
Domestic	17.4	18.8	19.3	19.0	19.0	18.1	17.2	16.8	15.3	13.0
Investment and savings										
Investment	28.4	27.4	26.2	30.8	25.5	35.4	25.4	26.4	27.2	26.8
Public	10.2	9.0	7.9	8.1	7.1	7.6	6.8	7.7	8.5	7.7
Private	18.2	18.3	18.2	22.7	18.2	27.8	18.6	18.6	18.7	18.7
Savings	19.0	19.4	18.3	22.0	16.2	25.5	14.8	13.4	14.2	15.2
Public	0.4	1.1	0.1	3.1	1.7	3.8	2.8	3.8	4.9	6.3
Private	18.5	18.3	18.2	18.9	14.6	21.6	11.9	9.7	9.2	8.9
External sector										
Current account balance	-9.5	-8.0	-7.9	-8.8	-9.2	-9.9	-10.7	-13.0	-13.0	-11.6
Current account balance (excluding grants)	-9.6	-8.1	-8.1	-8.8	-9.3	-10.0	-10.7	-13.0	-13.3	-11.9
Exports (goods and services)	16.5	16.4	12.2	16.6	15.9	16.6	15.0	15.4	16.7	18.0
Imports (goods and services)	28.7	26.8	22.4	27.4	25.7	28.5	23.6	24.1	23.8	22.2
Gross international reserves										
In billions of US$	4.2	4.2	4.1	4.1	3.7	4.5	4.5	4.9	5.6	5.3
In months of next year's imports of goods and services	4.9	3.8	3.7	3.3	3.0	3.2	3.1	3.2	3.5	3.6
Memorandum items:										
GDP at current market prices										
Ush. billion	148,310	157,884	162,721	174,042	184,254	195,179	208,356	233,457	262,544	294,782
US$ billion	40.5	44.0	45.6	47.9	47.8	52.2	51.7	56.1	61.2	66.6
GDP per capita (Nominal US$)	969	1,022	1,057	1,078	1,077	1,142	1,132	1,191	1,262	1,321
Population (million)[7]	41.8	…	43.1	…	…	…	…	…	…	…
Interest payments (in percent of revenue)	20.1	23.0	22.8	20.7	23.8	19.2	22.0	17.2	14.6	11.7
Gross international reserves excluding oil project financing and investment related imports (in mths of imports)	4.9	4.2	4.0	4.0	3.7	4.1	4.0	4.2	4.6	5.0

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 2016/17 rebased GDP.

[3] Latest available data. NPLs: Sep-2021; BoU policy rate: Dec-2021.

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

[5] Debt is on a residency basis.

[6] External debt includes publicly guaranteed debt.

[7] Based on revised figures after the 2014 census by the Uganda Bureau of Statistics.

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

(Billions of Ugandan Shillings)

	2020/21	2021/22		2022/23		2023/24		2024/25	2025/26	2026/27
	Act.	1st review	Act.	1st review	Rev. Prog.	1st review	Rev. Prog.	Proj.		
Total revenue and grants	**21,239**	**23,295**	**22,992**	**25,418**	**27,783**	**29,551**	**32,220**	**37,341**	**46,150**	**55,459**
Revenue	19,839	21,501	21,830	24,585	25,551	28,854	29,934	35,030	44,121	53,707
Tax	18,337	20,305	20,425	23,265	23,965	27,087	28,153	32,712	38,100	44,253
Import duty	1,403	1,873	1,557	2,355	2,551	2,778	2,963	3,514	4,226	4,996
Income taxes	6,805	7,298	7,543	8,075	8,265	9,179	9,564	11,112	12,817	14,851
Excises	4,119	4,476	4,600	4,839	4,890	5,869	6,025	6,913	7,976	9,307
Value-added tax	5,439	5,579	6,148	6,516	6,732	7,488	7,769	9,051	10,531	12,158
Infrastructure levy	95	97	114	111	115	133	138	166	195	230
Other taxes	476	980	462	1,369	1,412	1,639	1,694	1,957	2,354	2,710
Nontax	1,502	1,196	1,405	1,320	1,586	1,767	1,781	2,318	6,020	9,454
o/w: Oil revenue	141	0	0	0	0	0	0	306	3,733	6,890
Grants	1,400	1,794	1,162	833	2,232	698	2,286	2,312	2,029	1,752
Budget support	75	91	108	59	78	20	40	30	31	0
Project grants	1,325	1,703	1,054	774	2,154	678	2,247	2,281	1,999	1,752
Expenditures and net lending	**35,140**	**35,114**	**34,967**	**33,568**	**37,175**	**36,418**	**39,513**	**45,577**	**54,517**	**59,737**
Current expenditures	18,165	20,088	21,324	19,119	23,055	21,433	25,097	27,299	32,016	35,855
Wages and salaries	5,180	5,625	5,628	5,533	6,868	6,234	7,573	8,284	9,799	11,600
Interest payments	3,990	4,947	4,966	5,095	6,071	5,538	6,578	6,023	6,433	6,273
Other current	8,995	9,516	10,730	8,490	10,115	9,661	10,945	12,992	15,783	17,982
Development expenditures	15,085	14,276	12,785	14,054	13,160	14,785	14,216	18,078	22,301	22,689
Externally-financed projects	5,479	5,712	4,644	6,381	6,385	5,858	6,871	9,708	12,290	10,715
Of which: Non-concessional borrowing	908	1,416	72	1,742	966	2,388	1,397	4,374	6,860	6,241
Government of Uganda investment	9,606	8,564	8,141	7,674	6,775	8,927	7,345	8,370	10,011	11,974
Of which: Oil-related investment	0	761	758	1,249	1,324	893	962	524	88	0
Net lending and investment	1,096	147	252	0	298	0	0	0	0	993
Hydro-power projects	159	147	252	0	298	0	0	0	0	993
Recapitalization	482	0	0	0	0	0	0	0	0	0
Of which: Bank of Uganda	482	0	0	0	0	0	0	0	0	0
Other net lending	455	0	0	0	0	0	0	0	0	0
Other spending (incl. arrears clearance)	794	603	606	396	662	200	200	200	200	200
Overall balance	**-13,902**	**-11,819**	**-11,974**	**-8,150**	**-9,392**	**-6,867**	**-7,292**	**-8,236**	**-8,367**	**-4,278**
Primary balance	**-9,912**	**-6,872**	**-7,008**	**-3,056**	**-3,320**	**-1,329**	**-714**	**-2,213**	**-1,934**	**1,995**
Financing	**13,229**	**10,015**	**9,993**	**7,230**	**7,081**	**5,921**	**6,355**	**8,236**	**8,367**	**4,278**
External financing (net)	6,431	6,139	4,407	3,541	4,362	3,500	5,458	4,596	6,699	5,715
Disbursement	7,384	7,565	6,123	5,834	6,664	5,984	8,108	7,660	10,553	10,251
Budget support	3,265	3,453	2,059	227	2,136	804	3,483	233	263	295
Concessional project loans	3,101	2,593	2,890	3,865	3,265	2,792	3,227	3,052	3,431	2,723
Non-concessional project loans	1,019	1,519	1,174	1,742	1,264	2,388	1,397	4,374	6,860	7,233
Amortization (–)[2,3]	-954	-1,426	-1,716	-2,294	-2,303	-2,484	-2,649	-3,064	-3,855	-4,535
Exceptional financing	0	0	0	0	0	0	0	0	0	0
Domestic financing (net)	6,798	3,875	5,585	3,689	2,720	2,421	896	3,639	1,668	-1,437
Bank financing	2,425	2,228	2,735	1,220	321	586	-177	1,820	1,118	-346
Bank of Uganda[3]	198	580	384	-1,250	-2,078	-1,250	-1,251	0	568	745
Commercial banks	2,227	1,648	2,351	2,470	2,399	1,836	1,074	1,820	550	-1,091
Nonbank financing	4,373	1,648	2,851	2,470	2,399	1,836	1,074	1,820	550	-1,091
Financing gap	**673**	**1,804**	**1,981**	**920**	**2,310**	**946**	**938**	**0**	**0**	**0**
Use of SDR Allocation		896	0		964					
ECF		908	416	920	1,346	946	938			
Memorandum Items:										
Social spending (excluding external financing)	5,210	6,303	5,980	6,165	6,847	7,002	7,786	9,056	10,610	12,395
Security spending (excluding external financing)	5,213	4,222	4,303	2,443	3,688	2,642	2,966	3,218	3,681	4,288

Sources: Ugandan authorities and IMF staff estimates and projections.

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

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

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

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

(Percent of GDP)

	2020/21	2021/22		2022/23		2023/24		2024/25	2025/26	2026/27
	Act.	1st review	Act.	1st review	Rev. Prog.	1st review	Rev. Prog.	Proj.		
Total revenue and grants	**14.3**	**14.8**	**14.1**	**14.6**	**15.1**	**15.1**	**15.5**	**16.0**	**17.6**	**18.8**
Revenue	13.4	13.6	13.4	14.1	13.9	14.8	14.4	15.0	16.8	18.2
Tax	12.4	12.9	12.6	13.4	13.0	13.9	13.5	14.0	14.5	15.0
Import duty	0.9	1.2	1.0	1.4	1.4	1.4	1.4	1.5	1.6	1.7
Income taxes	4.6	4.6	4.6	4.6	4.5	4.7	4.6	4.8	4.9	5.0
Excises	2.8	2.8	2.8	2.8	2.7	3.0	2.9	3.0	3.0	3.2
Value-added tax	3.7	3.5	3.8	3.7	3.7	3.8	3.7	3.9	4.0	4.1
Infrastructure levy	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other taxes	0.3	0.6	0.3	0.8	0.8	0.8	0.8	0.8	0.9	0.9
Nontax	1.0	0.8	0.9	0.8	0.9	0.9	0.9	1.0	2.3	3.2
o/w: Oil revenue	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1	1.4	2.3
Grants	0.9	1.1	0.7	0.5	1.2	0.4	1.1	1.0	0.8	0.6
Budget support	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project grants	0.9	1.1	0.6	0.4	1.2	0.3	1.1	1.0	0.8	0.6
Expenditures and net lending	**23.7**	**22.2**	**21.5**	**19.3**	**20.2**	**18.7**	**19.0**	**19.5**	**20.8**	**20.3**
Current expenditures	12.2	12.7	13.1	11.0	12.5	11.0	12.0	11.7	12.2	12.2
Wages and salaries	3.5	3.6	3.5	3.2	3.7	3.2	3.6	3.5	3.7	3.9
Interest payments	2.7	3.1	3.1	2.9	3.3	2.8	3.2	2.6	2.5	2.1
Other current	6.1	6.0	6.6	4.9	5.5	5.0	5.3	5.6	6.0	6.1
Development expenditures	10.2	9.0	7.9	8.1	7.1	7.6	6.8	7.7	8.5	7.7
Externally-financed projects	3.7	3.6	2.9	3.7	3.5	3.0	3.3	4.2	4.7	3.6
Of which: Non-concessional borrowing	0.6	0.9	0.0	1.0	0.5	1.2	0.7	1.9	2.6	2.1
Government of Uganda investment	6.5	5.4	5.0	4.4	3.7	4.6	3.5	3.6	3.8	4.1
Of which: Oil-related investment	0.0	0.5	0.5	0.7	0.7	0.5	0.5	0.2	0.0	0.0
Net lending and investment	0.7	0.1	0.2	0.0	0.2	0.0	0.0	0.0	0.0	0.3
Hydro-power projects	0.1	0.1	0.2	0.0	0.2	0.0	0.0	0.0	0.0	0.3
Recapitalization	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: Bank of Uganda	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other net lending	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other spending (incl. arrears clearance)	0.5	0.4	0.4	0.2	0.4	0.1	0.1	0.1	0.1	0.1
Overall balance	**-9.4**	**-7.5**	**-7.4**	**-4.7**	**-5.1**	**-3.5**	**-3.5**	**-3.5**	**-3.2**	**-1.5**
Primary balance	**-6.7**	**-4.4**	**-4.3**	**-1.8**	**-1.8**	**-0.7**	**-0.3**	**-0.9**	**-0.7**	**0.7**
Financing	**8.9**	**6.3**	**6.1**	**4.2**	**3.8**	**3.0**	**3.1**	**3.5**	**3.2**	**1.5**
External financing (net)	4.3	3.9	2.7	2.0	2.4	1.8	2.6	2.0	2.6	1.9
Disbursement	5.0	4.8	3.8	3.4	3.6	3.1	3.9	3.3	4.0	3.5
Budget support	2.2	2.2	1.3	0.1	1.2	0.4	1.7	0.1	0.1	0.1
Concessional project loans	2.1	1.6	1.8	2.2	1.8	1.4	1.5	1.3	1.3	0.9
Non-concessional project loans	0.7	1.0	0.7	1.0	0.7	1.2	0.7	1.9	2.6	2.5
Amortization (–)[2,3]	-0.6	-0.9	-1.1	-1.3	-1.2	-1.3	-1.3	-1.3	-1.5	-1.5
Exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing (net)	4.6	2.5	3.4	2.1	1.5	1.2	0.4	1.6	0.6	-0.5
Bank financing	1.6	1.4	1.7	0.7	0.2	0.3	-0.1	0.8	0.4	-0.1
Bank of Uganda[3]	0.1	0.4	0.2	-0.7	-1.1	-0.6	-0.6	0.0	0.2	0.3
Commercial banks	1.5	1.0	1.4	1.4	1.3	0.9	0.5	0.8	0.2	-0.4
Nonbank financing	2.9	1.0	1.8	1.4	1.3	0.9	0.5	0.8	0.2	-0.4
Financing gap	**0.5**	**1.1**	**1.2**	**0.5**	**1.3**	**0.5**	**0.4**	**0.0**	**0.0**	**0.0**
Use of SDR Allocation		0.6	0.0		0.5					
ECF	0.0	0.6	0.3	0.5	0.7	0.5	0.4	0.0	0.0	0.0
Memorandum Items:										
Social spending (excluding external financing)	3.5	4.0	3.7	3.5	3.7	3.6	3.7	3.9	4.0	4.2
Security spending (excluding external financing)	3.5	2.7	2.6	1.4	2.0	1.4	1.4	1.4	1.4	1.5

Sources: Ugandan authorities and IMF staff estimates and projections.

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

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

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

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

(Billions of Ugandan Shillings, unless otherwise indicated)

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Act.		Rev. Prog.		Proj.		
Depository Corporations Survey[2]							
Net foreign assets	16,462	15,971	18,070	22,842	23,651	25,258	29,707
Bank of Uganda	15,574	14,435	16,266	20,966	21,783	23,158	26,196
Commercial banks	888	1,537	1,804	1,875	1,868	2,100	3,511
Net domestic assets	16,230	19,971	22,998	23,413	28,292	33,287	36,027
Claims on public sector (net)[3]	9,389	12,095	13,945	15,255	17,104	17,654	16,563
Claims on central government (net)	9,318	11,991	12,706	14,017	15,865	16,416	15,325
Claims on the private sector	18,861	20,936	22,665	25,567	28,948	33,095	38,211
Other items (net) [4, 5]	-12,030	-13,071	-13,612	-17,409	-17,760	-17,463	-18,748
Money and quasi-money (M3)	32,620	35,869	41,068	46,255	51,943	58,545	65,734
Foreign exchange deposits	8,941	9,538	11,880	13,380	15,026	16,935	19,015
Bank of Uganda							
Net foreign assets	15,574	14,435	16,266	20,966	21,783	23,158	26,196
Net domestic assets	-6,123	-3,560	-4,102	-7,697	-7,146	-6,671	-7,685
Claims on public sector (net)[3]	-940	332	64	-1,187	-1,187	-1,187	-52
Claims on non-financial private sector (net)	593	-865	-3	-1,243	-909	259	-2,413
Claims on commercial banks	-2,285	-337	-214	-1,082	-1,136	-2,043	-2,209
Other items (net) [4, 5]	-3,491	-2,690	-3,949	-4,184	-3,913	-3,700	-3,012
Base money	9,451	10,875	12,164	13,270	14,638	16,486	18,511
Currency in circulation	6,017	6,828	7,432	8,371	9,400	10,595	11,896
Commercial bank deposits[6]	3,434	4,047	4,732	4,899	5,237	5,891	6,615
Other Depository Corporations							
Net foreign assets	888	1,537	1,804	1,875	1,868	2,100	3,511
Net domestic assets	26,495	28,614	32,957	37,276	42,098	47,454	52,128
Of which Claims on central government (net)	10,258	11,659	13,188	14,261	16,081	16,631	15,540
Of which Claims on private sector	18,785	20,855	22,665	25,567	28,948	33,095	38,211
Deposit liabilities to the non-bank public	27,382	30,151	34,761	39,152	43,966	49,554	55,639
Shilling deposits	18,441	20,613	22,881	25,771	28,940	32,619	36,624
Memorandum items:							
(Annual percentage change)							
Base money	7.3	15.1	11.9	9.1	10.3	12.6	12.3
M3	8.5	10.0	14.5	12.6	12.3	12.7	12.3
Credit to the private sector	8.3	11.0	8.3	12.8	13.2	14.3	15.5
Memorandum items:							
Base money-to-GDP ratio (percent)	6.4	6.7	6.6	6.4	6.3	6.3	6.3
M3-to-GDP ratio (percent)	22.0	22.0	22.3	22.2	22.2	22.3	22.3
Base money multiplier (M2/base money)	2.5	2.4	2.4	2.5	2.5	2.5	2.5
Credit to the private sector (percent of GDP)	12.7	12.9	12.3	12.3	12.4	12.6	13.0
Velocity (M3)	4.5	4.5	4.5	4.5	4.5	4.5	4.5

Sources: Ugandan authorities and IMF staff estimates and projections.

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

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

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

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

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

[6] Inclusive of foreign currency clearing balances.

Table 4a. Uganda: Balance of Payments, FY2020/21-2026/27

(Millions of U.S. Dollars, unless otherwise indicated)[1]

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Act.		Rev. Prog.		Proj.		
Current account	-3,837	-3,591	-4,418	-5,515	-7,269	-7,942	-7,721
Trade balance	-3,045	-3,300	-4,341	-5,401	-6,913	-6,257	-4,900
Exports, f.o.b.	5,279	3,837	5,691	5,678	6,183	7,615	9,250
Of which: oil	0	0	0	0	64	1,387	2,687
Imports, f.o.b.	8,324	7,137	10,032	11,079	13,096	13,872	14,149
Of which: oil	830	1,237	1,271	1,207	1,217	1,209	617
Services (net)	-1,896	-1,324	-1,379	-1,607	-1,925	-2,107	-2,158
Credit	1,423	1,743	1,888	2,069	2,467	2,591	2,731
Debit	-3,319	-3,067	-3,267	-3,676	-4,392	-4,698	-4,889
Primary income (net)	-680	-778	-769	-863	-1,083	-2,351	-3,541
Of which: interest on public debt (debit)	-171	-179	-401	-372	-327	-330	-339
Secondary income (net)	1,785	1,812	2,071	2,355	2,653	2,773	2,878
Private transfers	1,593	1,571	1,807	2,100	2,403	2,554	2,688
Of which: workers' remittances (credit)	1,154	1,134	1,456	1,742	2,031	2,145	2,241
Official transfers	192	241	264	255	250	220	190
Of which: budget support (including HIPC)	60	94	21	10	7	7	0
Capital account	180	158	365	364	357	302	257
Financial account	-3,196	-2,883	-3,276	-5,717	-7,346	-8,270	-7,258
Direct investment (net)	-920	-1,218	-2,189	-3,869	-5,339	-5,740	-5,395
Of which: oil-linked investment (- = inflows)	-1	-12	-924	-2,365	-3,646	-3,838	-3,559
Portfolio investment (net)	-145	274	35	-51	-48	-45	37
Other investment (net)	-2,117	-1,934	-1,115	-1,788	-1,952	-2,477	-1,893
Loans (net)	-1,769	-1,454	-2,124	-2,414	-1,982	-2,540	-2,047
Government (net)	-1,230	-906	-1,000	-1,314	-1,028	-1,542	-1,161
Disbursements	-1,516	-1,319	-1,749	-2,035	-1,858	-2,478	-2,290
Budget support	-442	-412	-554	-865	-56	-61	-61
Project support	-1,074	-906	-1,195	-1,170	-1,802	-2,417	-2,229
Of Which: non concessional	-286	-313	-320	-341	-1,036	-1,575	-1,610
Amortization	286	412	749	721	831	936	1,130
Deposits taking corporations	-12	11	-4	0	0	0	0
Other sectors	-527	-559	-1,121	-1,100	-954	-998	-886
Other	-15	-4	-8	-8	-7	-8	-8
Net errors and omissions	470	500	0	0	0	0	0
Overall balance	9	-50	-777	566	434	630	-206
Financing	-241	-66	428	-799	-434	-630	206
Central bank net reserves (increase = –)	-239	-65	428	-799	-434	-630	206
Use of Fund credit	258	125	0	0	0	0	0
Exceptional Financing	-3	-1	0	0	0	0	0
Financing gap	233	116	349	233	0	0	0
Non-concessional project loans	233						
ECF	233	116	349	233	0	0	0
Memorandum items:							
Gross international reserves							
In US$ billions	4.2	4.1	3.7	4.5	4.9	5.6	5.3
In months of next year's imports of goods and services	4.9	3.7	3.0	3.1	3.2	3.5	3.6
Gross international reserves excluding oil project financing and investment related imports							
In US$ billions	4.2	4.1	3.7	4.6	5.1	5.7	6.4
In months of next year's imports of goods and services	4.9	4.0	3.7	4.0	4.2	4.6	5.0
Donor support							
Of which: budget support (loans and grants)	502	480	575	875	64	69	61
Of which: project support (loans and grants)	1,254	1,064	1,560	1,534	2,159	2,720	2,486
Current account balance (excl. oil project financing and investment related imports)	-3,837	-3,591	-3,379	-2,953	-3,218	-3,792	-3,247

Sources: Ugandan authorities and IMF staff estimates and projections.

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

Table 4b. Uganda: Balance of Payments, FY2020/21-2026/27[1]

(Percent of GDP, unless otherwise indicated)

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Act.		Rev. Prog.		Proj.		
Current account	-9.5	-7.9	-9.2	-10.7	-13.0	-13.0	-11.6
Trade balance	-7.5	-7.2	-9.1	-10.4	-12.3	-11.2	-8.0
Exports, f.o.b.	13.0	8.4	11.9	11.0	11.0	13.6	15.1
Of which: oil	0.0	0.0	0.0	0.0	0.1	2.5	4.4
Imports, f.o.b.	20.5	15.7	21.0	21.4	23.3	24.7	23.1
Of which: oil	2.0	2.7	2.7	2.3	2.2	2.2	1.0
Services (net)	-4.7	-2.9	-2.9	-3.1	-3.4	-3.8	-3.5
Credit	3.5	3.8	4.0	4.0	4.4	4.6	4.5
Debit	-8.2	-6.7	-6.8	-7.1	-7.8	-8.4	-8.0
Primary income (net)	-1.7	-1.7	-1.6	-1.7	-1.9	-4.2	-5.8
Of which: interest on public debt (debit)	-0.4	-0.4	-0.8	-0.7	-0.6	-0.6	-0.6
Secondary income (net)	4.4	4.0	4.3	4.6	4.7	4.9	4.7
Private transfers	3.9	3.4	3.8	4.1	4.3	4.6	4.4
Of which: workers' remittances (credit)	2.8	2.5	3.0	3.4	3.6	3.8	3.7
Official transfers	0.5	0.5	0.6	0.5	0.4	0.4	0.3
Of which: budget support (including HIPC)	0.1	0.2	0.0	0.0	0.0	0.0	0.0
Capital account	0.4	0.3	0.8	0.7	0.6	0.5	0.4
Of which: project grants	0.4	0.3	0.8	0.7	0.6	0.6	0.5
Financial account	-7.9	-6.3	-6.9	-11.0	-13.1	-14.7	-11.9
Direct investment (net)	-2.3	-2.7	-4.6	-7.5	-9.5	-10.2	-8.8
Of which: oil-linked investment flows	0.0	0.0	-1.9	-4.6	-6.5	-6.8	-5.8
Portfolio investment (net)	-0.4	0.6	0.1	-0.1	-0.1	-0.1	0.1
Other investment (net)	-5.2	-4.2	-2.3	-3.5	-3.5	-4.4	-3.1
Loans (net)	-4.4	-3.2	-4.4	-4.7	-3.5	-4.5	-3.3
Government (net)	-3.0	-2.0	-2.1	-2.5	-1.8	-2.7	-1.9
Disbursements	-3.7	-2.9	-3.7	-3.9	-3.3	-4.4	-3.7
Budget support	-1.1	-0.9	-1.2	-1.7	-0.1	-0.1	-0.1
Project support	-2.6	-2.0	-2.5	-2.3	-3.2	-4.3	-3.6
Of Which: non concessional	-0.7	-0.7	-0.7	-0.7	-1.8	-2.8	-2.6
Amortization	0.7	0.9	1.6	1.4	1.5	1.7	1.8
Deposits taking corporations	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net errors and omissions	1.2	1.1	0.0	0.0	0.0	0.0	0.0
Overall balance	0.0	-0.1	-1.6	1.1	0.8	2.3	0.7
Financing	-0.6	-0.1	0.9	-1.5	-0.8	-1.1	0.3
Central bank net reserves (increase = –)	-0.6	-0.1	0.9	-1.5	-0.8	-1.1	0.3
Use of Fund credit	0.6	0.3	0.0	0.0	0.0	0.0	0.0
Exceptional Financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.6	0.3	0.7	0.4	0.0	0.0	0.0
Non-concessional project loans	1						
ECF	0.6	0.3	0.7	0.4	0.0	0.0	0.0
Memorandum items:							
Gross international reserves							
In US$ billions	4.2	4.1	3.7	4.5	4.9	5.6	5.3
In months of next year's imports of goods and services	4.9	3.7	3.0	3.1	3.2	3.5	3.6
Gross international reserves excluding oil project financing and investment related imports							
In US$ billions	4.2	4.1	3.7	4.6	5.1	5.7	6.4
In months of next year's imports of goods and services	4.9	4.0	3.7	4.0	4.2	4.6	5.0
Donor support							
Of which: budget support (loans and grants)	502	480	575	875	64	69	61
Of which: project support (loans and grants)	1,254	1,064	1,560	1,534	2,159	2,720	2,486
Current account balance (excl. oil project financing and investment related imports)	-9.5	-7.9	-7.1	-5.7	-5.7	-6.2	-4.9

Sources: Ugandan authorities and IMF staff estimates and projections.

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

Table 5. Uganda: Banking Sector Indicators, March 2020-Sept 2022

(Percent)

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

Source: Bank of Uganda.

[1] Under new rules, effective in December 2016, designed to ensure compliance with Basel III financial standards, tier one capital requirements were raised to 10.5 percent from 8 percent, while the total regulatory capital ratio was raised to 14.5 percent from 12 percent. However, Systemically Important Banks (SIBs) will be required to maintain tier one capital of 11.5 per cent and a total regulatory capital ratio of 15.5 percent. The cash reserve requirement for banks is 5.25 percent, and the liquidity coverage ratio is at 20 percent.

[2] Historical numbers are revised by the Bank of Uganda, data as of February 2018.

Table 6a. Uganda: Access and Phasing Under the ECF Arrangement

Availability Date	Disbursements [1/]		Conditions
	Millions of SDR	Percent of Quota	
June 28, 2021	180.50	50.0	Approval of the arrangement
December 28, 2021	90.25	25.0	Completion of the first review and observance of continuous and end-September 2021 performance criteria
June 28, 2022	90.25	25.0	Completion of the second review and observance of continuous and end-March 2022 performance criteria
December 28, 2022	90.25	25.0	Completion of the third review and observance of continuous and end-September 2022 performance criteria
June 28, 2023	90.25	25.0	Completion of the fourth review and observance of continuous and end-March 2023 performance criteria
December 28, 2023	90.25	25.0	Completion of the fifth review and observance of continuous and end-September 2023 performance criteria
June 14, 2024	90.25	25.0	Completion of the sixth (final) review and observance of continuous and end-March 2024 performance criteria
Total	722.00	200.0	

Source: IMF estimates.
[1/] Uganda's quota is SDR 361 million.

Table 6b. Uganda: Proposed New Access and Phasing Under the ECF Arrangement

Availability Date	Disbursements [1/]		Conditions
	Millions of SDR	Percent of Quota	
June 28, 2021	180.50	50.0	Approval of the arrangement
December 28, 2021	90.25	25.0	Completion of the first review and observance of continuous and end-September 2021 performance criteria
June 28, 2022	90.25	25.0	Completion of the second review and observance of continuous and end-March 2022 performance criteria
December 28, 2022	90.25	25.0	Completion of the third review and observance of continuous and end-September 2022 performance criteria
June 1, 2023	90.25	25.0	Completion of the fourth review and observance of continuous and end-March 2023 performance criteria
December 1, 2023	90.25	25.0	Completion of the fifth review and observance of continuous and end-September 2023 performance criteria
June 1, 2024	90.25	25.0	Completion of the sixth (final) review and observance of continuous and end-March 2024 performance criteria
Total	722.00	200.0	

Source: IMF estimates.
[1/] Uganda's quota is SDR 361 million.

Table 7. Uganda: External Financing Requirements, FY2020/21-2026/27

(Millions of U.S. Dollars)

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Financing needs	**4,076**	**3,655**	**3,990**	**6,314**	**7,703**	**8,572**	**7,515**
Current account deficit	3,837	3,591	4,418	5,515	7,269	7,942	7,721
Net payment to the IMF	0	0	0	0	0	0	0
Reserve accumulation (+=increase)	239	65	-428	799	434	630	-206
Financing sources	**-3,373**	**-3,039**	**-3,641**	**-6,081**	**-7,703**	**-8,572**	**-7,515**
Capital account	180	158	365	364	357	302	257
Financial account	-3,196	-2,883	-3,276	-5,717	-7,346	-8,270	-7,258
FDI (net)	-920	-1,218	-2,189	-3,869	-5,339	-5,740	-5,395
Public sector (net)	1,088	1,015	1,445	1,471	1,654	1,888	1,790
Exceptional financing	-3	-1	0	0	0	0	0
Errors and omissions	**470**	**500**	**0**	**0**	**0**	**0**	**0**
Financing gap	**233**	**116**	**349**	**233**	**0**	**0**	**0**
Prospective financing	**233**	**116**	**349**	**233**	**0**	**0**	**0**
ECF	233	116	349	233	0	0	0
Residual financing gap	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Sources: Authorities and IMF staff estimates and projections.

Table 8a. Uganda: Projected External Borrowing Program

July 1, 2022 to June 30, 2023

PPG external debt	**Volume of new debt in 2022**		**PV of new debt in 2022 (program purposes)**	
	USD million	Percent	USD million	Percent
By sources of debt financing	**3527.5**	**100**	**2748.3**	**100**
Concessional debt, of which	**1322.9**	**38**	**755.1**	**27**
Multilateral debt	1322.9	38	755.1	27
Bilateral debt	0.0	0	0.0	0
Other	0.0	0	0.0	0
Non-concessional debt, of which	**2204.6**	**62**	**1993.1**	**73**
Semi-concessional	1881.5	53	1670.0	61
Commercial terms	323.1	9	323.1	12
By Creditor Type	**3527.5**	**100**	**2748.3**	**100**
Multilateral	2015.9	57	1397.0	51
Bilateral - Paris Club	435.3	12	362.4	13
Bilateral - Non-Paris Club	325.6	9	305.2	11
Other	750.8	21	683.6	25
Uses of debt financing	**3527.5**	**100**	**2748.3**	**100**
Infrastructure	2449.7	69	1803.9	66
Social Spending	572.1	16	463.7	17
Budget Financing	505.7	14	480.7	17
Other	0.0	0	0.0	0

Source: Authorities and IMF staff estimates

Table 8b. Uganda: Projected External Borrowing Program

July 1, 2023 to June 30, 2024

PPG external debt	Volume of new debt in 2023		PV of new debt in 2023 (program purposes)	
	USD million	Percent	USD million	Percent
By sources of debt financing	**5279.6**	**100**	**4041.6**	**100**
Concessional debt, of which	**519.2**	**10**	**256.2**	**6**
Multilateral debt	519.2	10	256.2	6
Bilateral debt	0.0	0	0.0	0
Other	0.0	0	0.0	0
Non-concessional debt, of which	**4760.4**	**90**	**3785.4**	**94**
Semi-concessional	3935.7	75	2960.7	73
Commercial terms	824.7	16	824.7	20
By Creditor Type	**5279.6**	**100**	**4041.6**	**100**
Multilateral	789.2	15	452.0	11
Bilateral - Paris Club	713.0	14	517.1	13
Bilateral - Non-Paris Club	2952.7	56	2247.8	56
Other	824.7	16	824.7	20
Uses of debt financing	**5279.6**	**100**	**4041.6**	**100**
Infrastructure	4185.7	79	3035.4	75
Social Spending	100.0	2	60.9	2
Budget Financing	824.7	16	824.7	20
Other	169.2	3.2	120.6	3.0

Source: Authorities and IMF staff estimates

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

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
IMF obligations based on existing credit (in millions of SDRs)										
Principal	0.0	0.0	0.0	0.0	36.1	90.3	117.3	126.4	126.4	90.3
Charges and interest	0.0	0.6	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8
IMF obligations based on existing and prospective credit (in millions of SDRs)										
Principal	0.0	0.0	0.0	0.0	36.1	90.3	117.3	171.5	207.6	180.5
Charges and interest	0.0	0.6	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8
Total IMF obligations based on existing and prospective credit										
In millions of SDRs	0.0	0.6	2.8	2.8	38.9	93.1	120.1	174.3	210.4	183.3
In millions of U.S. dollars	0.0	0.8	3.9	3.9	54.7	130.7	168.8	244.9	295.6	257.5
In percent of GDP	0.0	0.0	0.0	0.0	0.1	0.2	0.3	0.3	0.4	0.3
In percent of exports of goods and services	0.0	0.0	0.1	0.1	0.6	1.3	1.4	1.9	2.2	1.9
In percent of government revenue	0.0	0.0	0.1	0.1	0.6	1.3	1.4	1.8	2.1	1.7
In percent of gross international reserves	0.0	0.0	0.2	0.1	1.4	3.0	4.1	4.4	4.5	3.5
In percent of IMF quota	0.0	0.2	0.8	0.8	10.8	25.8	33.3	48.3	58.3	50.8
IMF credit outstanding based on Existing and Prospective Drawings (end-of-period)										
In millions of SDRs	631.8	812.3	992.8	1083.0	1046.9	956.7	839.3	667.9	460.3	279.8
In millions of U.S. dollars	877.9	1132.4	1387.4	1518.6	1473.2	1346.2	1181.1	939.8	647.7	393.7
In percent of GDP	2.2	2.5	2.9	2.9	2.6	2.2	1.8	1.3	0.8	0.5
In percent of exports of goods and services	13.1	20.3	18.3	19.6	17.0	13.2	9.9	7.5	4.9	2.9
In percent of government revenue	16.2	18.5	20.9	20.4	17.5	13.1	9.7	7.0	4.5	2.6
In percent of gross international reserves	24.7	37.5	53.4	44.7	38.5	30.9	28.5	17.1	9.8	5.3
In percent of IMF quota	175.0	225.0	275.0	300.0	290.0	265.0	232.5	185.0	127.5	77.5
Memorandum items										
Nominal GDP (in millions of U.S. dollars)	40,530	45,557	47,798	51,746	56,093	61,200	66,633	72,198	77,802	83,635
Exports of goods and services (in millions of U.S. dollars)	6,702	5,580	7,579	7,747	8,650	10,205	11,981	12,599	13,208	13,776
Government revenue (in millions of U.S. dollars)	5,421	6,112	6,628	7,434	8,417	10,285	12,140	13,460	14,397	15,263
Gross international reserves (in millions of U.S. dollars)	3,551	3,023	2,596	3,395	3,829	4,353	4,147	5,507	6,637	7,404
IMF quota (in millions of SDRs)	361.0	361.0	361.0	361.0	361.0	361.0	361.0	361.0	361.0	361.0
SDRs per U.S. dollars	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7

Source: Ugandan authorities, and IMF staff estimates and projections.

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

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

	Debt Stock (end of period) FY2021/22			Debt Service					
				FY21/22	FY22/23	FY23/24	FY21/22	FY22/23	FY23/24
	(In millions of US$)	*(Percent total debt)*	*(Percent GDP)*	*(In millions of US$)*			*(Percent GDP)*		
Total	21,901.9	100.0	50.8	3263.5	4,471.2	2,816.6	7.6	9.6	5.6
External	13,542.9	61.8	31.4	667.3	1,150.7	943.3	1.5	2.5	1.9
Multilateral creditors[2,3]	7,908.0	36.1	18.3	160.1	250.1	227.1	0.4	0.5	0.4
IMF	842.0	3.8	2.0						
World Bank	4,418.6	20.2	10.2						
ADB/AfDB/IADB	667.3	3.0	1.5						
Other Multilaterals	1,980.1	9.0	4.6						
Bilateral Creditors[2]	3,574.1	16.3	8.3	309.5	397.3	357.0	0.7	0.9	0.7
Paris Club	824.7	3.8	1.9	45.3	65.5	62.6	0.1	0.1	0.1
Non-Paris Club	2,749.4	12.6	6.4	264.2	331.8	294.4	0.6	0.7	0.6
o/w: Eximbank of China	2,649.2	12.1	6.1						
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial creditors	1,331.7	6.1	3.1	47.2	257.2	222.5	0.1	0.6	0.4
Other international creditors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public guarantees	28.9	0.1	0.1						
Local currency debt held by non-residents, total	700.2	3.2	1.6	150.4	246.0	136.8	0.3	0.5	0.3
Domestic	8,359.0	38.2	19.4	2,596.2	3,320.5	1,873.2	6.0	7.2	3.7
T-Bills	1,163.3	5.3	2.7	n/a	n/a	n/a	n/a	n/a	n/a
Bonds	6,298.4	28.8	14.6	n/a	n/a	n/a	n/a	n/a	n/a
BoU advances	897.3	4.1	2.1	n/a	n/a	n/a	n/a	n/a	n/a
Memo items:									
Collateralized debt[4]	n/a		n/a						
o/w: Related	n/a		n/a						
o/w: Unrelated	n/a		n/a						
Contingent liabilities	n/a		n/a						
o/w: Public guarantees	n/a		n/a						
o/w: Other explicit contingent liabilities[5]	n/a		n/a						
Nominal GDP							45,390	47,622	51,556

1/As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA.

2/Some public debt is not shown in the table due to data limitations.

3/Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears)

4/Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

5/Includes other-one off guarantees not included in publicly guaranteed debt (e.g. credit lines) and other explicit contingent liabilities not elsewhere classified (e.g. potential legal claims, payments resulting from PPP arrangements).

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

Source of Risks	Likelihood/ Time Horizon	Expected Impact on Economy	Policy Response
Potential Domestic Risks			
Local Ebola or Covid-19 outbreaks.	**Medium** **Short term** Rapidly increasing hospitalization and deaths force new lockdowns.	**High** Demand for contact-intensive sectors – including tourism - would contract further. Firms face a prolonged increase in production costs and shortage of supply. Pandemic-prompted protectionist actions would disrupt trade.	- Prioritize COVID vaccine roll out and scale up other public health measures (contact tracing, isolation facilities, protective equipment for health care workers). - Strengthen social safety net. - Use all available policy space by extending fiscal an monetary support. - Reprioritize fiscal spending towards health and protecting affected households and firms.
Intensification of security risks	**High** **Short to Medium Term**	**High** Deterioration of security situation in Uganda and its key trading partners would have widespread adverse effects on the economy.	- Reprioritize fiscal spending within the security envelope to protect livelihoods. - Other macro policies should be geared towards maintaining stability and investor confidence - Strengthen and robustly implement AML/CFT framework to help prevent, detect, and disrupt the financing of terrorism. - Enhance cooperation with international community on intelligence.
Social unrest. Rising inflation, declining incomes, and worsening inequality cause social unrest.	**Low** **Short term**	**High** Economic activity would be disrupted. Growing political instability would weaken the institutional framework. Deepened political uncertainty would weaken investor confidence weighing on investment.	- Intensify social safety net measures. - Formulate credible medium-term fiscal path to support investor confidence.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Source of Risks	Likelihood/ Time Horizon	Expected Impact on Economy	Policy Response
Slow progress on fiscal reforms, including on improving revenue mobilization and public sector efficiency.	Medium **Short to Medium Term**	High Would lower growth dividend and increase risk of debt distress	- Improve the quality of public spending - Define operational debt ceiling with annual budget deficit and a binding expenditure envelope
Slow progress to complete the action plan agreed with FATF for jurisdictions under increased monitoring.	Medium **Short term**	Medium This could adversely impact corresponding banking relationship and stability of the financial system	Accelerate efforts to complete the action plan items agreed with FATF, including by ensuring strong coordination amongst relevant stakeholders.
Natural disasters related to climate change. Higher frequency of natural disasters causes severe economic damage.	Medium **Medium/ Long-term**	High Lower growth, increase in poverty levels, worsened public debt sustainability	- Improve economic resilience to shocks, build fiscal and external buffers
Potential External Risks			
De-anchoring of inflation expectations and stagflation. Supply shocks sharply increase headline inflation. Central banks tighten monetary policy more than envisaged leading to weaker global demand and currency depreciation.	Medium **Short Term**	Medium Would reduce capital inflows with negative impact on the banking and public sector as well as credit growth. Higher domestic borrowing costs.	- Tighten monetary policy - Temporary FXI could be considered to smooth excess volatility - Formulate credible medium-term fiscal path to support investor confidence.
Intensifying spillovers from the war in Ukraine. Further sanctions resulting from the war and related uncertainties exacerbate trade and financial disruptions and commodity price volatility.	High **Short to Medium Term**	Medium Would weaken the recovery and intensify the inflationary pressure through surging commodity prices.	- Adjust monetary policy as needed in response to the inflationary pressure - Accommodative fiscal policy to mitigate the impact on the poor - Formulate credible medium-term fiscal path to support investor confidence.
Cyberthreats. Cyberattacks on critical physical or digital infrastructure (including digital currency platforms) trigger financial instability and disrupt economic activities.	Medium **Short to Medium Term**	Low Would disrupt economic activities, put at risk financial stability, but financial sector remains small.	- Step up efforts to strengthen cyber security - Preemptively, carry out regular testing of the resilience of computer systems and address vulnerabilities.
Commodity price shocks. A combination of continuing supply disruptions and negative demand shocks causes recurrent commodity price volatility and social and economic instability.	High **Short to Medium Term**	Medium Poor households would be particularly vulnerable to the rising commodity prices. Renewed inflationary pressure and weaker recovery.	- Provide targeted fiscal support to vulnerable households - Formulate credible medium-term fiscal path to support investor confidence

Source of Risks	Likelihood/ Time Horizon	Expected Impact on Economy	Policy Response
		However, higher energy prices could provide stronger incentive for swift planned investments. As a net food exports, Uganda could also benefit from higher export receipts.	- Adjust monetary policy in view of the inflationary pressure
Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth slowdown.	**Medium** **Short Term**	**High** Slowdown in exports and GDP growth.	- Allow automatic fiscal stabilizers to operate; could temporarily ease macroeconomic policies if growth slows sharply.

Appendix I. Letter of Intent

Kampala, December 20, 2022

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

Dear Ms. Georgieva:

After emerging from the deleterious effects of the COVID-19 pandemic, Uganda has been hit by additional external shocks, challenging the economic recovery. Elevated global commodity prices, rising inflation and borrowing costs, and domestic drought, have affected income and investments. As a result, although recovery will continue, we expect it to progress at a slower pace this year and next, while in the medium term the growth path will be decisively higher.

We continue implementing reforms outlined in the Third National Development Plan which was reprioritized to cater for higher social spending and continued support to households and businesses. These priorities are reflected in our FY2022/23 budget. In line with our commitments under the ECF-supported program, we are persevering on the fiscal consolidation path and taking measures to contain the fiscal deficit by limiting non-priority and unproductive spending. We are also implementing the Domestic Revenue Mobilization Strategy that is projected to yield additional revenues of ½ percent of GDP per year.

The near-term response continues to rely on fiscal policy to deliver sustainable fiscal consolidation that protects livelihoods and supports development. At the same time, monetary policy has been tightened to ensure a return of core inflation to its target, safeguarding price stability. We are also implementing several programs, including the Parish Development Model (PDM), to provide livelihood and support incomes for the hardest hit by the crises sustainably. To address medium-term challenges that include jobs and wealth creation by fostering private sector development, our program focuses on: (i) safeguarding macroeconomic stability by maintaining public debt on a sustainable path; (ii) mobilizing domestic revenues; (iii) prioritizing spending; (iv) strengthening reserve buffers; (v) improving the Bank of Uganda 's inflation targeting framework; and (vi) supporting financial sector stability. To generate more inclusive growth, we will work on strengthening governance, expanding the existing social safety net, implementing structural reforms to boost human capital and private sector development, and enhancing resilience to domestic and external shocks including climate change.

We remain firmly committed to the implementation of our IMF-supported program. We met all end-March quantitative performance criteria (QPCs) despite the increasingly challenging external environment. Only the indicative target on tax revenues was missed on account of an uneven recovery. All but two end-June indicative targets (ITs) were met. Significant financing constraints, including those related to the postponement of the disbursement under the ECF-supported program, led to a breach of the target on Bank of Uganda net credit to government and a breach in the social spending floor. At end-September most Quantitative Performance Criteria and Indicative Targets were met. We are implementing our structural reform agenda with determination, but unexpected legal and technical obstacles have contributed to some delays that will require postponement of our ambitious targets.

We are requesting rephasing of access under this arrangement to facilitate disbursement before the end of the month in future reviews. In light of the challenging external environment and our commitment to the continued successful implementation of the ECF-supported program, including the return to the 4-month reserve target by the end of the program, we request a waiver for the nonobservance of the September QPC on net international reserves due to the temporary nature of the deviation. We also request modifications to the following December 2022 ITs: floors on the primary budget balance, NIR, support to vulnerable households, social spending, tax revenues, repayment of outstanding domestic arrears, and the ceiling on net claims on the government by the central bank. We are requesting also reprogramming of four of the 12 structural benchmarks as specified in Table 2 c of the attached Memorandum of Economic and Financial Policies (MEFP) to account for the needed legislative processes and other difficulties.

Looking ahead, the government believes that the measures and policies set forth in the attached Memorandum of Economic and Financial Policies (MEFP) are appropriate to achieve the objectives of the program but stands ready to take any additional measures that may be necessary. In order to mitigate implementation risks, we have consulted all stakeholders, including the Attorney General, on the feasibility of the measures and policies outlined in the MEFP. The government will take any additional measures that may become appropriate for the purpose of achieving the program goals. We will consult with the IMF on the adoption of such measures in advance of any revision of the policies contained in the MEFP, in accordance with the IMF's policies on such consultations. Timely information needed to monitor the economic situation and implementation of policies relevant to the program will be provided, as agreed under the attached Technical Memorandum of Understanding, or at the IMF's request.

We request the completion of the combined second and third reviews under the ECF and disbursement of SDR 180.5 million and agree to the publication of this Letter of Intent and its attachments, as well as the related Staff Report, on the IMF's website.

Sincerely yours,

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

Attachments:

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

Attachment I. Memorandum of Economic and Financial Policies

A. Introduction

1. **Despite prudent policies, Uganda's recovery path from the pandemic is being impacted by new domestic and external challenges.** Driven by the post-COVID reopening of the economy, real GDP grew 4.7 percent in FY21/22—0.9 percentage point higher than projected at the time of the first review of the program supported by the ECF. However, the external environment has deteriorated with downward growth revisions in key trading partners (China, India and Europe), affecting exports and tourism receipts.[1] Spillovers from the conflict in Ukraine have led to higher food and fuel prices that have broadened persistently across other goods and services contributing to a demand crunch, most notable in the construction and manufacturing sectors. Agricultural production was also affected by a drought. Considering these challenges, growth has been revised downward over the next two years. Over the medium term, investment in oil-related infrastructure, the energy sector and road and water infrastructure, coupled with a recovery in agriculture, manufacturing and construction, stronger external demand and reform implementation will bring annual growth back above 6 percent.

2. **A new public health challenge is materializing.** An Ebola-Sudan outbreak that originated in the Mubende district in September is posing challenges for health management. Nine districts have been affected, including Kampala. Efforts to step up contact tracing, sensitize the public, and procure preventive material are underway with donors providing financial support to the cause. A vaccine for this variant is not available, though, clinical trials are expected to start soon. The outbreak has been largely contained.

3. **Risks to the outlook are significant.** Uncertainty around the duration and impact of the Russia-Ukraine conflict on oil prices, global growth, and global financial conditions could weigh on our recovery in the near term with negative consequences on the fight against poverty. There is uncertainty related to the pace of monetary tightening globally and financial conditions (including movements in risk premia and the exchange rate) that could affect our debt servicing cost, capacity to borrow, and foreign investor inflows into the local bond market in the future. Finally, an increased frequency and intensity of climate shocks, including droughts and floods, could undermine agricultural activity and increase food insecurity in rural areas. However, we are confident that our policies outlined below, and higher donor financing will help boost economic activity and address vulnerability to the above shocks.

4. **The updated economic program presented in this Memorandum of Economic and Financial Policies (MEFP) supports our third National Development Plan (NDPIII) and ensures priorities remain aligned with supporting the recovery**. NDPIII implementation remains critical in a post-COVID-19 environment to foster private sector-led growth. This MEFP describes specific

[1] Europe's growth was revised down by 1.8 percentage points of GDP for 2023 from the time of the 1st review, from 2.3 percent to 0.5 percent currently.

policies and measures the government will implement during 2022-24 under the three-year ECF arrangement. Support from our international partners remains key to the achievement of our programs. We acknowledge the support they provided during the pandemic, especially to the social sectors. We will continue to seek development partners' support—financial and technical—in implementing the policy framework outlined in this MEFP.

B. Economic Developments

5. **Our post-pandemic recovery is facing new challenges originating externally and rapidly propagating to the domestic economy.** The deteriorating external environment is affecting the economy mainly through the high price of imported fuel while higher policy rates abroad have put pressure on the shilling contributing to broadening inflation pressures. Drought in some parts of the country has hurt agricultural production and contributed to rising food prices and food insecurity. Leading indicators continue to point to economic weakness, with the Purchasing Manager's Index at 50.9 in November 2022 (marginally above the breakeven value of 50) and the Composite Index of Economic Activity pointing to annualized growth of 3.5 percent in the three months to August 2022. The projection for FY22/23 growth has been downgraded from 6 to 5.3 percent, reflecting the impact of drought on agriculture, and weaker domestic and external demand stemming from the inflation shock and monetary policy normalization in advanced economies. The projection for FY23/24 is also revised down from 6.3 to 6 percent, because of high borrowing costs that are weighing on our repayment capacity and private sector funding conditions.

6. **Inflation has risen rapidly.** Headline inflation increased to 10.6 percent and core inflation rose to 8.8 percent in November 2022, mainly driven by the increase in commodity prices, with signs of pressures broadening to other goods and services. Higher fuel costs and supply constraints contributed to rising input prices, including cement and iron bars, and consumption items such as soap, sugar and other. However, inflationary pressures are abating and although core inflation is projected to remain above the target in the first half of 2023, it is projected to return to the target by the end of 2023.

7. **The current account deficit remains very high**. The current account balance, at about -7½ percent of GDP in 2022H1 reflects elevated public and private sector (oil and non-oil) imports, offsetting an improving export of goods (excluding non-monetary gold) and services. On the financing side, foreign direct investment remained subdued while foreign investors' appetite for government securities has declined, largely offset by an increase in other investment flows. Reserves declined to US$3.7bn, from a peak of US$4.5bn in April driven by high external debt servicing costs, increased government imports and tightened global financial conditions leading to BoU's inability to purchase foreign exchange from the market. The shilling depreciated 3 percent vis-à-vis the US dollar between March and November.

8. **The BOU continues to balance support to economic recovery and fighting inflation.** From March 2020 to June 2021, the policy rate was lowered three times by a cumulative 250 bps to 6.5 percent. Since then, the BOU increased the policy rate by 350 bps to 10 percent in October 2022,

in response to rising inflation. Nominal private sector credit increased by 10.5 percent in October 2022 (y-o-y), however in real terms growth remains below the pre-pandemic rate, due to economic uncertainty, banks' risk aversion, and monetary policy tightening.

9. We managed to contain the fiscal deficit. At 7.4 percent of GDP, the overall fiscal deficit was slightly below the first review target (7.5 percent) in FY21/22. Higher than-expected-tax revenues and under-execution of capital spending—which reflected lower-than-expected external financing—offset the grants shortfall and the increase in interest and other spending. Public debt (estimated at 50.8 percent of GDP, including the stock of BOU advances, in June) was lower than the level projected at the time of the first program review. In the current high-interest-rate environment, we remain committed to fiscal consolidation to keep government debt sustainable. In the first quarter of FY22/23 we met the quantitative performance criterion (QPC) on the primary balance by a large margin due to tightening of spending. While tax revenues and grants were 21 percent of the amount targeted for the whole financial year, non-interest expenditure was 12 percent of the yearly target. We will continue to boost tax revenue while protecting social spending, support to the vulnerable, and high-quality public investment.

10. The banking sector is profitable and well-capitalized, though with some vulnerabilities. Capital buffers are sufficient and the ratio of regulatory capital to risk-weighted assets —at 22.9 percent in September 2022 —is well above the minimum prudential requirements of 10 percent. The liquidity coverage ratio decreased from 301.7 percent in March 2022 to 169.5 percent in September 2022 due to tightening monetary policy and higher cash reserve requirement. All the COVID-19 support measures expired at the end of September 2022 and the stock of outstanding COVID-19 relief loans has declined to UGX 1,987.3 billion, (about 10 percent of total loans), at end-August 2022. Supervised financial institutions (SFIs) continued provisioning for NPLs proactively, with the provisioning ratio standing at 67 percent in September 2022, reflecting commercial banks' risk aversion, forward-looking provisioning to meet IFRS 9 requirements, and preparation for the write-off of bad loans.

C. Program Performance

11. We met all end-March QPCs and all but one indicative targets (IT, Table 1). We met the ceiling on the present value (PV) of newly contracted external public and publicly guaranteed debt and the floors on the primary balance and net international reserves, and there was no accumulation of external arrears. With the repayment of BOU advances exceeding the full year target up to March, we met the performance criterion on BOU net credit to government with a comfortable margin. We also met the ITs on the repayment of domestic arrears, social spending and support to vulnerable households. Given the shortfall in tax revenues, however, we missed the IT on tax revenues.

12. We met most of the end-June ITs. We met the ceiling on the PV of newly contracted external public and publicly guaranteed debt, and the floors on the primary balance and net international reserves, and there was no accumulation of external arrears. However, outstanding

BOU advances to the government increased due to government's financing constraints, partly driven by the postponement of the expected disbursement under the ECF-supported program, leading to a breach of the Service Level Agreement and the indicative target on BOU net credit to government. The ITs on the repayment of domestic arrears, tax revenues and support to vulnerable households, and the monetary policy consultation clause on core inflation were met. At the same time, we missed the IT floor on social spending by close to 5 percent.

13. We met most end-September QPCs and ITs. We met the QPC on the primary budget balance by a large margin due to under-execution of non-interest spending. The QPC on BOU advances to the government was also met by a large margin. We met the continuous PC on newly contracted external public and publicly guaranteed debt by postponing the closure of some of the planned new loans. There was no accumulation of external arrears and the monetary policy consultation clause on core inflation was met. We met the IT on support to vulnerable households and repayment of outstanding arrears. Reflecting, in part, the tighter global financial conditions, we missed the QPC on net international reserves. We missed the IT on social spending because the releases commensurate with the floor were made late in the quarter and could not be executed by the end of September. We missed the IT on tax revenues by a small margin.

14. Our structural reform agenda is progressing despite some delays (Table 2). We have implemented 6 out of 12 structural benchmarks (SBs) due for the 2nd and 3rd reviews, 5 with delay. We have also completed a prior action on the implementation of the asset declaration framework:

- **The Charter of Fiscal Responsibility (CFR)** was adopted by Parliament on time (SB, July 2022). It provides for a fiscal rule, which establishes the non-oil primary balance as the operational fiscal target when oil production commences. This will prevent a pro-cyclical fiscal policy. In addition to numerical limits or targets on fiscal variables and above-mentioned PFM pre-requisites, the CFR contains key provisions on: (i) ensuring sufficiency in revenue mobilization to finance government programs; (ii) maintaining prudent and sustainable levels of public debt; (iii) ensuring that the fiscal balance, when calculated without petroleum revenues, is maintained at a sustainable level over the medium term; (iv) managing revenues from petroleum resources and other finite natural resources for the benefit of current and future generations; (v) managing fiscal risks in a prudent manner; (vi) assuring consistency of the Medium Term Expenditure Framework with the NDP; (vii) promoting efficiency, effectiveness and value for money in expenditure.

- After further legal analysis, we concluded that the completion of the SB to **lower the barriers to access the asset declarations** is unattainable, due to legal impediments relating to data privacy and security concerns (SB, March 2022). We have however amended the Leadership Code Regulations to include in the declarations assets that are beneficially owned, and we reduced the fees for application to access the declarations from UGX200,000 to UGX100,000. As an alternative measure to improve public transparency and accountability, we have published on the Inspectorate of Government's website information on compliance by public leaders to the asset declarations' requirements, application for access, and sanctions enforced (Prior Action, PA) (MEFP ¶35).

- We have finalized the **transition to GFSM 2014** ahead of the May 2022 deadline but the full set of tables with the medium-term fiscal framework was published two weeks after the test date (on June 14, 2022) at the time of the Budget speech.

- Our work on the upgrade of the **unified registry of social assistance programs** to include beneficiaries of the National Social Security Fund and the public pension scheme was completed with delay due to IT challenges related to the clean-up of the public pension data. The work was completed in August (SB, June 2022). The database now covers almost 140 thousand beneficiaries and allows better use of existing data through analytical and visualization tools to understand, measure and improve program performance.

- We have adopted a **tax exemption rationalization plan** in November (SB, June 2022) applying criteria defined in the tax expenditure framework that identifies 0.1 percent of GDP in savings in FY 22/23 and 0.2 percent in subsequent years.

- We have expanded our credit bureau coverage by **adopting amendments to the Credit Reference Bureau (CRB)** in September (SB, August 2022).

- We have issued in October **implementing regulations to the Financial Institutions Act** that, among others, defines the proper fit and test criteria for bank shareholders (SB, September 2022).

15. We have consulted with the Attorney General on the process of elevating to the status of regulation the current treasury instructions containing provisions on **sanctions for officers responsible for unauthorized spending commitments** with clear personal penalties (SB, June 2022). The PFM Act already provides for strict sanctions; therefore, this SB was not met.

16. We have requested that a few SBs be re-programmed to allow more time for completion which is necessary to address capacity constraints and accommodate the legislative agenda:

- The Auditor General's report on the FY 20/21 COVID-19 spending published in February is currently being discussed in Parliament. Once adopted we will **i**ssue treasury memoranda that explain how weaknesses raised by the FY 20/21 audit will be addressed. We have requested postponement of the SB to end-May 2023 to accommodate the legislative agenda.

- The Companies' Act was amended in August 2022 to include a **definition of beneficial ownership** consistent with FATF standards, and a requirement for companies to maintain registers of beneficial owners and provide power to the Registrar to maintain a register of beneficial owners. Regulations allowing timely access to the beneficial ownership information by competent authorities from the registry will be adopted by Ministry of Ethics and Integrity following review by FATF, and we request reprogramming the SB to end-March 2023 (MEFP ¶37).

- **Principles underpinning the amendments to the BOU Act** (SB, September 2022) were submitted to the Cabinet in January 2022. The Cabinet Secretariat requested a redraft of certain aspects. The draft principles will be withdrawn from Cabinet and revised to reflect discussion with IMF staff. Once IMF staff have reviewed the revised principles and have recommended changes to ensure they are consistent with the recommendations of the IMF's Safeguards Assessment, the principles will be re-submitted to Cabinet by end-February 2023 and the draft Amendment Bill will be submitted to Parliament by end-April 2023. In order to allow sufficient time for the Parliamentary debate we have requested the reprogramming of the SB to end-October 2023.

- **Efforts to complete the SB on development and implementation of tools for risk-based AML/CFT supervision of the financial sector** (SB, end-October 2022) are ongoing. To allow for full implementation of the offsite supervision tools by banks, foreign exchange bureaus and money remitters, we have requested for the SB to be reprogrammed to end-May 2023 (MEFP ¶32).

D. Economic Policies

17. Due to challenges in the post-COVID-19 recovery, we re-prioritized the implementation of the Third National Development Plan (NDPIII), focusing it more narrowly on the near-term support to economic recovery. We remain focused on macroeconomic stability and structural reforms that ease bottlenecks, including governance and fostering public sector efficiency. Areas of refocus reflect current priorities and strategies: (i) supporting business activity and financial inclusion, through interventions including increasing the uptake of Small Business Recovery Fund, better use of developmental finance through Uganda Development Bank, injecting capital for Agricultural Credit Facility, and strengthening digitalization of financial sector; (ii) restoring the well-being of the population through vaccination and scaled up financing for education and health; (iii) maintaining productive infrastructure including e-government, e-procurement, e-learning and roads; (iv) fast tracking industrialization and manufacturing focusing on value addition and operationalization of industrial parks; (v) improving public sector efficiency; and (vi) implementing the Parish Development Model (PDM).

18. The PDM is our new strategy for organizing and delivering public and private sector interventions to boost income and employment at the level of the parish which is the lowest economic and planning subnational unit. The objective of the program is to target the 39 percent of households in the subsistence sector and include them in the formal sector under the NDP III pillar "sustainable industrialization for inclusive growth, employment and wealth creation". We will use existing government structures, planning, budgeting and service delivery frameworks and our overall approach to program-based planning, budgeting and service delivery will be extended to the parish with the parish chief responsible for implementation of programs. The PDM strategy relies on:

- Agricultural production, storage, processing, and marketing: it is envisaged that a national database of all farming households will be developed. For each district, two priority agricultural products will be chosen for promotion. Households will be organized into" enterprise groups" and supported to improve their yields, quality, bulking, processing, and marketing of products;

- Infrastructure and economic services: improved community access roads, water for production, internet access and connectivity identified as critical by the local communities;

- Financial inclusion: support to private savings, credit, and insurance through Savings and Credit Cooperatives (SACCOs) using a computerized payment systems and targeting in equal share women, youth and disabled population. A revolving fund will be created that will be used to lend to qualifying projects at low interest rate, with repayment over 3 years;

- Social services: provision of primary health care, education and clean water constitute basic social services;

- Information system management: generation real-time data to provide a platform for monitoring and evaluation.

19. We have accelerated the implementation of the PDM in FY 22/23. Close to Ush206.3bn has been disbursed to around 8.251 (out of a total of 10,594) SACCOs. For monitoring purposes, Parish Chiefs and District Commercial Officers are required to report back to the Ministry of Finance on a quarterly basis on the end use of disbursed funds. Random spot checks and audits will also be used to ensure the funds are being used for intended purposes. The Uganda Bureau of Statistics (UBOS) will be availing indicators for the implementation and tracking of the PDM across the country. As part of our effort to monitor and enhance the functioning of the PDM to alleviate poverty and increase food security we will develop a financial inclusion module in the Parish Development Management Information System (PDMIS) to track access to revolving funds by the targeted vulnerable households (the last mile beneficiary/subsistence household) and report on the drawdown of the funds by vulnerable households including by demographic categories such as by gender (proposed new SB, end-June 2023).

20. Conscious of the challenges that the COVID-19 crisis presented to the country's educational system and outcomes, we will also focus on improving budgetary planning and funding of the educational system. Specifically, we will register all primary and secondary schools' learners' data into the Education Management Information System and publish diagnostics by local government to inform decisions on funding needs for the educational system (proposed new SB, end-December 2023)

Fiscal Policy and Debt Management

21. The deficit target in FY22/23 will widen compared to the first review to accommodate the rollout of the PDM. Notwithstanding the impact of the surge in commodity prices on inflation, we do not plan to introduce costly and ineffective subsidies. Instead, we will provide support to vulnerable households in rural areas. Compared with the 1st review, interest expenditures and public sector wages will also be higher (each by 0.5 percent of GDP), with the former reflecting higher and more expensive borrowing and the latter addressing higher cost of living and overdue adjustments.

Moreover, the clearance of domestic arrears will also be accelerated to support the private sector against the backdrop of the deteriorating external environment (0.1 percent of GDP). Because of an increase in revenues and grants, the increase in the deficit will be modest at 0.4 percent of GDP, resulting in a target of 5.1 percent of GDP for the year. We approached external commercial banks for a syndicated loan of $440 million, while the repayment of BOU advances will rectify the breach of the Service Level Agreement signed in 2022 to govern central bank financing of the government, allowing full compliance in FY22/23 and FY23/24.

22. We remain committed to fiscal consolidation, which is necessary to keep debt sustainable and avoid a deterioration in the risk of distress. The cumulative adjustment over the medium term will remain in line with the target envisaged at the 1st review of the program. Although the PDM will widen the deficit over the next three years, the DRMS, expenditure prioritization and improvement in spending efficiency will reduce the deficit below the target of 3 percent of GDP set in the CFR Law over the medium term. The debt-to GDP ratio will temporarily increase to 50.9 percent of GDP (including the stock of BOU advances) in FY22/23 before converging below 50 percent of GDP by FY23/24.

23. We have made progress on the implementation of the DRMS. Our tax administration and policy measures yielded the full-year target of 0.7 percent of GDP by June 2022 on the back of our efforts to collect tax arrears. As a result, we overperformed our target for FY21/22. Our medium-term revenue strategy, which is being updated continuously and costed to reflect changes in policies and the economic environment, will enhance income tax productivity, improve the excise duty regime, and strengthen VAT productivity, including by reviewing the VAT exemptions. Increasing taxpayer compliance, use of ICT systems, capacity building and improving arrears management remain our main areas of focus in tax administration. To support these areas, we plan to design a medium-term ICT strategy supported by a plan for the procurement of a a new Integrated Tax Administration System software (proposed new SB, end-May 2023). Critical issues for the ICT strategy are: building a Data Center, migrating data, developing a data management and governance strategy, engaging critical stakeholders on system integration for third-party data exchange, and developing data analytics capacity, data security, risk management capacity, operational processes and standard operating procedures. In addition, we plan to formulate a compliance improvement plan with a focus on specialized sectors and taxation of multinational enterprises. Streamlining tax expenditures with the help of the newly adopted tax expenditure rationalization framework remains a key priority. We will begin to put into effect the recommendations of recent technical assistance on tax expenditure rationalization (September 2022) on four fronts: putting in place the institutional arrangements and capacity to assess and evaluate tax expenditures, including a new fiscal governance framework for tax expenditures; reviewing and rationalizing tax expenditures on direct income, including the personal and corporate income taxes; ceasing granting discretionary provisions under the tax procedures code; and, rationalizing the most costly and inefficient tax expenditures under the VAT and excise taxes. We will announce sunset clauses on some tax expenditures and will accompany this work with cost-benefit analysis to assess the tax expenditures' impact on growth, exports and the support to our import-substitution strategy.

24. We will continue to identify cost-saving measures by asking Ministries to ensure that the spending priorities are aligned with NDPIII at the planning stage. Priority spending—including investments chosen according to our newly published project selection criteria— will be saved. Projects that have not been appraised or selected using the new criteria or do not have identified funding will not be included in the budget/Public Investment Plan (PIP). We have received IMF technical assistance and a mission has conducted a public investment management assessment (PIMA) in June 2022. It helped assess and address some of the remaining gaps, including on establishing medium-term fiscal envelope forecasts to better prioritize and allocate capital spending, publishing multi-year public investment plans in line with the medium-term budget framework, and exercising rigorous public investment portfolio oversight. We will also implement cross-cutting recommendations from the PIMA such as strengthening the legal framework for public investment management including amending the PFM Act to include a chapter on public investment management and a legal reform to address land use and right-of-way challenges.

25. In case downside risks materialize or financing assurances do not materialize, we will cut non-priority spending to safeguard the fiscal goals of the program. To help us in this regard, we will also consider implementing a temporary freeze on new project commitments and delaying projects that have not started or have yet to receive financing. Contingency revenue measures identified as part of our DRMS will also be considered.

26. The program will also target higher priority social spending. While the scope for further increases in social spending is limited by the debt outlook that has been significantly affected by a decline in GDP growth and the fiscal response to COVID-19, the targeted increase in social spending is reversing the decline in public education and health spending. The rollout of the PDM will also contribute to supporting subsistence households. We are redirecting donor funding destined to COVID-19 interventions to support the fight against the Ebola outbreak and are also accelerating the campaign for routine vaccinations (yellow fever, measles, polio) using subnational government structures to overcome the antivax sentiment through community mobilization. We are also increasing health professionals' wages, clearing arrears that arose due to the unexpected length of the COVID-19 pandemic and implementing targeted containment measures to combat the Ebola outbreak.

27. We will continue boosting social assistance programs to strengthen the social safety net. To support targeting of beneficiaries, we are expanding our national identification database and the unified national registry of all social assistance programs. The fourth Northern Uganda Social Action Fund, once approved by cabinet, will increase the number of beneficiaries. A pilot under the Urban Labor-Intensive Public Works Program is being implemented with funding provided by the International Labor Organization. An assessment will be conducted at the end of the pilot, providing the basis for expansion to other urban centers. Under the Senior Citizens Grants (SAGE) program, we shall clear outstanding arrears to beneficiaries and avoid the accumulation of new arrears by releasing adequate funding to the program in a timely fashion. We shall continue discussions on lowering the age threshold for eligibility (currently 80+ years). The implementation of the Presidential initiative on Wealth and Job Creation (Emyooga) is under way through the

Microfinance Support Center, increasing the number of SACCOs and member associations.

28. Strengthening public financial management will be a central part of our medium-term fiscal program. This will evolve around four main areas:

- **Improving the budget preparation process**. We will ensure that ministries submit for the budget all foreseeable expenditures. We will do our utmost to avoid supplementary budgets, including by ensuring these are limited to unforeseeable unexpected shocks. In the exceptional case where a supplementary budget is necessary, we will, in consultation with IMF staff, ensure that requests are costed, financing sources are identified, and debt impact is assessed.

- **Reducing the outstanding stock of domestic arrears and preventing new accumulation.** We have increased budget provisions for the clearance of domestic arrears in FY21/22 and will continue to prioritize and repay them in subsequent years. We will also put in place measures to prevent further arrears accumulation in line with the priorities identified by our domestic arrears strategy published in June 2021. We will publish on the MOFPED website decisions arising from investigations that led to sanctions for the period starting from FY 2020/21 onwards, with clear personal penalties for officers responsible for unauthorized spending commitments and actions taken to enforce compliance (proposed new SB, end-June 2023). We will keep the webpage up to date. Moreover, we plan to: (i) operationalize the automatic registration of invoices and automatic confirmation of fund availability; (ii) continue monitoring unpaid government financial obligations by publishing quarterly reports of unpaid invoices; and (iii) monitor the execution of arrear clearance.

- **Strengthening cash management.** We have sought IMF technical assistance to support cash management reforms and help us operationalize monthly cash flowforecasts. Further reform plans include the extension of the Treasury Single Account (TSA) to all remaining extra budgetary units and agencies.

- **Public Investment Management.** The recent PIMA completed in February of 2022 has highlighted some reform priorities that we intend to pursue to improve the public investment process. Among the most important are: i) integrating the multi-year commitment process into the mainstream budget review process and expediting improvement of the interface of different IT systems to improve the accuracy and recording of multi-year commitments; ii) ensuring predictable budget releases for investment projects, by enhancing the realism of the annual Budget and MTEF and instituting active cash management arrangements; iii) strengthening investment portfolio monitoring to become more forward-looking and based on explicit project baselines, clearly identifying projects at risk and which actions will be required to resolve the risk, and focusing this monitoring on major projects; and iv) strengthening the legal framework for effective public investment management, including amendment of the PFM Act to include a chapter on PIM (or a separate PIM law) and a legal reform to address land use and right-of-way challenges (expropriation law).

- **Our debt management framework remains appropriate.** Debt is projected to remain sustainable and is currently at a moderate risk of debt distress. We are making efforts to broaden the scope of potential creditors and financing sources. To that effect we have organized a credit outreach event together with the World Bank, and we are creating expression of interest guidelines and setting up a mobile money platform for retail investors to purchase Treasury securities. We are introducing a public investment financing strategy that will support our commitment to seek additional donor financing during the remainder of the ECF-supported program. Over the medium term, large infrastructure projects (e.g., railways) will lead to a slight shift in the composition of financing towards non-concessional loans. However, going forward, we plan to closely follow the goals laid out in our Medium-Term Debt Management Strategy, including increasing the maturity of domestic debt. To reduce the need for costly external financing, additional measures will be undertaken to unlock under-utilized World Bank lending, including through improved implementation capacity, and to further reduce tax exemptions.

Monetary and Exchange Rate Policies

29. The BOU remains committed to achieving the inflation target over the medium term, with fiscal consolidation helping improve the effectiveness of our policy rate instrument. Our program's proposed fiscal adjustment will enhance monetary policy transmission and effectiveness. To further support the functioning of the monetary policy framework, the BOU will:

- **Continue monitoring inflation developments closely** and stand ready to adjust the policy rate in both directions as needed: an increase in the policy rate may be needed if the acceleration in inflation is more pronounced and core inflation increases above the upper band inflation target (5+/-3 percent) over the relevant horizon. The inflation consultations clause will remain a key pillar of the program.

- **Continue building our Forecasting and Policy Analysis System's** capacity to support monetary policy formulation under the price-based framework. We are developing nowcasting tools to construct leading indicators that can help better inform the Monetary Policy Committee. Weare also planning to strengthen our external communication, including through IMF technical assistance.

- **Continue fine tuning liquidity forecasting.** We will continue strengthening market intelligence around the prevailing market liquidity conditions to guide the choice of the appropriate open market operations tools. We have broadened the liquidity management toolkit beyond the traditional repurchase agreements to include Bank of Uganda bills and special deposit facility for commercial banks at central bank as well as the use of Bank of Uganda recapitalization bonds to manage liquidity at various maturities.

30. We are committed to maintaining our reserve cover at an adequate level and strengthening it over time. Notwithstanding a challenging global environment, we believe that maintaining a robust reserve cover would help ensure investor confidence in Uganda. The recent tightening of global liquidity has led to a decline in reserves, and we now expect reserve cover to be at 3.6 months of imports by the end of fiscal year 2022/23. The current account deficit is expected to narrow gradually to about 5 percent of GDP (excluding imports related to oil project financing and investment related imports)—a level consistent with the historical average—in FY24/25, reflecting our fiscal consolidation strategy, a recovery in global demand, and oil coming on stream. Donor financing, and continued exchange rate flexibility will help build reserves back to the 4 months of import cover (defined as months of next year's imports of goods and services excluding oil project financing and investment related imports) during the program.

31. While the shilling has remained broadly stable, it is expected to depreciate gradually to the equilibrium level. As noted in a recent technical assistance (TA) by the IMF's Monetary and Capital Markets department, the number of our FX interventions has declined over time, and the past interventions are intended to smooth out excess volatility. We will also continue to allow exchange rate flexibility to contribute to the correction of external imbalances, facilitate adjustment to shocks and protect reserves, and we stand ready to tighten the monetary policy stance if warranted. We will avoid FX sales to support the currency except in instances of disorderly market conditions that jeopardize financial stability. This will help preserve adequate foreign exchange buffers, particularly as non-resident holdings of government bonds constitute a quarter of our international reserves and a sudden reversal in these portfolio flows could lead to a drawdown in reserves. A review of the BOU's Foreign Exchange Reserves Management Policy was completed. In line with best practice, the policy contains overarching risk limits as well as principles and criteria to govern the reserves management operations. The Financial Markets Department is undertaking the annual review of the Strategic Asset Allocation which derives the operational limits in line with the approved policy parameters. The SAA will incorporate a section describing the Bank's credit risk allocation process and show how counterparty foreign banks limits are allocated. We expect that this shall be presented for approval to Management shortly after the Board approval of policy which is in December.

Financial Sector Policies

32. Strengthening macroprudential regulation remains a key priority. BOU has fully implemented BASEL II principles and is selecting aspects and features of BASEL III as the banking sector evolves. The implementation of a systemic risk buffer for domestic systemically important banks, capital conservation buffer and leverage ratio, have been a regulatory requirement since January 1, 2022. Other aspects of BASEL III, such as the liquidity coverage ratio and net stable funding ratio are expected to be gazetted as prudential requirements and come into effect by December 2022. The minimum paid-up capital for SFIs has been increased and a statutory instrument to this effect was gazetted on 16th December 2022. The guidelines for the supervisory review process and the corresponding methodology for computation of the Pillar 2 capital add-ons will be finalized by end-2022.

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

- **Adopting new regulations on corporate governance**. To address the weakness in corporate governance identified following the failure of Crane Bank and minimize their potential impact on financial stability, we have issued new corporate governance guidelines that were developed with the assistance of the IMF long term expert by end-June 2022. The guidelines outline governance principles and compliance steps for all SFIs, covering the composition and mandate of the board and senior management, the incentives' structure, and modalities for transactions with affiliates and related parties reflecting feedback from stakeholders. To ensure enforceability of the requirements provided under the new guidelines, we plan to develop and adopt regulations consistent with the principles in the existing guidelines (proposed new SB, end-December 2023)

- **Moving towards continuous risk-based supervision (RBS).** With the new RBS manual and risk matrix developed with the assistance of IMF long-term expert. BOU is running a pilot for supervising institutions based on the new RBS manual and is working towards aligning its prudential and supervisory framework with international standards and best practices. We will continue to perform regular solvency stress tests and monitor banks' loan classification processes to ensure alignment with IFRS 9. To further improve soundness of the financial sector, we plan to integrate Uganda Development Bank under BOU's supervision.

- **Operationalizing the new resolution policy framework** approved in June 2021 by the Board. The Resolution Manual was reviewed and adopted by the Board in December 2021. The interim resolution will be located in Financial Stability Department with two staff pending the bank wide restructuring exercise.

- **Enhancing AML/CFT risk-based supervision.** To strengthen our offsite AML/CFT supervision, we have issued the revised AML/CFT data collection template (DCT) to banks in March 2022. We will be rolling out the DCT to the foreign exchange bureaus and money remitters and expect to receive relevant risk data from these two sectors by end-March 2023. We are finalizing the AML/CFT risk management questionnaire for banks which will be issued to the sector by end-2022, with technical assistance from IMF. This questionnaire will be adapted for the two non-banking sectors and will be rolled out by end-March 2023. Development and implementation of these tools will be a structural benchmark (requested postponement of September 2022 SB to May 2023). Input from these tools will inform our AML/CFT risk-based supervisory strategies. To improve financial institutions' understanding of AML/CFT obligations, BOU had also issued guidance notes on customer due diligence and suspicious reporting transactions in September 2022. We are finalizing the drafts guidance notes on targeted financial sanctions and ML/TF risk assessment, which we expect to issue to the supervised institutions by end-November 2022. Moreover, we have established a dedicated AML/CFT supervision unit at the BOU with 5 dedicated staff.

- **Strengthening bank oversight**. BOU has introduced a new list of eligible liquid assets and requires banks to comply with the liquidity coverage ratio. We are further strengthening banking system resilience by:

    - **Maintaining standing lending facilities** at the BOU as the Lender of Last Resort window for SFIs. The Emergency Liquidity Assistance facility, established in May 2022, will provide funds to a solvent SFI that is facing idiosyncratic liquidity stress or to provide system-wide liquidity to mitigate systemic liquidity and market shocks.

- **Continuing to strengthen our stress testing capabilities**, with bottom-up stress testing involving domestic systemically important banks completed in May 2022. BOU will continue to implement the IMF TA recommendations to enhance its interpretation of commercial banks stress tests. With IMF TA, the BOU developed in May 2022 an FX liquidity stress testing model focusing on liquidity linkages across sectors and the resilience of each sector to liquidity stress.

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

E. Structural Reforms

34. Our structural reform agenda continues to focus on generating higher and more inclusive growth by facilitating private sector activity and enhancing human capital development. Reversing the decline in private investment seen since the global financial crisis is a priority underthe NDPIII. The objectives of the NDPIII have not changed, but its implementation has been delayed due to the COVID-19 crisis and global disruptions. Hence, we have focused on the implementation of health and education related spending. Nevertheless, we will continue to pursue governance reforms, strive to reduce the cost of doing business, and foster financial inclusion to unlock private sector activity.

Governance and Anti-Corruption Policies

35. We will further build public trust in the asset declaration regime by enhancing transparency in its implementation. In this regard, we have published information on compliance statistics, applications to access the declarations, and leaders that have been found to be in breach of the Leadership Code Act and Regulations by the Leadership Code Tribunal, on the Inspectorate of Government's website (PA) (TMU ¶39-40). Moving forward, such information will be published on the website on an annual basis for information relating to application to access the declarations and timely submission of declarations, while information on individual sanctions imposed will be published as and when adjudication decisions are made by the Tribunal. Proportionate and dissuasive sanctions will be imposed on public leaders for non-compliance with the requirements of the Leadership Code Act and Regulations. We will also leverage the role of civil society actors and citizens to identify and report potential corruption, in line with our strategic intervention action under the National Anti-Corruption Strategy (NCAS) 2019-2024.

36. We will step-up efforts to improve good governance and tackle corruption, in line

with the strategic objectives provided under the NACS 2019-2024. In this respect, we will take the following actions:

- In consultation with Fund staff, the Directorate for Ethics and Integrity to publish, in relation to the strategic objectives of the National Anti-Corruption Strategy (NACS) 2019-2024, (i) an assessment report against the agreed indicators and targets, and (ii) the annual report for fiscal year 2022/2023 on the prevalence of corruption and anticorruption efforts, as guided by the NACS' monitoring and evaluation framework by end-November 2023 (proposed new SB, end-November 2023).

- We will request for technical assistance from the Fund to conduct a governance diagnostic assessment on corruption vulnerabilities and key state functions, to be completed by end-March 2024, and develop prioritized actions based on the findings and recommendations of the diagnostic. Findings of the assessment will help Government develop strategies to promote transparency and accountability. Consistent with our strategies to promote transparency and accountability, we commit to making publicly available our governance diagnostic report with due consideration to sensitive information.

- In the past year, the office of the Office of Director of Public Prosecution has prosecuted 268 corruption cases. 174 cases were concluded, with 115 resulting in convictions with a success rate of 81 percent. The successful prosecutions have enabled the government to recover 10 billion shillings and 16,000 USD, as well as anti-malaria drugs worth 28 million shillings. In addition, 51 public officers were convicted of various corruption cases and are barred from holding public office for the next 10 years in accordance with the law. We have launched the Prosecution Case Management Information System in 2018 that enables us to capture, store and update records about suspects and case proceeding online. We are rolling out the system countrywide to extend it to persecutors, prisons, and police, among others, so that cases can be filed digitally at the source.

37. Uganda has recently joined the Extractive Industries Transparency Initiative (EITI). As part of our commitment to the EITI, we stand ready to disclose contracts and licenses for oil and gas production and beneficial owners of corporate entities that hold a legal interest. The first EITI report containing the relevant disclosures will be finalized and submitted in 2022.

Financial Integrity Measures

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

- **Issuing regulations for timely access by competent authorities to beneficial ownership information.** Following the requirements to maintain register of beneficial owners as prescribed in the 2022 amendments to the Companies Act, the Uganda Registration Services Bureau (URSB) has developed regulations to establish mechanisms and procedures for timely access by competent authorities to the beneficial ownership information (SB, June 2022) with targeted adoption of regulation by March 2023, to enable completion of the SB. In parallel, URSB is also currently enhancing the existing information technology system. The new IT system will facilitate implementation of timely access to the basic and beneficial ownership information of companies, as it will allow competent authorities direct and immediate access to the information. The new system will be integrated with the Uganda Revenue Authority and National Identification and Registration Authority databases. Amendments to the relevant laws relating to trustees and partnerships requiring establishment of beneficial ownership registers were also passed, with the corresponding implementing regulations expected to be gazetted at the same time.

- **Improving effectiveness of AML/CFT risk-based supervision.** In the near term and with the technical assistance support by the IMF, BOU will prioritize efforts to develop offsite supervision tools and start implementing onsite supervision strategies as informed by the findings of the offsite supervision. This will include conducting AML/CFT onsite inspections on higher-risk financial institutions and sectors to ensure compliance with the AML/CFT requirements and impose proportionate and dissuasive sanctions for non-compliance. We are developing additional guidance notes for supervised entities on implementation of targeted financial sanctions and risk assessment, to be published by end-December 2022.

- **Ensuring compliance with new regulations on domestic politically exposed persons (PEPs).** With the new AML/CFT regulations on measures for domestic PEPs, their family members, and close associates issued in February 2022, BOU will conduct onsite inspection on a risk-based approach to ensure compliance by reporting institutions with these measures.

Reducing the Cost of Doing Business

39. We will accelerate efforts to reduce legal and administrative impediments to doing business. We have recently united all permits and registration requirements for new businesses in a one-stop shop, which can be accessed physically and online. In addition to these initiatives, the following envisaged actions should relax constraints on private sector initiative and growth, consistent with our priorities under the NDPIII: (i) addressing non-financial factors (power, transport, ICT) leading to high costs of doing business; (ii) strengthening the system of SME incubation centers (where education and help is offered to entrepreneurs who want to start a business) to support growth of SMEs in strategic areas; (iii) improving land administration, including by extending the coverage of the immovable property registry; (iv) rationalizing and harmonizing standards, institutions, and policies at the local and regional level; and (v) further streamlining bureaucratic red tape, reducing duplications and speeding up clearances for business operations. We are also working with the World Bank to provide subsidized financing for microfinance institutions and banks to support business creation in the southwest of Uganda; financing for the establishment and operation of industrial parks and special economic zones; and technical assistance to agencies for the development of private sector regulation and mechanisms for export promotion.

40. Our development plan recognizes that an open and transparent trade regime is key to fostering dynamic economic growth. We have been investing in transport infrastructure (Standard Gauge Railway and roads) to support trade links with neighboring countries. The implementation of our commitments to the African Continental Free Trade Area (AfCFTA), including lowering the burden of administrative compliance and simplifying customs procedures through protocols on trade facilitation, will be important and will also require finding solutions to challenges of non-tariff barriers and harmonization of standards with our trading partners. Discussions are ongoing regarding reducing trade barriers for a wide range of goods and lowering trade costs for services. We will make sure measures introduced to protect strategic industries during COVID-19—such as basic manufactures, food processing and pharmaceuticals—are unwound, which is necessary to better support a trade regime that promotes dynamic and inclusive growth consistent with the WTO, EAC, COMESA, and AfCFTA provisions for international trade. We will strengthen the dialogue with key trading partners by participating in regional fora and by working closely with the EAC Secretariat.

Fostering Financial Inclusion

41. We are implementing the National Financial Inclusion Strategy and envisage further progress under the program. The current national financial inclusion strategy expired in 2022, and we are developing a new strategy that will be in place in the first quarter of 2023. In addition to promoting digital financial literacy and improving internet connectivity in the countryside, key priorities under our strategy include:

- **Enhancing credit support to SME and the agricultural sector,** by increasing the uptake of the Small Businesses Recovery Fund through amended eligibility criteria and injecting capital to the Agriculture Credit Facility. To encourage more financial institutions to extend affordable credit to the SMEs, which plays a pivotal role in creating jobs, supporting industrialization strategy and increasing exports, in collaboration with the Ministry of Finance and other stakeholders, we will consider enabling access to the Tier 3 financial institutions, which provide the micro finance services to many small or low-income entrepreneurs, to participate in the government-run specialized funds.

- **Modernizing the financial infrastructure** by improving financial institutions' data sharing infrastructure for credit and by allowing financial institutions to accept movable collateral for lending. With regulations finalized and a website open for the registry of movable assets the Uganda Registration Services Bureau recorded 13,533 security interest notices by July 31, 2022, an increase from 7,625 a year before. With the Amendments to the CRB gazetted in October 2022, the CRB can gather information from all credit providers on borrowers. We will define the ownership structure of data collected by Central Data Hub to which the CRBs will submit the credit information (proposed new SB, end-October 2023).

- **Promoting digital finance through** spurring digital transformation of government-to-person payments, strengthening consumer empowerment and confidence in digital financial services, and launching a national payment switch which is expected to support P2G, B2G, and other digital payments. Bank of Uganda is currently finalizing the business requirements of the National Switch which will centralize the payments, enhance payments efficiency and reduce transaction costs. The switch will provide a centralized interface with mobile money systems, Point of Sale Systems, Automated Teller Machines, card payment schemes, and internet-based e-commerce portals.

- **Strengthening consumer protection** remains important now that Uganda is moving ahead with digitalization of its economy and greater use of e-financial services. In September 2022, the NPS Consumer Protection Regulations were gazetted. The Regulations aim to empower consumers of digital financial services and strengthen redress mechanisms in the sector. We will continue to improve the Consumer Protection Regulation with other interventions aimed at increasing digital literacy through financial education. We will adopt the cybersecurity guidelines for financial services which will outline the minimum requirements that SFIs shall benchmark against in the development of their own customized cyber risk management frameworks.

Climate Policies

42. We are committed to enhancing the economy's resilience to climate change. Uganda isprone to natural disasters that climate change is making more frequent and impactful. Our Ministry of Water and Environment estimates that climate change damage in the agriculture, water, infrastructure, and energy sectors could collectively amount to US$273-437 billion (2.8-4.5 percent of cumulative prospected GDP) between 2010 and 2050. For example, in the Karamoja region intense floods are followed by prolonged periods of drought. Our updated Nationally Determined Contributions have expanded their adaptation component, and we are committed to the implementation of the Disaster Risk Management plan recently approved by Cabinet. The latter includes actions for immediate implementation to avert the negative impacts of predictable disasters and, to this end, we intend to use the proposed Presidential allocation of US$50million as seed funds for disaster risk management in the next three financial years. In addition, we completed the accreditation to the Green Climate Fund and the Adaptation Fund, and we are now working with development partners to scale-up capacity to leverage these accreditations to access financing. Our main priority areas include:

- **Strengthening our water catchment ability**. While climate finance, including donor grants, is available in theory for water catchment ability and wetlands preservation, it is very difficult to obtain in practice due to cumbersome application processes and very high standards for developing bankable projects. We are committed to seeking technical assistance from multilateral organizations to increase our capacity in this area.

- **Increasing forest coverage from 14 percent to 21 percent by 2030**. The COVID-19 pandemic diverted resources to tackle the health emergency and our Ministry of Water and Environment suffered a budget cut of 40 percent, not only jeopardizing our ability to undertake new projects, but also our ability to enforce regulations and maintain the envisaged tree planting projects. Despite the challenges, we recently managed to reverse the deforestation trend. Going forward, as the economy recovers, we are committed to allocating adequate resources to combat deforestation.

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

44. **The BOU Strategic Plan 2022-2027 will institutionalize an Environmental, Social, and Governance Sustainability (ESGS) Framework.** We have started work on this initiative by raising awareness in the financial sector on ESGS issues. We are also conducting a situational analysis of the various ESGS initiatives in supervised financial institutions to form sustainability principles for the sector that all SFIs will be required to integrate in their core businesses. Internally, BOU is pursuing institutional sustainability and will be applying to the European Organization for Sustainable Development to participate in the Sustainability Standards Certification Initiative. Other measures include adopting a paperless office environment and working with other government agencies to address data gaps on climate issues. We will also undertake capacity development for our staff, including joining the Network of Central Banks and Supervisors for Greening the Financial System to draw lessons from other central banks on managing risks and mobilizing capital for green and low-carbon investments. In the domestic money markets, we will develop a governance framework for the issuance of bonds which will, among others, provide for mechanisms for the issuance of green bonds.

F. Other Program Modalities

45. **We are implementing recommendations from the 2021 Fund's safeguards assessment.** The revised Principles amending the BOU Act will fully address the safeguards recommendations and subject all temporary advances to the Government to the limit of 10 percent of current-year revenues established in the PFM Act, 2015. Appropriate limits and criteria on guarantees to the Government will be introduced. We are requesting that the September 2022 SB be reprogrammed to end-October 2023 to accommodate the additional steps needed to meet this target. Given high currency printing costs, we have conducted a market study to compare printing costs, and a cost-benefit analysis of replacing low denomination banknotes with coins will be presented to the Board on 20th December 2022. In line with the recommendations of the safeguards

assessment, we will request TA to review and revise the mechanism for distinguishing realized and unrealized gains/losses. We will step up implementation of internal audit recommendations ensuring effectiveness of the related follow up mechanism. The revised Audit and Governance Committee Charter that requires membership of only independent members and no government officials was approved on 9th May 2022. The first half-year currency operations report was finalized and presented to the EXCOM in April 2022. This currency operations report was presented to the Strategy and Finance Committee (SFCB) of the Board and will be ratified on 20th December 2022. The Foreign Exchange Reserves Management Policy review was ratified by the SFCB and will be ratified on 20th December 2022. The Internal Audit directorate continues to conduct quarterly reviews of program monetary data submitted to the Fund in accordance with TMU definitions.

46. **We are continuing to strengthen our statistics, which are essential for the design of appropriate policies**. While data provision is broadly adequate for surveillance and program monitoring, we will continue to support UBOS in fulfilling its missions, and we count on continued technical and financial assistance from our partners in strengthening of the timeliness and accuracy of National Accounts and Government Finance Statistics, as part of a broader goal in migrating from the Enhanced General Data Dissemination System to the Special Data Dissemination Standard. Developing institutional sector accounts and higher frequency GDP indicators alongside the rebasing of CPI, PPI and IPI remains a priority. UBOS will also continue implementing its High Frequency Phone Survey to monitor the impact of COVID-19, which was now extended to include questions on Ebola, and the Uganda National Household Survey - an important source of socioeconomic data to monitor the success of government policies. In preparation for the next population census that will take place on August 23-24, 2023, we are conducting the mapping exercise to update boundaries, facilities, features and households to establishing enumeration areas, with the help of community leaders. This year the census will be conducted digitally, through the Geographic Information System, and is expected to show results in three months. The data collection tool will capture socio-economic variables and update education statistics and provide a platform for evaluation of data through publication on the web site.

47. **The semi-annual quantitative performance criteria, continuous performance criteria, indicative targets and SBs are listed in Tables 1 and 2 (b and c) of the MEFP**. Definitions of key concepts and indicators, as well as reporting requirements, are set out in the accompanying Technical Memorandum of Understanding. The 4th review and 5th review are scheduled to be completed on or after June 1, 2023 and December 1, 2023, respectively based on test dates for periodic performance criteria ofend-March 2023 and end-September 2023, respectively.

Table 1. Uganda: Quantitative Performance Criteria and Indicative Targets

	2022														2023			
	End-Mar QPC				End-Jun IT				End-Sept QPC				End-Dec IT		End-Mar QPC	End-Jun IT	End-Sept QPC	End-Dec IT
	Target	Adj. target	Act.	Status	Target	Adj. target	Act.	Status	Target	Adj. target	Act.	Status	Target	Revised Target				
Quantitative performance criteria																		
Fiscal targets																		
Primary budget balance of the central government (- = deficit; floor, in billions of USh) 1/	-5,047	-5,057	-2,670	Met	-6,872	-6,808	-5,370	Met	-910	-130	814	Met	-1,356	-1,624	-2,746	-3,320	-2,067	-2,740
Monetary targets																		
Net claims on the government by the central bank (ceiling) 1/	300		-466	Met	580		1,591	Not met	2,458		113	Met	1,639	1,598	799	-1,185	2,815	1,877
Target for international reserves																		
Stock of net international reserves (floor, in millions of US$) 2/	3,432	3,407	3,570	Met	3,125	3,046	3,235	Met	3,455		2,811	Not met	3,308	2,571	2,574	2,503	2,687	2,794
Continuous PCs																		
Stock of external payment arrears incurred or guaranteed by the public sector (ceiling)	0		0	Met	0		0	Met	0		0	Met	0	0	0	0	0	0
PV of newly contracted external public and publicly guaranteed debt (ceiling, millions of US$) 1/	1,818		539	Met	1,818		593	Met	2,748		66	Met	2,748	2,748	2,748	2,748	4,042	4,042
Monetary policy consultation clause																		
Outer band (upper limit)	8				8				8				8	8	8	8	8	8
Inner band (upper limit)	7				7				7				7	7	7	7	7	7
Core inflation target 3/	5		2.7	Met	5		3.2	Met	5		4.4	Met	5	5	5	5	5	5
Inner band (lower limit)	3				3				3				3	3	3	3	3	3
Outer band (lower limit)	2				2				2				2	2	2	2	2	2
Indicative targets																		
Support to vulnerable households (floor, billions of USh) 1/	220		220	Met	292	220	221	Met	26		51	Met	77	148	187	226	81	163
Social spending (floor, billions of USh) 1/ 4/	4,391		4,716	Met	6,303		5,980	Not met	1,463		1,212	Not met	2,963	2,684	4,766	6,847	1,849	3,698
Tax revenues (floor, in billions of USh) 1/	14,653		14,580	Not met	20,305		20,425	Met	5,121		5,038	Not met	11,125	11,439	17,349	23,965	6,149	13,288
Repayment of outstanding domestic arrears (floor, in billions of USh) 1/	300		550	Met	603		606	Met	100		480	Met	200	571	662	662	100	200

Note: The March 2022, September 2022, March 2023, and September 2023 PCs are for the second, third, fourth and fifth review, respectively.

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

1/ PCs are cumulative flows (i) from July 1, 2021 to end-March and end-June 2022; (ii) from July 1, 2022 to end-September, end-December, 2022, end-March and end-June 2023; and (iii) from July 1, 2023 to end-September 2023.

2/ The NIR excludes IMF disbursements under the program, central bank short-term liabilities, and is assessed at program exchange rate. The impact of the SDR allocation, assumed to be fully saved, is reflected in the target.

3/ PCs are cumulative flows (i) from July 1, 2021 to end-March and end-June 2022; and (ii) from July 1, 2022 to end-September, end-December 2022, end-March and end-June 2023.

3/ Core inflation excludes energy, fuel, and utilities and food crops. Annual percentage change, twelve-month period average core inflation.

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

Table 2a. Uganda: Prior Actions for the Combined 2nd and 3rd Reviews			
Measures	**Rationale**	**Initial Deadline**	**Status**
Publish on the Inspectorate of Government's website information on: (i) the number of leaders who did not promptly submit the asset declarations for the March 2021 declaration period, with a breakdown by categories of leaders, such as members of cabinet, members of parliament, judges of the courts of judicature, Directorate of Public Prosecutions (staff of or above the rank of State Attorney), Permanent Secretaries, and heads of State-Owned Enterprises, (ii) the number of requests received, approved, and rejected, to access the leaders' declarations on a semi-annual basis, with a breakdown by categories of leaders and reasons for rejection, if any, for the period of January 2021 to June 2022, and (iii) the names of leaders who have been found in breach of the Leadership Code Act and Regulations by the Leadership Code Tribunal for the period of January 2021 to June 2022.	Strengthen governance and reduce vulnerability to corruption	Met.	Completed in December 2022. Relevant information is published on the Inspectorate of Government and Leadership Code Tribunal's websites. Sanctions imposed due to breaches to the LCA and Compliance statistics.

Table 2b. Uganda: Original Structural Benchmarks – Combined 2nd and 3rd Reviews

Measures	Rationale	Deadline	Status	Comments
Adoption of IGG regulations to lower the barriers to access information about asset declarations from leaders and to enforce the requirement to declare the assets of spouses, children and owned beneficially.	Strengthen governance and reduce vulnerability to corruption	March 2022	Not met	The SB was not fully implemented due to legal impediments. The Leadership Code Regulations have been amended in September 2022 to include assets that are beneficially owned in the declaration. Given the criticality of the measure to the program's objectives, a prior action was set on the publication of information on statistics of timely submission of declarations by leaders, applications to access the declarations, and names of sanctioned leaders (Table 2a).
Prepare and publish a medium-term fiscal framework, which is aligned with the Government Finance Statistics Manual of 2014 (GFSM 2014) in budget documents	Fiscal Sustainability and enhancing fiscal transparency	May 2022	Not met	**Completed** in June. Published in documents accompanying the Budget speech, June 14. "Background to the budget", reports the fiscal framework according to GFSM 2014 (page 71).
Prepare a unified registry of all social assistance programs	Targeting of social assistance programs	June 2022	Not met	**Completed** in August 2022. NSR primary link; NSSF Data; Public Service Pension Data.
Establishment of legal and regulatory mechanisms for timely access to accurate basic and beneficial ownership information for legal entities.	Strengthen governance and reduce vulnerability to corruption	June 2022	Not met	**Reprogrammed.** Bill passed by Parliament on September 1, 2022 and assented by H.E. President. Implementing regulation is under review with FATF.
Publish a regulation introducing a strict sanction regime for officers responsible for unauthorized spending commitments, with clear personal penalties	Strengthen Expenditure commitment controls	June 2022	Not met	Authorities deem this not legally possible. Section 79 PFM Act contains provisions for sanctions, including custodial sentences. Authorities noted that regulation cannot supersede the law.
Issue treasury memoranda that explain how weaknesses raised by the FY 20/21 audit will be addressed	Strengthen fiscal transparency	June 2022	Not met	**Reprogrammed.**

Table 2b. Uganda: Original Structural Benchmarks – Combined 2nd and 3rd Review (concluded)

Measures	Rationale	Deadline	Status	Comments
Adopt a tax exemption rationalization plan applying criteria defined in the tax expenditure framework that would identify at least 0.1 percent of GDP in savings in FY 22/23 and 0.2 percent in subsequent years.	Revenue mobilization through a wider base	June 2022	Not met	**Completed** in November 2022. The plan is in line with TA recommendations provided by the Fiscal Affairs department of the IMF in July.
Adoption by Parliament of the Charter for Fiscal Responsibility, which sets a floor for the overall balance and sets a maximum level of the annual transfer from the Petroleum Fund to the Consolidated Fund.	Strengthen fiscal transparency for oil revenue management	July 2022	Met	The Charter of Fiscal Responsibility (CFR) was adopted by Parliament in May.
Expand Credit Bureau Coverage by adopting amendments to the credit reference bureau	Strengthen financial inclusion	August 2022	Not met	**Completed** in September 2022.
Parliamentary adoption of the BOU Act amendments to strengthen governance and autonomy, including for the dynamic recapitalization of the BoU, enhancements of the ELA, and the resolution powers of the BoU.	Enhance BOU governance	September 2022	Not met	**Reprogrammed.**
Issue implementing Regulations to the Financial Institutions Act by September 2022 that will, inter alia, define proper fit and test criteria for bank shareholders	Enhance BoU governance	September 2022	Not met	**Completed** in October 2022.
Development and implementation of tools for risk-based AML/CFT supervision of the financial sector	Strengthen governance and financial sector stability	October 2022	Not met	**Reprogrammed.** The Companies' Act was amended in September 2022 to establish, amongst others, a centralized beneficial ownership registry for companies. Preparation of draft regulations to establish a mechanism for timely access to beneficial ownership information is currently undergoing stakeholders' review and consultation.

Table 2c. Uganda: Proposed New and Reprogrammed Structural Benchmarks

Measure	Rationale	Deadline
Establishment of legal and regulatory mechanisms for timely access to accurate basic and beneficial ownership information for legal entities. Reprogrammed from June 2022.	Strengthen governance and reduce vulnerability to corruption	End-March 2023
Issue treasury memoranda that explain how weaknesses raised by the FY 20/21 audit will be addressed. Reprogrammed from June 2022.	Strengthen fiscal transparency	End-May 2023
Development and implementation of tools for risk-based AML/CFT supervision of the financial sector. Reprogrammed from October 2022.	Strengthen governance and financial sector stability	End-May 2023
Design a medium-term ICT strategy supported by a plan for the procurement of a new Integrated Tax Administration System (ITAS).	Improve domestic revenue mobilization	End-May 2023
Develop a financial inclusion module in the Parish Development Management information system (PDMIS) to track access to revolving funds by targeted vulnerable households (the last mile beneficiary/subsistence household) and report on the drawdown of the funds by vulnerable households including by demographic categories such as gender.	Strengthen social assistance programs	End-June 2023
Publish on the MOFPED website decisions arising from investigations that led to sanctions for the period starting from FY 2020/21 onwards, with clear personal penalties for officers responsible for unauthorized spending commitments, and actions taken to enforce compliance.	Strengthen governance and reduce vulnerability to corruption	End-June 2023
Issue a resolution by the BOU Board Committee on the ownership structure for data collected by the Central Data Hub as a prerequisite for the use of Credit Registration Bureau data to compute credit scores for MSMEs and individuals and to generate indicators for macroprudential regulations	Strengthen financial stability	End-October 2023
Parliamentary adoption of the BoU Act amendments, in consultation with IMF staff, to strengthen governance and autonomy, including for the dynamic recapitalization of the BoU, enhancements of the ELA, and the resolution powers of the BoU. Reprogrammed from September 2022.[1]	Enhance BoU governance	End-October 2023
In consultation with Fund staff, Directorate for Ethics and Integrity to publish, in relation to the strategic objectives of the National Anti-Corruption Strategy (NACS) 2019-2024, (i) an assessment report against the agreed indicators and targets, and (ii) the annual report for fiscal year 2022/23 on the prevalence of corruption and anti-corruption efforts, as guided by the NACS' monitoring and evaluation framework.	Strengthen governance and reduce vulnerability to corruption	End-November 2023
Adopt amendments to the Financial Institutions (Corporate Governance) Regulations, in line with the principles provided in the Basel Committee on Banking Supervision's guidelines on corporate governance.	Strengthen corporate governance and financial stability	End-December 2023
Finalize entries of learners' data into EMIS and publish diagnostics by local government informing the education sector funding needs.	Improve budgetary planning and funding of the education system	End-December 2023

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

Attachment II. Technical Memorandum of Understanding

A. Introduction

1. This memorandum defines the semi-annual and continuous performance criteria and indicative targets described in the Memorandum of Economic and Financial Policies (MEFP) for the program supported by the IMF Three-Year Extended Credit Facility (ECF) over the period of June 30, 2021—June 30, 2024; and sets forth the reporting requirements under the arrangement. The stock of all foreign assets and liabilities will be converted into U.S. dollars at each test date using the cross-exchange rate referred to in Text Table 1 below for the various currencies, and then converted into Uganda shillings using the program U.S. dollar-Uganda shilling exchange rate for end-December 2021, unless otherwise indicated in the text.

Text Table 1. Uganda: Program Exchange Rate (end-October 2022)1/

US dollar (US$)	1.0000
Australian Dollar/US$	1.5627
Canadian Dollar/US$	1.3624
Euro/US$	1.012
British pound/US$	0.8720
US$/Japanese yen	0.0067
US$/Rwandan franc	0.0010
SDR/US$	0.7792

1/ For the currencies not listed in this table, the cross-exchange rates to the U.S. dollar at end-Oct 2022 will be applied. For Rwanda franc the exchange rate is as of end-March.

B. Floor on Primary Budget Balance of the Central Government[1]

2. The quantitative performance criterion (QPC) on the floor on the primary budget balance is defined as the overall budget balance of the central government excluding net interest payments on public debt. The overall budget balance is defined from below the line as the sum of:

a) Net external financing (NEF), defined as the sum of the difference between disbursements and amortization of any loans (including budget support loans and project loans, both concessional and non-concessional), international-bonds, and any other forms of liabilities by the central government to nonresidents, excluding nonresidents' holdings of domestically-issued government securities (which are covered under NDF).

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

i. The change in net claims on the central government by the banking system, defined as the difference between claims on the central government and liabilities to the central government, of the central bank and other depository corporations.

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

ii. The change in net claims on the central government of domestic nonbank institutions and households, including treasury bills, bonds or other government securities held by the nonbank public.

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

iv. NDF will be calculated based on data from balance sheets of the monetary authority and other depository corporations and government liabilities to nonbank institutions and households as per the Depository Corporations Survey (DCS).

v. Changes in NEF will be measured using external financing (net) provided in the monthly government finance statistics. These data, in turn, will be based on the reconciled donor disbursement figures obtained by the central bank and by Ministry of Finance, Planning, and Economic Development (MoFPED) through the Debt Management and Financial Analysis System (DMFAS) and Aid Management System (AMS).

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

C. Ceiling on Net Claims on the Government by the Central Bank

Background on Temporary Advances from the Bank of Uganda to the Central Government

4. The Government of Uganda (GoU) may receive temporary advances from the Bank of Uganda (BoU) to cover temporary deficiencies of recurrent revenue of up to 10 percent of recurrent revenues over the fiscal year, according to the Amendments to the 2015 PFM Act. The Act also requires full repayment within the respective fiscal year.

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

Purpose, Definition, and Measurement

6. The purpose of the quantitative performance criteria on the ceiling of net claims on the government by the central bank is to help define and monitor the balance of temporary advances and ensure their prompt repayment. This should help reduce the likelihood of a situation where the temporary advances are used in order to bypass issuances of treasury securities in the domestic financial market, resulting in monetization of fiscal deficits and potential inflationary pressures. It also acts as a monitoring mechanism for the GoU extended repayment schedule for the existing advances.

7. The net claims on the government by the BoU is defined as the difference between claims on central government and liabilities to central government, excluding deposits in administered funds (including the petroleum funds, agriculture credit facility and development finance scheme projects), project accounts (both donor and government funded) with the central bank and net recapitalization securities (recapitalization securities provided to the central bank less those used for monetary policy purposes).

8. The net claims on the government by the central bank will be calculated based on data from balance sheets of the monetary authorities as per the DCS as follows:

a) **Net claims on the government by the BOU** is defined as the difference between gross claims by BOU on central government and gross liabilities by BOU to the central government.

b) **Plus: Deposits in Administered Funds** This includes mainly the Agricultural Credit Facility. Gross deposits in administered funds should be used (i.e. Administered Funds (Total deposits held by BOU)). This component, being a liability on the central bank's balance sheet, should be added back into the calculation in order to be excluded (hence "plus").

c) **Plus: Deposits in the Petroleum Fund**. The Petroleum Fund has two accounts: one in UGX and one in USD. Both accounts should be included as both constitute liabilities of the BOU to the central government. This component, being a liability on the central bank's balance sheet, should be added back into the calculation in order to be excluded (hence "plus").

d) **Plus: Government Project Deposits**. These are donor project funds earmarked for specific projects and transferred to the BOU to administer. This component, being a liability on the central bank's balance sheet, should be added back into the calculation in order to be excluded (hence "plus").

9. **Minus: Recapitalization Securities**. The securities used for monetary purposes (repos) are already netted out above, since they are included in both gross claims by BOU on central government and gross liabilities by BOU to the central government. Hence only recap securities should be subtracted.

D. Floor on Net International Reserves of the Bank of Uganda

10. Net international reserves (NIR) of the BOU are defined for program monitoring purposes as reserve assets of the BoU net of short-term external liabilities of the BoU. Reserve assets are defined as external assets readily available to, and controlled by, the BoU and exclude pledged or otherwise encumbered external assets, including, but not limited to, assets used as collateral or guarantees for third-party liabilities. Short-term external liabilities are defined as liabilities to nonresidents, of original maturities less than one year, contracted by the BoU and include outstanding IMF purchases and loans.

11. For program-monitoring purposes, reserve assets and short-term liabilities at the end of each test period will be calculated in U.S. dollars by converting the stock from their original currency denomination at program exchange rates as set out in Table 1 above. The NIR limit for each of the test dates will be a floor on the NIR stock at the end of each test period. NIR floors for September 2022, March 2023 and September 2023 will be quantitative performance criteria under the ECF; floors for June 2022 and December 2022 and end-June and end-December 2023 will be indicative targets.

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

12. The definition of debt, for the purposes of the limit, is set out in point 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements (Executive Board Decision No. 6230-(79/140), as amended by Decision No. 15688-(14/107), effective June 30, 2015, and Decision No. 16919-(20/103), adopted on October 28,2020). It does not only apply to the debt as defined in point 8(a) of the Executive Board decision, but also to commitments contracted or guaranteed for which value has not been received.[3] The definition of debt set forth in point 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements reads as follows:

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

[2] Public sector comprises the general government (which includes the central government, local governments, and monetary authorities), and entities that are public corporations which are subject to 'control by the government', defined as the ability to determine general corporate policy or by at least 50 percent government ownership.

[3] Contracting and guaranteeing is defined as approval by a resolution of Parliament as required in Section 36(5) and 39(1) of the Public Finance and Management Act, 2015.

the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

14. Under the definition of debt set out in point 8(a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

15. The ceiling on the accumulation of new external payments arrears is zero. This limit, which is to be observed on a continuous basis, applies to the change in the stock of overdue payments on debt contracted or guaranteed by the public sector from their level at end-June 2021. External debt payment arrears consist of external debt service obligations (reported by the Statistics Department of the BoU, the Accountant General's office of the Ministry of Finance, Planning and Economic development) that have not been paid at the time they are due as specified in the contractual agreements but shall exclude arrears on obligations subject to rescheduling, disputed debt service obligations and the HIPC-related external arrears to Iraq and Nigeria. For the purposes of this continuous PC, which is monitored continuously, the government will immediately report to the IMF staff any new external arrears it accumulates.

F. Ceiling on the Present Value of Newly Contracted External Public and Publicly Guaranteed Debt

Definition, Coverage

16. For program purposes, the definition of debt is set out in paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board Decision No. 15688-(14/107), effective June 30, 2015 (see above). The public sector comprises the central government, state government, local government, social security funds, the central bank, nonfinancial public enterprises and other official sector entities. The guarantee of a debt arises from any explicit legal or contractual obligation of the public sector to service a debt owed by a third-party debtor (involving payments in cash or in kind). A debt is considered contracted when all conditions for its entrance into effect have been met, including approval by the government. Contracting of credit lines with no predetermined disbursement schedules or with multiple disbursements will be also considered as contracting of debt.

17. External debt is any debt contracted or guaranteed by the public sector on both concessional and non-concessional terms with non-residents, excluding nonresidents' holdings of domestically-issued government securities (which are covered under NDF).

Concessionality

18. For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. For debts with a grant element equal or below zero, the PV will be set equal to the nominal value of the debt. The discount rate used for this purpose is the unified discount rate of 5 percent set forth in Executive Board Decision No. 15248-(13/97).

19. For debts carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the debt would be calculated using a program reference rate plus the fixed spread (in basis points) specified in the debt contract. The program reference rate for the six-month USD SOFR is 1.56 percent and will remain fixed for the duration of the program. The spread of six-month Euro EURIBOR over six-month USD SOFR is -179 basis points. The spread of six-month JPY OIS over six-month USD SOFR is -159 basis points. The spread of six-month GBP SONIA over six-month USD SOFR is -12 basis point. For interest rates on currencies other than Euro, JPY, and GBP, the spread over six-month USD SOFR is 15 basis points.[4] Where the variable rate is linked to a benchmark interest rate other than the six-month USD SOFR, a spread reflecting the difference between the benchmark rate and the six-month USD LIBOR (rounded to the nearest 50 bps) will be added.

20. A performance criterion (ceiling) applies to the present value of external debt, newly contracted or guaranteed by the public sector. The ceiling applies to debt contracted or guaranteed for which value has not yet been received, including private debt for which official guarantees have been extended. The quantitative target does not apply to normal import-related commercial debt having a maturity of less than one year, rescheduling agreements, and IMF disbursements. For the purposes of this continuous PC, which is monitored continuously, the government will immediately report to the IMF staff any new external loans it contracts or guarantees, stating the conditions of these loans.

G. Consultation Mechanism on Inflation

21. The quarterly consultation bands for the twelve-month average rate of consumer price inflation (as measured by the core consumer price index (CCPI) published by the Uganda Bureau of Statistics (UBOS) are specified in the QPC table. The consultation bands specify the range of admissible CCPI inflation. Observed CCPI inflation for September 2022, March 2023 and September 2023 will be subject to the consultation mechanism, while the CCPI inflation for June 2022, December 2022 June 2023 and December 2023 will be indicative targets.

22. Should the observed average CCPI inflation for the test date linked to a ECF program review (i.e., March 2022, September 2022, March 2023, and September 2023 for the second, third, fourth and fifth review, respectively) fall outside the outer band as specified in the QPC table, the authorities will complete a consultation with the Executive Board of the Fund on their proposed policy response before requesting completion of the review under the program. The authorities will not be able to request completing a review under the ECF program if the average CCPI inflation has

[4] The program reference rate and spreads are based on the average projected rate for the six-month USD SOFR over the following 10 years from the Fall 2020 World Economic Outlook (WEO).

moved outside of the outer band as of the test date linked to such review, until the consultation with the Executive Board has taken place. In line with the accountability principles, the BoU will report to the public the reasons for any breach of the outer bands, and its policy response. In addition, the BoU will conduct discussions with the Fund staff when the observed average CCPI inflation falls outside the inner band, as specified in the QPC table.

H. Direct Support Programs to Vulnerable Households

23. A floor on total social assistance spending to support vulnerable households will apply. The indicative target on direct support programs includes spending through the Northern Uganda Social Action Fund (NUSAF), the Senior Citizens Grant (SCG), the Urban Labor Intensive Public Works (LIPW), the Social Assistance Grants for Empowerment (SAGE) and the EMYOOGA Initiative. Compliance with the indicative floor for supporting vulnerable households will be verified on the basis of data on quarterly releases of social assistance spending for March and September, and actual for June and December, as published in quarterly budget execution reports.

I. Social Spending

24. A floor on total social spending will be set. It includes all spending in health, education, and social development (excluding external financing). Social spending will be monitored on the basis of the monthly government finance statistics.

J. Tax Revenues

25. A floor applies on tax revenue of central government measured cumulatively from the beginning of the fiscal year in July. For program monitoring purposes, tax revenue is defined as the sum of direct domestic taxes, indirect domestic taxes, and international trade taxes, as defined by the Government of Uganda's revenue classification.

K. Floor on Repayment of Outstanding Domestic Arrears (IT)

26. A floor applies to repayment of outstanding domestic arrears of the central government as an indicative target. The target will be a floor on the cumulative gross repayment (i) from July 1, 2021 to March 31, 2022 and June 30, 2022; (ii) from July 1, 2022 to September 30, 2022, December 31, 2022, March 31, 2023, and June 30, 2023; and (iii) from July 1, 2023 to September 30, 2023 and to December 31, 2023.

27. An unpaid bill is defined as any verified outstanding payment owed by any entity that forms part of the central government votes for the following: utilities, rent, employee costs, other recurrent, court awards, compensation, contributions to international organizations, development, taxes, and other deductions. Domestic arrears are the total stock of unpaid bills at the end of the year as reported in the annual audit report of the Auditor General.

L. Adjustors

28. The NIR and the primary balance targets are based on program assumptions regarding: 1, budget support; 2, recapitalization of the BoU; 3, external financing tied to projects; 4, DSSI relief and; 5, the proposed SDR allocation.

Adjustor Related to Budget Support

29. The Uganda shilling equivalent of projected budget support (grants and loans) on a cumulative basis from the beginning of the relevant quarter is presented under Schedule A. The floor on the stock of NIR of the BoU will be adjusted upward (downward) by the amount by which budget support (excluding IMF disbursements), grants and loans exceeds (falls short of) the projected amounts. Any downward adjustment to the floor on the stock of NIR will be capped by 10 percent of the revised targeted amount set out in Schedule A. The floor on the primary budget balance of the central government will be adjusted upward (downward) by the amount by which budget support grants exceeds (falls short of) the projected amounts.

Text Table. Uganda. Schedule A: Budget Support 1/

(USh billions)

	2022								2023			
	End-Mar		End-Jun		End-Sep		End-Dec					
	1st Review Target	Outturn	1st Review Target	Outturn	1st Review Target	Outturn	1st Review Target	Rev. Target	End-Mar	End-June	End-Sep	End-Dec
Budget support grants	91	106	91	108	0	0	30	0	58	78	9	19
Budget support loans	2,410	2,120	4,361	2,475	0	0	80	2,125	3,041	3,504	243	745

1/ Cumulative flows (i) from July 1, 2021 to end-March and end-June 2022; (ii) from July 1, 2022 to end-September, end-December, 2022, end-March and end-June 2023; and (iii) from July 1, 2023 to end-September and end-December 2023.

Adjustor Related to Recapitalization of the Bank of Uganda

Text Table. Uganda. Schedule B: Recapitalization of the Bank of Uganda 1/

(USh billions)

	2022								2023			
	End-Mar		End-Jun		End-Sep		End-Dec					
	1st Review Target	Outturn	1st Review Target	Outturn	1st Review Target	Outturn	1st Review Target	Rev. Target	End-Mar	End-June	End-Sep	End-Dec
Recapitalization of BoU	0	0	0	0	0	0	0	0	0	0	0	0

1/ Cumulative flows (i) from July 1, 2021 to end-March and end-June 2022; (ii) from July 1, 2022 to end-September, end-December, 2022, end-March and end-June 2023; and (iii) from July 1, 2023 to end-September and end-December 2023.

30. The floor on primary budget balance of the central government will be adjusted downward (upward) by the amount by which the recapitalization of the BoU exceeds (falls short of) the projected amounts as set out in Schedule B.

Adjustor Related to Externally Financed Projects

Text Table. Uganda. Schedule C: External Financing Tied to Projects 1/ (USh billions)												
	2022								2023			
	End-Mar		End-Jun		End-Sep		End-Dec					
	1st Review Target	Outturn	1st Review Target	Outturn	1st Review Target	Outturn	1st Review Target	Rev. Target	End-Mar	End-June	End-Sep	End-Dec
Project loans	3,411	3,436	4,112	4,064	1,288	508	2,263	1,667	2,987	4,529	1,154	3,075

1/ Cumulative flows (i) from July 1, 2021 to end-March and end-June 2022; (ii) from July 1, 2022 to end-September, end-December, 2022, end-March and end-June 2023; and (iii) from July 1, 2023 to end-September and end-December 2023.

31. The floor on primary budget balance of the central government will be adjusted upward (downward) by the amount by which (both concessional and non-concessional) external financing tied to projects falls short of (exceeds) the projected amounts as set out in Schedule C. Any downward adjustment will be capped by 10 percent of the amounts set out in Schedule C.

Adjustor Related to Direct Support Programs to Vulnerable Households

32. The floor on spending under direct support programs to vulnerable households will be adjusted upward (downward) by the amount by which spending under NUSAF and SCG exceeds (falls short of) the projected amounts as set out in Schedule E.

Text Table. Uganda. Schedule E: Direct Support to Vulnerable Households Under SAGE and Emyooga 1/ (USh billions)												
	2022								2023			
	End-Mar		End-Jun		End-Sep		End-Dec					
	1st Review Target	Outturn	1st Review Target	Outturn	1st Review Target	Outturn	1st Review Target	Rev. Target	End-Mar	End-June	End-Sep	End-Dec
Project grants	29	29	72	0	0	0	0	0	0	0	0	0

1/ Cumulative flows (i) from July 1, 2021 to end-March and end-June 2022; (ii) from July 1, 2022 to end-September, end-December, 2022, end-March and end-June 2023; and (iii) from July 1, 2023 to end-September and end-December 2023.

M. Monitoring and Reporting Requirements

33. The Government of Uganda will submit information to IMF staff with the frequency and submission time lags as indicated in Table 1. The quality and timeliness of the data submission will be tracked and reported by the IMF staff. The information should be mailed electronically to AFRUGA@imf.org.

Table 1. Uganda: Summary of Reporting Requirements

Reporting Institution	Report/Table	Submission Frequency	Submission Lag
I. Bank of Uganda	Operations in the foreign exchange market and the level of BoU's international reserves	Weekly	5 working days
	Private sector credit growth by shilling and forex, and excess reserves of commercial banks	Monthly	5 working days
	Disaggregated consumer price index	Monthly	2 weeks
	Balance sheet of the BoU, consolidated accounts of the commercial banks, and depository corporations' survey	Monthly	4 weeks
	Monthly balances of net foreign assets, net domestic assets, and base money of the BoU	Monthly	4 weeks
	Details on the government position at the central bank including deposits broken down by i) government project accounts (both donor and government funded), and ii) administered funds (including the petroleum funds, agriculture credit facility and development finance scheme projects). Detailed information about the recording of the recapitalization of the central bank, and government securities that are used for monetary purposes.	Monthly	4 weeks
	Monthly foreign exchange cash flow table of BoU.	Quarterly	4 weeks
	Summary of (i) monthly commodity and direction of trade statistics;	Quarterly	6 weeks

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

Reporting Institution	Report/Table	Submission Frequency	Submission Lag
	Standard off-site bank supervision indicators for deposit money banks.	Quarterly	4 weeks
	Summary table of preliminary program performance comparing actual outcome with adjusted program targets for (i) net claims on central government by the central bank; (ii) new nonconcessional external borrowing; and (iii) net international reserves.	Quarterly	4 weeks
	Currency composition of the BoU's international reserves at end of each quarter.	Quarterly	6 weeks
II. Ministry of Finance	Summary of central government accounts. Revenues shall be recorded on a cash basis, with a breakdown including infrastructure levy. Expenditures shall be recorded when checks are issued, except for domestic and external debt-service payments,[1] cash transfers to districts & missions abroad, and externally funded development expenditures. Expenditures on domestic interest will be recorded on an accrual basis and external debt service will be recorded on a commitment basis (i.e., when payment is due).	Monthly	4 weeks
	Summary of the stock of arrears (or unpaid bills) by government entities contained in the central government votes as reported by the Accountant General and signed by the PS/ST.	Semi-annually	3 months
	Disbursements, principal and interest, flows of debt rescheduling and debt cancellation, arrears, and committed undisbursed balances—by creditor category.	Quarterly	6 weeks
	Summary of stock of external debt, external arrears, and committed undisbursed loan balances by creditor.	Quarterly	6 weeks

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

Table 1. Uganda: Summary of Reporting Requirements (concluded)			
Reporting Institution	**Report/Table**	**Submission Frequency**	**Submission Lag**
	Summary of contingent liabilities of the central government and the BoU. For the purpose of the program, contingent liabilities include all borrowings by statutory bodies, government guarantees, claims against the government in court cases that are pending, or court awards that the government has appealed.	Annual	6 weeks
	Provision of all government guarantees	Quarterly	6 weeks
	Detailed monthly central government account of disbursed budget support and project grants and loans (less change in the stock of project accounts held at the BoU and commercial banks), and external debt service due and paid.	Quarterly	4 weeks
	Privatization receipts	Quarterly	4 weeks
	Detailed central government account of disbursed donor project support grants and loans.	Monthly	6 weeks
	Statement on new external loans contracted or guaranteed by the central government and the BoU during the period according to loan agreements. Parliament resolutions on any new loans.	Quarterly	6 weeks
	Statement of (i) cash balances held in project accounts at commercial banks; (ii) total value (measured at issue price) of outstanding government securities from the Central Depository System (CDS); and (iii) the stock of government securities (measured at issue price) held by commercial banks from the CDS.	Quarterly	6 weeks
	Updated national accounts statistics (real and nominal) according to UBOS and medium-term projections.	Quarterly	12 weeks

N. Anti-Corruption

34. The Inspectorate of Government will publish on its website freely and easily available to the public information on (i) public leaders who did not timely submit the asset declaration (where declaration is required for the year), and (ii) the semi-annual statistical data relating to application to access the content of the declarations, by end-November of each year, in the format prescribed below. The "Members of Cabinet" category includes the President, Vice President, Prime Minister, Cabinet Ministers and Ministers of State.

Table 2. Number of Leaders who did not Timely Submit Asset Declaration

Declaration period	*[Reference Period]*	
	Number	**Timely submission rate[5] (%)**
Leaders[6] who did not promptly submit declaration		
Of which:		
1. Members of Cabinet		
2. Members of Parliament[7]		
3. Judges of the Courts of Judicature		
4. Directorate of Public Prosecutions (staff of or above the rank of State Attorney)		
5. Permanent Secretaries		
6. Heads of State-Owned Enterprises		

[5] Total number of leaders/category of leaders who did not promptly submit declaration against total number of leaders/category of leaders required to declare under the Leadership Code Act.
[6] As defined under Second Schedule of the Leadership Code Act that are required to make declaration.
[7] Including Speaker and Deputy Speaker of Parliament

Table 3. Number of Applications Received, Approved, and Rejected, to Access the Content of Declarations

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

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

Statement by the Staff Representative on Uganda
January 17, 2023

The following data on growth and inflation were released after the issuance of the staff report. The data releases are broadly in line with projections presented in the staff report. This information does not alter the thrust of the staff appraisal.

1. **On December 22, Uganda Bureau of Statistics released the Q3 2022 (Q1 FY 2022/23) GDP Press Report.** Real GDP grew by 7.5 percent y/y in Q1 2022/23 mainly driven by industrial activity and services. The agriculture sector grew by 0.2 percent due to modest rise in cash crop growing activities which outweighed a decline in food crop activities against the backdrop of adverse weather conditions. The industrial sector grew 12.7 percent driven by construction and manufacturing activities. Services grew by 9 percent mainly due to trade and repairs. High frequency indicators suggest economic activity improved in December 2022, as indicated by an increase in the Purchasing Manager's Index to 52.0 (from 50.9 in November), primarily on account of stronger output, new orders and employment.

2. **On December 31, Uganda Bureau of Statistics released the December 2022 CPI Data.** Headline inflation declined to 10.2 percent y/y in December 2022 (from 10.6 percent the previous month), mainly driven by a reduction in annual inflation for energy, fuel and utilities (10.6 percent in December vs. 12.2 percent in November) as well as core inflation (8.4 percent in December vs. 8.8 percent in November). Food crops and related items inflation, however, continued on an upward trend, increasing to 29.4 percent in December from 27.8 percent the previous month. Headline inflation averaged 7.2 percent for the year 2022 (highest in more than a decade), mainly driven by food and energy price shocks.

Statement by Mr. Nakunyada, Executive Director, Mr. Ubisse, Alternate Executive Director, Mr. Essuvi, Senior Advisor to Executive Director, and Ms. Basutli, Advisor to Executive Director on Uganda
January 17, 2023

Introduction

1. Our Ugandan authorities appreciate the constructive dialogue with staff during the combined second and third reviews under the Extended Credit Facility (ECF) arrangement. They broadly share staff's appraisal and policy priorities.

2. The Ugandan economy continues to recover from the negative repercussions of the COVID-19 pandemic, but the spillovers from the Russia-Ukraine war have dampened the recovery momentum. At the same time, renewed shocks from the outbreak of Ebola in the last quarter of 2022 and adverse climate events, further weighed on growth. Despite the difficult domestic and external environment, the authorities persevered with reforms under the ECF arrangement, to realize the objectives of the Third National Development Plan (NDP III) 2020/21–2024/25. Meanwhile, they are making determined fiscal consolidation efforts to maintain debt on a sustainable footing, while tightening monetary policy to curb rising inflation. Against this backdrop, the authorities' performance under the ECF program has remained broadly satisfactory and greater efforts are now directed towards addressing outstanding structural benchmarks to support a sustained and inclusive recovery.

Program Performance

3. Most Quantitative Performance Criteria (QPCs) and Indicative Targets (ITs) for the end-March, end-June, and end-September 2022 test dates were met, despite the challenging context. While the second review was delayed, the authorities utilized the time for extensive consultations with key stakeholders, aimed at improving reform momentum and enhancing program ownership. Consequently, they met all QPCs except the September QPC on net international reserves, which was missed due to tighter global financial conditions. All ITs were met, save the IT on tax revenues in March, owing to pandemic-induced revenue shortfalls; and the ITs on Bank of Uganda net credit to government and the floor on social spending in June. Reflecting their concerted efforts, they missed the IT on tax revenues by a very small margin in September.

4. Six of the twelve (12) Structural Benchmarks (SBs) were met, though five were met with a delay. In addition, significant progress was made in the implementation of the SBs that were not met or completed by the time of the review. Completion of the SB to lower the barriers to access asset declaration information faced legal impediments relating to data privacy and security concerns. Instead, the authorities completed a prior action that would serve as an alternative measure to improve public transparency and accountability, amended the Leadership Code Regulations to include assets that are beneficially owned and reduced by half the fees for application to access the declarations.

5. Regarding the SB on strict sanctions for officers responsible for unauthorized spending commitments, it was noted that the PFM Act already provides for strict sanctions, including

custodial sentences, and the regulation proposed under the SB would dilute them. Going forward, the authorities will focus on enforcement of the provisions through the publication of decisions arising from investigations that led to sanctions. This applies to the period starting from FY 2020/21 onwards. The SB on the establishment of legal and regulatory mechanisms for timely access to accurate, basic, and beneficial ownership information for legal entities was not met pending issuance of regulation, which is expected to be completed in the first quarter of 2023. To date, the regulations have been signed by the Minister of Justice. The authorities have requested that the remaining four SBs be re-programmed to allow more time for completion, which is necessary to address capacity constraints and accommodate the legislative agenda. Considering the satisfactory program performance and corrective measures to address outstanding SBs, our authorities seek Executive Directors' support for the completion of the second and third reviews under the ECF arrangement. Relatedly they request for waiver of nonobservance of performance criteria and modification of targets, as well as rephasing of access.

Recent Economic Developments and Outlook

6. Economic growth in Uganda firmed from 3.5 percent in 2020/21 to 4.7 percent in 2021/22, driven by improvements in the wholesale and retail sectors, education, real estate as well as mining, as the economy re-opened from pandemic restrictions. While growth was expected to pick up significantly, projections for 2022/23 and 2023/24 have been revised downwards, from 6 percent and 6.3 percent to 5.3 percent and 6 percent, respectively, at the first review. The growth downgrades largely reflect high borrowing costs that negatively impact repayment capacity and private sector funding conditions. Over the medium term, growth is expected to return to its pre-pandemic trend of 6 -7 percent, as governance reforms are expected to boost confidence and private investment. Further growth impetus is expected from the development of the oil sector and more efficient and productive government spending.

7. Meanwhile, headline inflation rose to 10.6 percent in November 2022, from 2.9 percent in December 2021, mainly driven by the increase in commodity and food prices, although it moderated to 10.2 percent in December 2022. As a result, inflation is projected to remain above the target and return to the 5 percent target in the medium term. The outlook remains dominated by downside risks from a deteriorating global economic environment and successive domestic shocks. At the same time, despite a welcome slowdown in COVID-19 infections, an Ebola-Sudan outbreak since September 2022 has added to health management challenges with negative repercussions for growth prospects. The authorities intensified contact tracing and public awareness, while procuring preventive material. As a result, the authorities are confident that they have put the Ebola epidemic firmly under control and they expect the country to be declared Ebola-free by the WHO, in the near future.

8. Meanwhile, although the current account deficit is expected to improve from 7.9 percent of GDP in 2021/22 to 7.1 percent in 2022/23, it remains elevated, reflecting high imports, which offset export growth. At the same time, foreign direct investment remained subdued and foreign investors' appetite for government securities declined. As a result, international reserves declined from 4 months of imports at the time of the first review to 3.6 months in September 2022. International reserves, therefore, remained lower than the EAC target of 4.5 months of imports.

Fiscal Policy and Debt Management

9. Our authorities are determined to persevere with fiscal consolidation, to enhance fiscal and debt sustainability, while preserving growth. To this end, they have made strides in the implementation of their Domestic Revenue Mobilization Strategy (DRMS), with tax administration and policy measures yielding the full-year target of 0.7 percent of GDP by June 2022, signifying concerted efforts to collect tax arrears. They expect the medium-term revenue strategy to help enhance income tax productivity, improve the excise duty regime, and strengthen VAT productivity, including by reviewing the VAT exemptions.

10. On the expenditure front, our authorities will prioritize effective and better targeted support to the vulnerable in rural areas, while avoiding costly and ineffective subsidies. They plan to strengthen the social safety net by bolstering social assistance programs. At the same time, the targeted increase in social spending is expected to reverse the decline in public education and health spending. To better target beneficiaries, the authorities are expanding the national identification database and the unified national registry of all social assistance programs. As they roll out the Parish Development Model, they expect the FY22/23 deficit target to widen modestly by 0.4 percent of GDP. This reflects the higher borrowing costs and cost of living adjustment to the civil service wage bill. They will also accelerate clearance of domestic arrears to support the private sector in the context of the deteriorating external environment.

11. To strengthen public investment management the authorities have utilized IMF technical assistance on a public investment management assessment (PIMA) in June 2022, to assess and address some of the remaining gaps. As a contingency measure, they plan to cut non-priority spending to safeguard the fiscal goals of the program if downside risks crystalize or financing assurances do not materialize.

12. The authorities aim to maintain debt sustainability and are looking to diversify their creditor base, by organizing a credit outreach event in collaboration with the World Bank. For the remainder of the ECF- program, they will launch a public investment financing strategy to aid in the quest for additional donor financing. Going forward, they intend to closely meet the goals of their Medium-Term Debt Management Strategy, including by increasing the maturity of domestic debt to reduce the need for costly external financing. Our authorities will undertake further measures to unlock under-utilized World Bank lending, including through improved implementation capacity, and by further reducing tax exemptions.

Monetary and Exchange Rate Policies

13. The Bank of Uganda (BoU) continues to maintain a tight monetary policy stance to bring inflation back to target over the medium term. To this end, they increased the policy rate by a cumulative 350 basis points between May and October 2022. Looking ahead, they remain attentive to inflation developments and stand ready to adjust the policy rate as needed, while adhering to the inflation consultation clause as a key pillar of the ECF program. They are also committed to continued efforts to build the Forecasting and Policy Analysis System's capacity to support monetary policy formulation under the price-based framework. Additionally, the authorities will continue finetuning liquidity forecasting, building on the progress made in broadening the liquidity management toolkit beyond the traditional repurchase agreements. In this regard, they plan to include BoU bills and the special deposit facility for commercial banks

at the central bank as well as the use of BoU recapitalization bonds to manage liquidity at various maturities.

14. Importantly, the authorities are committed to maintaining the reserve cover at adequate levels and strengthening reserves over time. Furthermore, they remain committed to allow exchange rate flexibility to contribute to the correction of external imbalances, intervening only to address disorderly market conditions.

15. The authorities are implementing recommendations from the Fund's 2021 safeguards assessment. The revised Principles amending the BoU Act are expected to fully address the safeguards recommendations and limit all temporary advances to Government to 10 percent of current-year revenues, as established in the PFM Act, 2015.

Financial Sector Policies

16. While Uganda's banking system has remained resilient to the pandemic shock, with profitable and well-capitalized operations, the authorities remain attentive to emerging pockets of vulnerabilities. Considering the expiry of COVID-19 support measures in September 2022, the stock of outstanding COVID-19 relief loans declined to about 10 percent of total loans, at end-August 2022. Supervised financial institutions (SFIs) continued provisioning for NPLs proactively, partly due to their risk aversion but also as forward-looking provisioning to meet IFRS 9 requirements, and preparation for the write-off of bad loans.

17. Enhancing macroprudential regulation remains a key priority for our authorities. To this end, the BoU has fully implemented Basel II principles and is looking to adopt aspects of Basel III in line with the evolution of the banking sector. Some of these elements include the implementation of a systemic risk buffer for domestic systemically important banks, capital conservation buffer and leverage ratio, liquidity coverage ratio and net stable funding ratio. Already, the minimum paid-up capital for SFIs was increased and a statutory instrument to this effect gazetted in December 2022. At the same time, the authorities are pressing ahead with supervisory and governance reforms, prioritizing adoption of new regulations on corporate governance to address identified weaknesses in corporate governance and mitigate financial stability risks.

18. The authorities are determined to intensify efforts to complete all the actions agreed under the FATF's International Cooperation Review Group action plan, to facilitate the exit from the FATF's grey list. In this regard, they continue to build capacity of AML/CFT supervisors and law enforcement agencies through relevant training, while conducting outreach activities to raise awareness of AML/CFT obligations and risks, including reporting of suspicious transactions. They have also strengthened the institutional framework for mutual legal assistance, as well as completing the terrorism financing risk assessment for non-profit organizations. In the near term, they aim to address outstanding action items under the action plan, including by issuing regulations for timely access to beneficial ownership information by competent authorities, improving effectiveness of AML/CFT risk-based supervision and ensuring compliance with new regulations on domestic politically exposed persons.

Structural Reforms and Governance

19. The authorities' structural reform agenda remains geared at generating higher and more inclusive growth, through enhanced private sector participation and human capital development, while addressing governance concerns and corruption. Concurrently, they are implementing legal and administrative measures to improve the doing business environment. Permits and registration requirements for new businesses are now available in a one-stop shop, which can be accessed physically and online. Further, the authorities plan to address other factors (power, transport, ICT) leading to high costs of doing business and further streamline bureaucratic red tape. To foster financial inclusion, the authorities are implementing the National Financial Inclusion Strategy and envisage further progress under the program, leveraging digitalization.

20. The Ugandan authorities view governance reforms as key to unlocking private sector activity. Towards this end, they intend to advance governance and anti-corruption policies by, among others, enhancing transparency in the implementation of the asset declaration regime and thus building further public trust in the regime. They will work together with staff, to intensify efforts aimed to improve good governance and tackle corruption, in line with the strategic objectives provided under the National Anti-Corruption Strategy (NACS) 2019-2024. That said, the fight against corruption is bearing fruit, with demonstrable prosecution and recovery of funds and goods in the past year. Further, as part of their commitment to the Extractive Industries Transparency Initiative (EITI), the authorities will disclose contracts and licenses for oil and gas production and beneficial owners of corporate entities that hold a legal interest.

21. The authorities also view climate change adaptation and mitigation as essential to enhancing the economy's resilience and have completed accreditation to the Green Climate Fund and the Adaptation Fund. They are now working with development partners to scale-up capacity to leverage these accreditations to access financing. Particularly given Uganda's vulnerability to frequent and large natural disasters, they will prioritize strengthening water catchment ability; increase forest coverage from 14 percent to 21 percent by 2030; and include climate change risk as one of the strategic focus areas of the BOU's Strategic Plan 2022-2027.

Conclusion

22. Our Ugandan authorities remain committed to the program's objectives designed to help maintain macroeconomic stability and support sustainable growth and an inclusive recovery. They value continued Fund's policy and technical support, as key to the achievement of program goals. In this regard, they look forward to Executive Directors support in completion of the combined second and third reviews under the ECF arrangement.