

**EXECUTIVE
BOARD
MEETING**

EBS/21/54

Correction 1

June 25, 2021

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Uganda—Request for a Three-Year Arrangement Under the Extended Credit Facility**

Board Action: The attached corrections to EBS/21/54, (6/15/21) have been provided by the staff:

Factual Errors Not Affecting the Presentation of Staff's Analysis or Views

Pages 2, 9, 24, 35, 36, 44 (row 1, line 1)

Typographical Errors

Pages 44 (row 1, line 3), 67, 96

Questions:

Mr. Mati, AFR (ext. 37797)
Mr. Bannister, AFR (ext. 35975)
Mr. Csonto, AFR (ext. 34432)

Approved By
**Catherine Pattillo and
 Bikas Joshi**

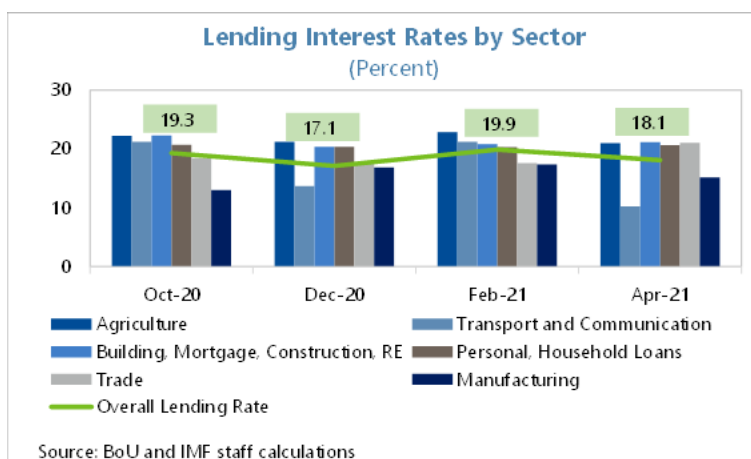
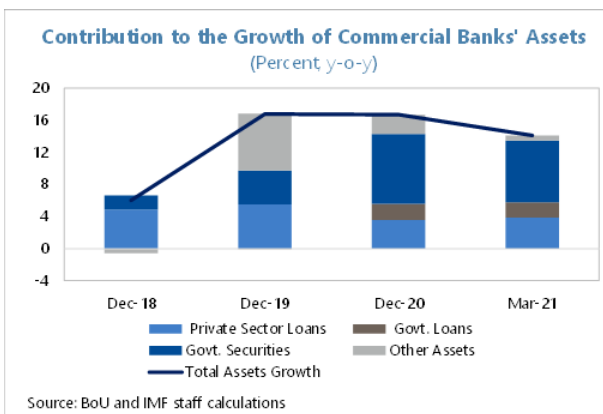
~~Mission dates February 1–March 5; May 25–28, 2021.~~ The mission team consisted of Mr. Mati (head) Ms. Toure, Messrs. Bannister, Csonto (all AFR), Mr. Murara (FAD), Mr. Chen (SPR), Ms. Huang (MCM), and Mr. Markevych (LEG). The mission was assisted by Ms. Karpowicz (Resident Representative) and Ms. Samula (local economist). Executive Director Ita Mannathoko (OED) participated in the closing discussions. Discussions were held remotely from Washington DC, during January 27 - March 5, 2021 and May 25 - 28, 2021. The team met with Mr. Kasajja, Minister of Finance, Planning and Economic Development; Mr. Ocailap, acting Permanent Secretary and Secretary to the Treasury; Mr. Mutebile, Governor of the Bank of Uganda (BoU); and Mr. Atingi-Ego, Deputy Governor of the BoU and other senior officials of the government and the BoU. Staff also had productive discussions with representatives of Parliament, the private sector, civil society organizations, and development partners. Ms. Canales Munoz and Ms. Khandelwal provided excellent assistance for the preparation of this report.

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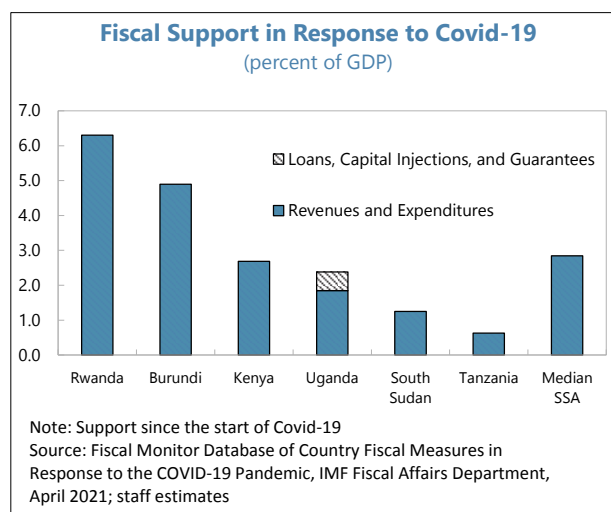
Box 2. Private Sector Credit Developments (concluded)

At the same time, driven by the record high government financing needs and preference toward safe assets, **the share of private sector loans in commercial banks' total assets has declined** from 48 percent in March 2020 to 41 percent in March 2021. During the same period, **the share of government debt increased from 20 to 25 percent**, with government bonds representing 50 percent of the year-on-year growth in banks' commercial assets. With bond yields staying high, lending rates have remained sticky, dampening further the effectiveness of the monetary policy transmission channel.



5. Lower fiscal revenues and rising expenditure for COVID-19 support have led to wider fiscal deficits.

Tax revenue contracted in FY19/20, mostly reflecting declining economic activity associated with the pandemic, while expenditure rose to support health care, SMEs and the vulnerable (MEFP, 18-10). As a result, the fiscal deficit in FY19/20 widened to **7.1** ~~7.2~~ percent of GDP and the public debt ratio increased by almost 6 percentage points to 41.1 percent. During the first nine months of FY20/21, the fiscal deficit reached 6.4 percent of GDP as the pandemic continued to weigh on both domestic and international tax revenue, while further support to those affected by the crisis, higher security spending to replace equipment needed to face regional tensions, as well as BoU recapitalization, increased spending.



38. Capacity to repay the Fund is adequate (Table 8). Standard indicators of Fund exposure show that credit outstanding would peak in 2024 at \$1,519 million (or 300 percent of quota) and then decline beginning in 2026. Obligations to the Fund would peak at 0.4 percent of GDP and 4.2 percent of reserves in 2029. Risks to servicing debt will be mitigated by: (i) fiscal consolidation from FY21/22 onwards; (ii) the likelihood of continued access to concessional financing (particularly for projects); (iii) Uganda’s moderate public debt level; and (iv) a strong track record of servicing debts to the Fund and other creditors.

STAFF APPRAISAL

39. Uganda has been severely impacted by the COVID-19 pandemic. While the economy is gradually recovering, per capita GDP growth remains below pre-pandemic levels, poverty [alleviation](#) gains have been reversed, fiscal balances have deteriorated, and pressures on external buffers remain high.

40. The outlook is predicated on a recovery from the pandemic, but risks remain high. Growth will gradually recover, inflation will be contained, while the current account deficit will slowly narrow, supported by a recovery in external demand and private investment. Risks—particularly from a weaker than expected recovery in external demand, resurgence of lockdown measures, delayed reform implementation, or increased frequency of floods/droughts—could dampen the outlook.

41. The ECF-arrangement supports the priorities of the authorities’ NDP. It focuses on maintaining public debt on a sustainable path while improving spending composition and creating space for much needed private investment. Advancing the structural reform agenda through strengthening the governance framework and financial sector development and inclusion are essential priorities to sustain the post-COVID 19 recovery and generate more inclusive growth.

42. Fiscal consolidation—along with pro-growth and inclusive spending composition—would help reduce financing constraints and meet development needs. The implementation of the domestic revenue mobilization strategy—which relies on both tax policy and revenue administration reforms, would create at least 0.5 percent of GDP in revenue a year. Preserving and increasing higher social spending—including through higher budget allocation, reduced non-priority expenditure, strengthened public investment management processes—would be critical to meet Uganda’s large development needs. Better arrears management and strengthened cash management reforms would support the fiscal consolidation strategy.

43. Prudent debt management is important to reduce vulnerabilities. Uganda’s debt is sustainable and the country is at a moderate risk of debt distress. In view of increased vulnerabilities, it is important that every effort be made to seek concessional financing and continue to pursue relief under the DSSI.

Table 2a. Uganda: Fiscal Operations of the Central Government, FY2017/18–2025/26¹
(Billions of Ugandan Shillings)

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	Act.			Prog.					
Total revenue and grants	15,281	17,839	18,442	21,659	23,882	26,836	30,880	35,937	44,077
Revenue	14,507	16,638	17,286	19,432	22,425	25,913	30,101	35,183	43,435
Tax	14,076	16,163	15,912	17,873	20,837	24,097	27,992	32,556	37,893
Import duty	1,224	1,350	1,209	1,514	2,071	2,507	2,779	3,253	3,993
Income taxes	4,850	5,706	6,045	6,573	7,398	8,480	9,735	11,389	13,067
Excises	2,963	3,572	3,462	3,691	4,288	4,903	5,811	6,603	7,587
Value-added tax	4,448	4,879	4,732	5,576	6,253	7,266	8,549	9,988	11,499
Infrastructure levy	88	93	82	103	120	139	168	201	239
Other taxes	504	563	382	415	706	802	952	1,123	1,507
Nontax	431	475	1,374	1,560	1,588	1,816	2,108	2,627	5,542
o/w: Oil revenue	0	0	0	130	0	0	0	274	2,882
Grants	774	1,202	1,156	2,226	1,457	923	779	754	643
Budget support	155	595	455	627	77	67	23	23	23
o/w: Vaccines				491					
Project grants	620	607	701	1,599	1,380	857	756	731	620
Expenditures and net lending	20,202	24,268	28,401	36,304	34,281	33,549	37,895	44,556	51,612
Current expenditures	10,934	12,374	15,101	18,582	19,693	20,357	22,351	26,669	30,174
Wages and salaries	3,481	4,213	4,861	5,203	5,526	5,803	6,393	7,415	8,317
Interest payments ²	2,260	2,525	2,932	4,114	4,946	5,052	5,254	5,679	6,439
Other current	5,192	5,635	7,308	9,265	9,221	9,502	10,705	13,575	15,418
o/w: Vaccines				526	484				
Development expenditures	7,566	10,047	12,064	15,421	14,074	12,792	15,344	17,887	21,438
Externally-financed projects	3,268	4,149	3,967	5,489	6,419	6,351	8,302	9,513	11,253
Of which: Non-concessional borrowing	400	214	359	1,399	1,807	2,459	4,671	6,052	7,330
Government of Uganda investment	4,298	5,899	8,097	9,932	7,655	6,441	7,042	8,375	10,185
Net lending and investment	1,396	1,428	831	1,497	113	0	0	0	0
Hydro-power projects	1,396	1,428	631	560	113	0	0	0	0
Recapitalization	0	0	200	482	0	0	0	0	0
Of which: Bank of Uganda	0	0	200	482	0	0	0	0	0
Other net lending	0	0	0	455	0	0	0	0	0
Other spending (incl. arrears clearance)	305	419	405	805	400	400	200	0	0
Overall balance	-4,920	-6,428	-9,959	-14,646	-10,399	-6,713	-7,016	-8,619	-7,535
Primary balance	-2,660	-3,903	-7,026	-10,532	-5,453	-1,661	-1,762	-2,940	-1,095
Financing	4,856	6,145	9,713	13,669	9,387	5,665	5,932	8,619	7,535
External financing (net)	3,496	3,680	5,563	7,526	6,590	4,513	5,971	6,033	7,121
Disbursement	4,306	4,878	6,379	8,761	8,040	6,717	8,401	9,008	10,886
Budget support	141	188	2,415	4,312	2,888	1,222	855	226	254
Concessional project loans ³	2,420	3,136	3,037	2,491	3,232	3,035	2,874	2,729	3,302
Non-concessional project loans	1,746	1,554	928	1,959	1,920	2,459	4,671	6,052	7,330
Amortization (-) ^{2,4,5}	-813	-1,198	-816	-1,235	-1,450	-2,204	-2,430	-2,975	-3,766
Exceptional financing	3	0	0	0	0	0	0	0	0
Domestic financing (net)	1,360	2,465	4,150	6,143	2,797	1,152	-39	2,586	414
Bank financing	260	1,256	2,291	3,364	1,499	576	-20	1,293	361
Bank of Uganda ⁵	-110	343	939	-1,063	200	0	0	0	308
Commercial banks	370	913	1,352	4,427	1,299	576	-20	1,293	53
Nonbank financing	1,099	1,208	1,859	2,778	1,299	576	-20	1,293	53
Financing gap	65	283	246	977	1,012	1,048	1,084	0	0
Prospective ECF				977	1,012	1,048	1,084		
Memorandum Items:									
Social spending (excluding external financing)	3,138	3,866	4,785	5,216	5,619 <u>5,895</u>	6,061	7,035	8,579	9,888
Security spending (excluding external financing)	1,496	2,097	4,150	4,091 <u>5,215</u>	3,607 <u>3,596</u>	2,708	3,402	3,681	3,681

Sources: Ugandan authorities and IMF staff estimates and projections.

¹ Fiscal year runs from July 1 to June 30.

² External debt service reflects the rescheduling of payments of US\$4 million from FY2020/21 to the period between FY2022/23 and FY2026/27, and of US\$121 million from FY2021/22 to the period between FY2023/24 and FY2027/28 under the Debt Service Suspension Initiative.

³ The data between July 2020 and March 2021 refer to total project loans.

⁴ Amortizations are presented on a currency basis (i.e., external amortizations exclude local currency securities held by offshore investors).

⁵ 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, FY2017/18–2025/26^{1/}
(Percent of GDP)

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	Act.			Prog.					
Total revenue and grants	12.7	13.5	13.2	14.6	14.7	14.9	15.3	15.9	17.4
Revenue	12.0	12.6	12.4	13.1	13.8	14.4	14.9	15.5	17.1
Tax	11.4	12.0	11.3	11.9	12.7	13.2	13.7	14.2	14.7
International trade taxes	1.2	1.2	1.0	1.2	1.5	1.7	1.7	1.7	1.9
Income taxes	4.0	4.3	4.3	4.4	4.6	4.7	4.8	5.0	5.1
Excises	2.5	2.7	2.5	2.5	2.6	2.7	2.9	2.9	3.0
Value-added tax	3.7	3.7	3.4	3.8	3.9	4.0	4.2	4.4	4.5
Infrastructure levy	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Nontax	0.6	0.6	1.1	1.2	1.2	1.2	1.2	1.4	2.4
o/w: Oil revenue	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.1	1.1
Grants	0.6	0.9	0.8	1.5	0.9	0.5	0.4	0.3	0.3
Budget support	0.1	0.5	0.3	0.4	0.0	0.0	0.0	0.0	0.0
o/w: Vaccines				0.3					
Project grants	0.5	0.5	0.5	1.1	0.9	0.5	0.4	0.3	0.2
Expenditures and net lending	16.8	18.4	20.3	24.5	21.2	18.6	18.8	19.7	20.3
Current expenditures	9.1	9.4	10.8	12.5	12.2	11.3	11.1	11.8	11.9
Wages and salaries	2.9	3.2	3.5	3.5	3.4	3.2	3.2	3.3	3.3
Interest payments ²	1.9	1.9	2.1	2.8	3.1	2.8	2.6	2.5	2.5
Other current	4.3	4.3	5.2	6.2	5.7	5.3	5.3	6.0	6.1
o/w: Vaccines				0.4	0.3				
Development expenditures	6.3	7.6	8.6	10.4	8.7	7.1	7.6	7.9	8.4
Externally-financed projects	2.7	3.1	2.8	3.7	4.0	3.5	4.1	4.2	4.4
Of which: Non-concessional borrowing	0.3	0.2	0.3	0.9	1.1	1.4	2.3	2.7	2.9
Government of Uganda investment	3.6	4.5	5.8	6.7	4.7	3.6	3.5	3.7	4.0
Net lending and investment	1.2	1.1	0.6	1.0	0.1	0.0	0.0	0.0	0.0
Hydro-power projects	1.2	1.1	0.5	0.4	0.1	0.0	0.0	0.0	0.0
Recapitalization	0.0	0.0	0.1	0.3	0.0	0.0	0.0	0.0	0.0
Of which: Bank of Uganda	0.0	0.0	0.1	0.3	0.0	0.0	0.0	0.0	0.0
Other net lending	0.0	0.3	0.0	0.0	0.0	0.0	0.0
Other spending (incl. arrears clearance)	0.3	0.3	0.3	0.5	0.2	0.2	0.1	0.0	0.0
Overall balance	-4.1	-4.9	-7.1	-9.9	-6.4	-3.7	-3.5	-3.8	-3.0
Primary balance	-2.2	-3.0	-5.0	-7.1	-3.4	-0.9	-0.9	-1.3	-0.4
Financing	4.0	4.7	7.0	9.2	5.8	3.1	2.9	3.8	3.0
External financing (net)	2.9	2.8	4.0	5.1	4.1	2.5	3.0	2.7	2.8
Disbursement	3.6	3.7	4.6	5.9	5.0	3.7	4.2	4.0	4.3
Budget support	0.1	0.1	1.7	2.9	1.8	0.7	0.4	0.1	0.1
Concessional project loans	2.0	2.4	2.2	1.7	2.0	1.7	1.4	1.2	1.3
Non-concessional project loans	1.4	1.2	0.7	1.3	1.2	1.4	2.3	2.7	2.9
Amortization (-) ^{2,3,4}	-0.7	-0.9	-0.6	-0.8	-0.9	-1.2	-1.2	-1.3	-1.5
Domestic financing (net)	1.1	1.9	3.0	4.1	1.7	0.6	0.0	1.1	0.2
Bank financing	0.2	1.0	1.6	2.3	0.9	0.3	0.0	0.6	0.1
Bank of Uganda ⁴	-0.1	0.3	0.7	-0.7	0.1	0.0	0.0	0.0	0.1
Commercial banks	0.3	0.7	1.0	3.0	0.8	0.3	0.0	0.6	0.0
Nonbank financing	0.9	0.9	1.3	1.9	0.8	0.3	0.0	0.6	0.0
Financing gap	0.1	0.2	0.2	0.7	0.7	0.6	0.5	0.0	0.0
Prospective ECF				0.7	0.7	0.6	0.5		
Memorandum Items:									
Social spending (excluding external financing)	2.6	2.9	3.4	3.5	3.5 3.6	3.4	3.5	3.8	3.9
Security spending (excluding external financing)	1.2	1.6	3.0	2.8 3.5	2.2	1.5	1.5	1.5	1.4

Sources: Ugandan authorities and IMF staff estimates and projections.

¹ Fiscal year runs from July 1 to June 30.

² Interest payments and external amortizations reflect the rescheduling of payments of US\$31 million and US\$90 million, respectively, from FY2021/22 to the period between FY2023/24 and FY2027/28 under the Debt Service Suspension Initiative.

³ Amortizations are presented on a currency basis (i.e., external amortizations exclude local currency securities held by offshore investors).

⁴ The repayment of the balance-of-payment support from the IMF is included under external amortizations financed by the Bank of Uganda.

Table 10. Uganda: RCF Commitments

RCF commitments	Status
Publish COVID-19 Expenditure spending <u>For expenditure for</u> Q4 FY19/20 and cash releases for Q1& Q2 FY20-21 as defined in the letter of intent of <u>for</u> the RCF request.	FY19/20 audit reports on FY19/20 spending, and all cash releases on COVID-19 are published (links available here and here).
Publish procurement contracts and winning bidders for Q4 of FY19-20 and Q1& Q2 FY20-21 as defined in the letter of intent of the RCF request. Amend the procurement forms to collect and publish beneficial ownership information for these procurement contracts going forward.	Procurement reports by Ministry are available here . Procurement forms for Covid-19 contracts introducing beneficial ownership has been approved.
Complete and publish the independent audit of COVID-19 spending for FY2019/20.	Audit completed and can be found here .
Complete a special independent audit of at least the first three quarters of FY20/21.	Audit completed on June 14th. It will be published after presentation to Parliament in FY21/22.

of the monitoring for reform implementation. Our program will be monitored through semiannual reviews (the first test being end-September 2021 and second test date end-March 2022) with quantitative criteria and structural benchmarks as described in detail in the attached Memorandum of Economic and Financial Policies (MEFP) and defined in the attached Technical Memorandum of Understanding (TMU).

Our commitment to the goals of our program remains strong, as demonstrated recently by the implementation of all governance-related commitments—including those for tracking of COVID-19 spending—made under the Rapid Credit Facility (RCF) in May 2020. On our part, we commit not to: introduce nor intensify exchange restrictions; introduce or modify multiple import restrictions for balance of payments reasons; nor conclude bilateral payment agreements that are inconsistent with Article VIII of the Fund’s Articles of Agreement. We shall provide timely information necessary for monitoring economic developments and the implementation of policies defined in the program as agreed in the TMU, or upon request. We shall also continue to seek concessional lending from other IFIs benefiting from the catalytical role of the program.

The government believes that the measures and policies set forth in the attached MEFP are appropriate and sufficient to achieve the objectives of the program but stands ready to take any additional measures that may be necessary. 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.

The government intends to make public the content of the IMF staff report accompanying this request for a three-year arrangement under the ECF, including this letter, the attached MEFP and TMU, the informational annex, and the debt sustainability analysis (DSA) undertaken by IMF and World Bank staff. It therefore authorizes the IMF to publish these documents on its website once the IMF Executive Board approves the new three-year arrangement under the ECF.

Sincerely yours,

/s/

Patrick ~~Ocaila~~ Ocailap
Ag. Permanent Secretary/Secretary to the
Treasury
For: Minister of Finance, Planning and
Economic Development

/s/

Prof. E. Tumusiime Mutebile
Governor of the Bank of Uganda

Attachments: I. Memorandum of Economic and Financial Policies
II. Technical Memorandum of Understanding

Adjustor Related to Externally Financed Projects**Schedule C: External Financing Tied to Projects 1/**

	(USh billions)				
	2021			2022	
	End-Jun	End-Sept	End-Dec	End-Mar	End-Jun
Project loans	4,450	1,234	2,821	3,776	5,152

1/ Cumulative flows from July 1, 2020 to June 30, 2021, and from July 1, 2021 to September 30, 2021, December 31, 2021, March 31, 2022 and June 30, 2022.

33. 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 the DSSI Relief

34. The floor on the stock of NIR of the BoU will be adjusted upward (downward) by the amount by which the DSSI relief exceeds (falls short of) the projected amounts as set out in Schedule D.

Schedule D: DSSI Relief 1/

	(US\$ millions)				
	2021			2022	
	End-Jun	End-Sept	End-Dec	End-Mar	End-Jun
DSSI relief	0	107	121	121	121

1/ Cumulative flows from July 1, 2020 to June 30, 2021, and from July 1, 2021 to September 30, 2021, December 31, 2021, March 31, 2022 and June 30, 2022.

Adjustor Related to Direct Support Programs to Vulnerable Households

35. 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.

Schedule E. Direct Support to Vulnerable Households Under- ~~NUSAF~~ ~~NASUF~~, Urban LIPW and SCG ¹

	(Ush. billions)					
	2021			2022		
	End-Jun	End-Sept	End-Dec	End-Mar	End-Jun	
Project grants			0	0	29	72

¹ Cumulative flows from July 1, 2020 to June 30, 2021, and from July 1, 2021 to September 30, 2021, December 31, 2021, March 31, 2022 and June 30, 2022.