

**Uganda: 2024 Article IV
Consultation-Press Release;
Staff Report; and Statement by
the Executive Director for
Uganda**



UGANDA

September 2024

2024 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR UGANDA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2024 Article IV consultation with Uganda, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its September 6, 2024 consideration of the staff report that concluded the 2024 Article IV consultation with Uganda.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on September 6, 2024, following discussions that ended on May 9, 2024 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 August 20, 2024.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Statement by the Executive Director** for Uganda.

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

Selected Issues

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

Copies of this report are available to the public from

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

International Monetary Fund
Washington, D.C.



IMF Executive Board Concludes the 2024 Article IV Consultation with Uganda

FOR IMMEDIATE RELEASE

- Uganda has navigated the post pandemic recovery well due to sound macroeconomic policies. The economic recovery is strengthening with low inflation, favorable agricultural production, and strong industrial and services activity.
- Uganda should continue its efforts to create fiscal space through revenue mobilization and better expenditure discipline, vigilant monetary policy, and exchange rate flexibility, using future oil revenue to address growth impediments and improve social development while advancing governance reform and financial inclusion.

Washington DC, September 9, 2024: On September 6, the Executive Board of the International Monetary Fund (IMF) concluded the 2024 Article IV Consultation¹ with Uganda.

Uganda has navigated the post-pandemic recovery well due to sound macroeconomic policies. The economic recovery is strengthening with low inflation, favorable agricultural production, and strong industrial and services activity. Growth is estimated at 6 percent in FY23/24, up from 5.3 percent in FY22/23. Headline inflation has increased to 3.9 percent by June 2024, driven by rising energy prices and core inflation, though the latter remains below the Bank of Uganda's (BoU) target of 5 percent.

Elevated current account deficit and limited capital inflows have weighed on Uganda's international reserves. Despite strong coffee and gold exports, the current deficit remains high due to rising oil project-related imports. Tight global financial conditions and reduced external project and budget support have driven down gross international reserves, covering only 2.9 months of imports at the end of 2024 (excluding oil-project related imports).

The overall fiscal deficit continued to decline in FY23/24 but was less than planned due to revenue underperformance and higher current spending, while development spending fell short of expectations, worsening expenditure composition.

Looking ahead, growth is expected to strengthen, boosted by the start of oil production, which will make lasting improvement in the fiscal and current account balances. Inflation is expected to rise near the BoU's target of 5 percent in FY24/25. Risks are mostly on the downside, including continued fallout from the Anti-Homosexuality Act, which complicates the already tight external financing conditions, potential delays in oil production, and climate-related shocks. Upside risks to inflation come from commodity price volatility, weather conditions, and exchange rate depreciation pressures stemming from limited capital inflows.

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

The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Uganda:

“Executive Directors agreed with the thrust of the staff appraisal. They welcomed Uganda’s robust post-pandemic recovery underpinned by sound macroeconomic policies and the favorable medium-term outlook due to the anticipated start of oil production. At the same time, they noted pressures on international reserves amid tight global financial conditions, as well as the elevated debt servicing costs accompanied by a shortfall in the country’s development spending. Directors also highlighted the significant downside risks, including from the continued fallout from the “Anti-Homosexuality Act”, which could exacerbate already tight external financing conditions, potential delays in oil production, sluggish reform implementation, and climate-related shocks. Against this background, they encouraged continued reforms, including those envisaged under the expired ECF arrangement, to rebuild fiscal and external buffers and boost inclusive and sustainable growth, supported by technical assistance from the Fund and other partners as needed.

“Directors encouraged strong efforts to create durable fiscal space, emphasizing the need to address significant spending demands in human capital, infrastructure, and climate resilience. They recommended continued revenue-based fiscal consolidation, improved expenditure discipline, and a prudent fiscal management framework to ensure effective use of oil revenues once production begins.

“Directors commended the Bank of Uganda’s commitment to price stability and agreed with its tight monetary policy stance to anchor inflation expectations. They advised keeping monetary policy data dependent and emphasized the importance of continued exchange rate flexibility to help build up buffers and improve competitiveness. Directors called for continued efforts to enhance monetary transmission and central bank independence, including through full implementation of the 2021 Safeguards Assessment recommendations.

“While recognizing the resilience of Uganda’s financial system, Directors called for vigilant monitoring of the rapid increase in the sovereign-bank nexus and significant cross-border exposure of the nonfinancial corporate sector, alongside multifaceted efforts to enhance financial inclusion.

“Directors stressed that accelerating structural reforms is crucial for achieving inclusive, sustainable, and private sector-led growth. They supported further efforts to strengthen enforcement of the anti-corruption framework, address remaining shortcomings in AML/CFT, enhance fiscal transparency, introduce regulatory reforms to support businesses, and implement an ambitious climate resilience agenda drawing on the recommendations of the C-PIMA.

The next Article IV consultation with Uganda will be held on the standard 12-month cycle.”

Table 1. Uganda: Selected Economic and Financial Indicators, FY2021/22-2028/29^{1,2}

| | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|--|---------|---------|---------|---------|---------|---------|---------|---------|
| | Act. | Act. | Est. | Proj. | | | Proj. | |
| (Annual percentage change, unless otherwise indicated) | | | | | | | | |
| Output, prices, and exchange rate | | | | | | | | |
| Real GDP | 4.6 | 5.3 | 6.0 | 6.2 | 10.8 | 8.7 | 6.1 | 6.0 |
| Non-Oil real GDP | 4.6 | 5.3 | 6.0 | 6.2 | 6.1 | 6.0 | 6.0 | 6.1 |
| GDP deflator | 4.9 | 6.7 | 3.7 | 4.3 | 5.3 | 4.7 | 4.5 | 4.5 |
| Headline inflation (period average) | 3.4 | 8.8 | 3.2 | 4.6 | 5.0 | 5.0 | 5.0 | 5.0 |
| Core inflation (period average) | 3.2 | 7.4 | 3.0 | 4.9 | 5.0 | 5.0 | 5.0 | 5.0 |
| Terms of trade ("–" = deterioration) | 3.6 | -9.6 | 19.0 | 4.3 | 1.5 | 1.3 | 1.1 | 1.6 |
| Exchange Rate (Ugandan Shilling/US\$) ("–" = appreciation) | -2.4 | 5.1 | ... | ... | ... | ... | ... | ... |
| Real effective exchange rate ("–" = depreciation) | 3.6 | 4.2 | ... | ... | ... | ... | ... | ... |
| Money and credit | | | | | | | | |
| Broad money (M3) | 10.0 | 6.6 | 12.2 | 11.2 | 17.0 | 14.2 | 11.5 | 11.2 |
| Credit to non-government sector | 11.0 | 6.6 | 8.2 | 12.1 | 17.2 | 16.3 | 15.6 | 15.0 |
| Bank of Uganda policy rate (percent) ³ | 7.5 | 10.0 | ... | ... | ... | ... | ... | ... |
| M3/GDP (percent) | 22.0 | 20.9 | 21.3 | 21.4 | 21.5 | 21.6 | 21.7 | 21.8 |
| NPLs (percent of total loans) ³ | 5.3 | 4.6 | ... | ... | ... | ... | ... | ... |
| (Percent of GDP, unless otherwise indicated) | | | | | | | | |
| Central government budget | | | | | | | | |
| Revenue and grants | 14.1 | 14.5 | 14.3 | 14.7 | 16.2 | 17.6 | 17.9 | 18.3 |
| Of which: grants | 0.7 | 0.6 | 0.8 | 0.8 | 0.8 | 0.7 | 0.7 | 0.7 |
| Of which: oil revenue | 0.0 | 0.0 | 0.0 | 0.0 | 1.2 | 2.2 | 2.2 | 2.2 |
| Expenditure | 21.5 | 20.0 | 19.1 | 20.4 | 19.1 | 19.0 | 19.4 | 19.5 |
| Of which: Current | 13.1 | 13.7 | 13.5 | 15.0 | 13.8 | 13.6 | 13.4 | 13.2 |
| Of which: Capital ⁴ | 7.9 | 5.8 | 5.2 | 5.2 | 5.1 | 5.1 | 5.8 | 6.2 |
| Primary balance | -4.3 | -2.3 | -1.5 | -1.4 | 0.6 | 1.9 | 1.7 | 1.7 |
| Overall balance | -7.4 | -5.5 | -4.8 | -5.7 | -2.9 | -1.5 | -1.5 | -1.3 |
| Of which: Net domestic borrowing | 3.4 | 3.4 | 4.7 | 4.8 | 2.7 | 1.3 | 1.1 | 0.9 |
| Public debt | | | | | | | | |
| Public gross debt ⁵ | 50.5 | 50.7 | 50.6 | 52.1 | 47.9 | 43.8 | 41.2 | 38.8 |
| External ⁶ | 31.3 | 29.9 | 27.6 | 26.9 | 24.1 | 22.0 | 20.9 | 19.8 |
| Domestic | 19.3 | 20.8 | 23.0 | 25.2 | 23.8 | 21.8 | 20.3 | 19.0 |
| Investment and savings | | | | | | | | |
| Investment | 24.2 | 22.8 | 22.4 | 22.5 | 22.6 | 22.9 | 23.7 | 24.2 |
| Public | 7.9 | 5.8 | 5.2 | 5.2 | 5.1 | 5.1 | 5.8 | 6.2 |
| Private | 16.2 | 16.9 | 17.0 | 17.2 | 17.4 | 17.6 | 17.8 | 18.0 |
| Savings | 16.6 | 14.9 | 14.0 | 15.4 | 17.1 | 19.3 | 19.9 | 20.2 |
| Public | 0.1 | 0.0 | 0.2 | -0.7 | 2.0 | 3.6 | 4.1 | 4.7 |
| Private | 16.5 | 14.9 | 13.8 | 16.1 | 15.1 | 15.7 | 15.9 | 15.5 |
| External sector | | | | | | | | |
| Current account balance | -7.6 | -7.9 | -8.4 | -7.1 | -5.5 | -3.6 | -3.7 | -4.0 |
| Current account balance (excluding grants) | -7.8 | -7.9 | -8.4 | -7.1 | -5.9 | -4.0 | -4.0 | -4.3 |
| Exports (goods and services) | 12.0 | 11.6 | 14.0 | 14.0 | 15.5 | 16.4 | 15.4 | 15.0 |
| Imports (goods and services) | 22.5 | 21.7 | 24.3 | 22.9 | 22.9 | 21.4 | 19.6 | 19.4 |
| Gross international reserves | | | | | | | | |
| In billions of US\$ | 4.1 | 4.1 | 3.2 | 3.5 | 4.0 | 5.2 | 6.2 | 6.7 |
| In months of next year's imports of goods and services | 4.0 | 3.3 | 2.4 | 2.3 | 2.6 | 3.5 | 3.9 | 3.9 |
| Gross international reserves excluding oil project financing and investment related imports (in mths of imports) | 4.6 | 3.7 | 2.8 | 2.7 | 2.9 | 3.6 | 4.0 | 3.9 |
| Memorandum items: | | | | | | | | |
| GDP at current market prices | | | | | | | | |
| Ush. billion | 162,753 | 183,000 | 201,087 | 222,675 | 259,945 | 295,691 | 327,633 | 362,898 |
| US\$ billion | 45.6 | 48.8 | 53.2 | ... | ... | ... | ... | ... |
| GDP per capita (Nominal US\$) | 1,058 | 1,088 | 1,153 | 1,244 | 1,367 | 1,450 | 1,485 | 1,551 |
| Exchange Rate (Ugandan Shilling/US\$) | 3,571.8 | 3,752.5 | ... | ... | ... | ... | ... | ... |
| Population (million) ⁷ | 43.1 | ... | ... | ... | ... | ... | ... | ... |
| Interest payments (in percent of revenue) | 22.8 | 23.1 | 24.2 | 30.9 | 22.8 | 19.7 | 18.6 | 16.8 |

Sources: Ugandan authorities and IMF staff estimates and projections.

¹ Fiscal year runs from July 1 to June 30.² All figures are based on the 2016/17 rebased GDP.³ Latest available data. NPLs: June 2023; BoU policy rate: June 2023.⁴ Capital expenditures include net lending and investment on hydropower projects, and exclude BoU recapitalization.⁵ Debt is on a residency basis.⁶ External debt includes publicly guaranteed debt.⁷ Based on revised figures after the 2014 census by the Uganda Bureau of Statistics.



UGANDA

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION

August 16, 2024

EXECUTIVE SUMMARY

Context. Uganda's economic recovery is strengthening on the back of low inflation, favorable agricultural production, and strong activity in industrial and services sectors. The envisaged start of oil production in late 2025 is expected to further boost growth and improve fiscal and external balances in the medium term. Risks are mostly on the downside, including continued fallout from the Anti-Homosexuality Act (AHA), which complicates already tight external financing conditions, potential delays in oil production, and climate-related shocks.

Fiscal policy. While public debt is sustainable, low tax revenues constrain Uganda's fiscal policy space. Strengthening domestic revenue mobilization and budgetary and cash management practices are key to securing a durable fiscal space. Ensuring prudent management of future oil revenues will require adoption of a rules-based framework that allows for part of the revenues to be used to support growth and social development, and the rest saved for the benefit of future generations.

Monetary, financial, and external sector policies. The Bank of Uganda's (BoU) tight monetary policy stance has helped anchor inflation expectations and counter external sector pressures. Going forward, monetary policy should remain data driven to ensure price stability and further financial deepening. Continued flexibility of the exchange rate is important to build up adequate foreign exchange reserves. The financial sector remains resilient, although a rising sovereign-bank nexus and significant cross-border exposures of non-financial corporates require vigilance.

Structural reforms. Addressing governance deficiencies and regulatory burdens and enhancing regional trade integration are critical to unlocking Uganda's growth potential. Progress in addressing key AML/CFT deficiencies has led to a successful exit from the FATF grey list, but enforcement of the anti-corruption framework should be stepped up.

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

The mission team consisted of Ms. Rahman (head), Messrs. Qu and Tchaidze (AFR), Ms. Armas (MCM), and Ms. Zhang (SPR). Mr. Bannister contributed to the preparation of the mission. The mission was assisted by Ms. Karpowicz (Resident Representative) and Ms. Sozi (local economist). Mr. Mengistu (OED) participated in official meetings. Discussions were held remotely from Washington D.C. during April 22-26, 2024, and in Kampala during April 28-May 9, 2024. The team met with Mr. Atingi-Ego, Deputy Governor of the Bank of Uganda (BoU), Mr. Ggoobi, Permanent Secretary and Secretary to the Treasury, and other senior officials of the government and the BoU. Staff also held discussions with representatives of development partners and the private sector. Ms. Khandelwal and Lertprasert, and Mr. Vaval Pierre-Charles provided excellent assistance for the preparation of this report.

CONTENTS

| | |
|---|------------------|
| CONTEXT | <u>4</u> |
| RECENT ECONOMIC DEVELOPMENTS | <u>6</u> |
| MACROECONOMIC OUTLOOK AND RISKS | <u>10</u> |
| POLICIES | <u>11</u> |
| OTHER ISSUES | <u>26</u> |
| STAFF APPRAISAL | <u>26</u> |
| BOXES | |
| 1. Fiscal Consolidation under the 2021-2024 ECF | <u>28</u> |
| 2. Impact of Oil Production on the MT Outlook | <u>29</u> |
| 3. Gender Inclusion in Social and Economic Programs | <u>30</u> |
| 4. Balance Sheet Analysis of Cross-Sectoral Exposures in Uganda | <u>32</u> |
| 5. Structural Reforms under the 2021-24 ECF | <u>33</u> |
| FIGURES | |
| 1. Real Sector Developments | <u>36</u> |
| 2. External Sector Developments | <u>37</u> |
| 3. Fiscal Developments | <u>38</u> |
| 4. Monetary Developments | <u>38</u> |
| 5. Financial Sector Developments | <u>39</u> |

TABLES

| | |
|--|-----------|
| 1. Selected Economic and Financial Indicators, FY2021/22-2028/29 _____ | <u>41</u> |
| 2a. Fiscal Operations of the Central Government, FY2021/22-2028/29 (Billions of Ugandan Shillings) _____ | <u>42</u> |
| 2b. Fiscal Operations of the Central Government, FY2021/22-2028/29 (Percent of GDP) _____ | <u>43</u> |
| 3. Monetary Accounts, FY2021/22-2028/29 _____ | <u>44</u> |
| 4a. Balance of Payments, FY2021/22-2028/29 (Millions of US Dollars) _____ | <u>45</u> |
| 4b. Balance of Payments, FY2021/22-2028/29 (Percent of GDP) _____ | <u>46</u> |
| 5. Banking Sector Indicators, March 2021-March 2024 _____ | <u>47</u> |
| 6. External Financing Requirements, FY2021/22-2028/29 _____ | <u>48</u> |
| 7. Indicators of Capacity to Repay the IMF, 2021-2030 _____ | <u>48</u> |

ANNEXES

| | |
|--|-----------|
| I. Risk Assessment Matrix _____ | <u>49</u> |
| II. External Sector Assessment _____ | <u>51</u> |
| III. Foreign Exchange Interventions in the Integrated Policy Framework _____ | <u>54</u> |
| IV. Capacity Development Strategy _____ | <u>58</u> |
| V. Data Issues _____ | <u>61</u> |