Uganda: takeaways from Article IV Consultation
MAY 2019

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Resident Representative
Kampala, May 2019
The economy is growing...

Sources: Bank of Uganda, Uganda Bureau of Statistics, and IMF Staff calculations

Notes: EAC average excludes Uganda, Uganda data is in fiscal years
The economy is growing and the outlook is favorable.

(GDP, change from previous year)

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

Notes: EAC average excludes Uganda, Uganda data is in fiscal years.
Medium term outlook is favorable... under these underlying assumptions

Global context stable

Private sector confidence maintained

Growth dividend realized

Oil sector investment proceeds

Risks are tilted to the downside
However, poverty reduction has stalled

Uganda: Poverty Headcount Ratio

National poverty lines at $1.0 a day
(Percent of population)
$1.90 a day (2011 PPP)
(Percent of population)

Source: World Development Indicators.

Agriculture
~ 70 percent of population
GDP ~ 2 percent
Population ~ 3 percent
Per-capita -1 percent
Uganda needs 600,000 new jobs per year

Key policy question for the Article IV:

How to support inclusive growth and stability?
Uganda lacks an effective fiscal anchor
Debt projections are systematically revised up

![Gross Nominal public debt (percent of GDP)](chart)

Sources: Bank of Uganda, Uganda Bureau of Statistics, and IMF staff calculations.
Public investment has fallen short of plans

Sources: Ugandan authorities and staff projections.
Budget is not providing top-down guidance
Budget is not providing top-down guidance

Source: Ugandan authorities, and IMF staff calculations.
Surprise issuance push up yields

Sources: Ugandan authorities and staff calculations.
Yields on government paper and lending rate

Government Securities Yields, Lending Rate and Central Bank Rate

Graph showing the trend of 364-day Treasury Bill Yield, Central Bank Rate, Lending Rate, and 10-year Bond Yields over the period from April 2013 to April 2019.
Public investment management

Cost 3x more

Capacity Utilization

Plan 80%
Peer ~70%

Transmission lines needed
Spending for inclusive growth—human capital expenditure is also critical
Declining social sector allocations in FY19/20

**EDUCATION**
- Decline in allocation (UGX Billion): 2,781.1
  - Actual: 2,685.4
- Source: UNICEF; BFP FY19/20 vs. Budget FY18/19.

**SOCIAL DEVELOPMENT**
- Decline in allocation (UGX Billion): 214.7
  - Actual: 162.8

**HEALTH**
- Decline in allocation (UGX Billion): 2,310
  - Actual: 2,278
Uganda remains at low risk of debt distress, but there are significant vulnerabilities.
Public debt has increased

Public Debt (percent of GDP)

- Public domestic debt
- Public external debt

Low risk of debt distress, high vulnerabilities

Source: Ugandan authorities; and IMF staff projections.
Low risk of debt distress, high vulnerabilities

One in five shillings collected in revenue is spent on interest payments in FY19/20
Uganda’s interest payments on par with countries in debt distress

Risk of debt distress

Interest Payments (percent of revenues)

Notes: Uganda number is for FY19/20. Rest of the countries are from 2018.
Sources: Bank of Uganda. IMF staff calculations.
Assumptions behind the low risk of distress rating

- Growth dividend realized
- Revenue collection +½ GDP per year
- Oil exports by 2023
- Infrastructure investment reduced
What could be done

**Fiscal anchor:**
- Keep debt below 50% GDP

**Spending quality and composition**
- Public investment management
- Domestic arrears
- Appropriate funding for social sectors

- Defines deficit path
- Adopt domestic revenue strategy
- Determines binding expenditure ceiling
- Develop fiscal rule for oil revenue management
The monetary policy stance is appropriate, and so is the reserves buffer
The monetary policy stance is appropriate
Reserves above adequacy indicators

### Gross foreign exchange reserves (US$ billions)

<table>
<thead>
<tr>
<th>Date</th>
<th>2018, Actual</th>
<th>Rule</th>
</tr>
</thead>
<tbody>
<tr>
<td>IMF</td>
<td>4.2</td>
<td>2</td>
</tr>
<tr>
<td>Import Coverage</td>
<td>4.2</td>
<td>3</td>
</tr>
<tr>
<td>Broad Money</td>
<td>73%</td>
<td>20%</td>
</tr>
<tr>
<td>ST Debt Coverage</td>
<td>318%</td>
<td>100%</td>
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</tbody>
</table>
Banking sector health improving

BoU has ensured financial sector stability
Banking sector health has improved

NPLs as a Share of Total Loans, Capital Adequacy Ratio

- NPLs
- Regulatory capital to risk-weighted assets (rhs)
- Reg. capital target (12 %) (rhs)
Credit growth has gained momentum

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

- FX loans (net of val. effects)
- Shilling loans
- Weighed Avg.

Dec-14 Dec-15 Dec-16 Dec-17 Dec-18
Banking sector health improving

BoU has ensured financial sector stability
What could be done

Inflation targeting
- Serves Uganda well
- Stay on hold for now
- Data dependent
- Flexible exchange rate regime

BoU financial position
- Recapitalize BoU as per law
- Implement MoFPED-BoU MoU
- Review BoU’s income and cost structure

Supervision
- Strengthen quality of financial reporting by banks
- Strengthen banks’ corporate governance / internal controls
- Strengthen stress testing
## Medium-Term Macroeconomic Outlook

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<thead>
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</thead>
<tbody>
<tr>
<td><strong>Real GDP</strong></td>
<td>4.8</td>
<td>3.9</td>
<td>6.1</td>
<td>6.3</td>
<td>6.3</td>
<td>6.2</td>
<td>6.1</td>
<td>6.0</td>
<td>6.6</td>
</tr>
<tr>
<td><strong>Headline inflation (period average)</strong></td>
<td>6.6</td>
<td>5.7</td>
<td>3.4</td>
<td>3.2</td>
<td>4.0</td>
<td>4.8</td>
<td>5.0</td>
<td>5.0</td>
<td>5.0</td>
</tr>
<tr>
<td><strong>Credit to private sector</strong></td>
<td>4.0</td>
<td>5.7</td>
<td>10.5</td>
<td>13.6</td>
<td>11.2</td>
<td>10.2</td>
<td>13.7</td>
<td>13.0</td>
<td>10.4</td>
</tr>
<tr>
<td><strong>Fiscal overall balance</strong></td>
<td>-4.9</td>
<td>-3.9</td>
<td>-4.8</td>
<td>-5.4</td>
<td>-7.2</td>
<td>-7.4</td>
<td>-6.0</td>
<td>-4.0</td>
<td>-3.6</td>
</tr>
<tr>
<td><strong>of which Capital expenditure</strong></td>
<td>8.7</td>
<td>7.8</td>
<td>8.9</td>
<td>9.6</td>
<td>12.1</td>
<td>11.9</td>
<td>10.8</td>
<td>9.3</td>
<td>9.5</td>
</tr>
<tr>
<td><strong>Public debt</strong></td>
<td>36.0</td>
<td>38.0</td>
<td>41.3</td>
<td>42.2</td>
<td>45.7</td>
<td>49.0</td>
<td>50.7</td>
<td>50.4</td>
<td>48.9</td>
</tr>
<tr>
<td><strong>of which External debt</strong></td>
<td>21.8</td>
<td>24.3</td>
<td>28.7</td>
<td>28.8</td>
<td>31.3</td>
<td>34.1</td>
<td>36.2</td>
<td>36.2</td>
<td>35.8</td>
</tr>
<tr>
<td><strong>Current account</strong></td>
<td>-5.6</td>
<td>-3.7</td>
<td>-6.1</td>
<td>-7.2</td>
<td>-8.9</td>
<td>-9.6</td>
<td>-8.9</td>
<td>-7.0</td>
<td>-4.7</td>
</tr>
<tr>
<td><strong>of which Oil exports</strong></td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>1.7</td>
</tr>
<tr>
<td><strong>Reserves (in months of imports)</strong></td>
<td>5.3</td>
<td>5.2</td>
<td>4.5</td>
<td>4.1</td>
<td>4.0</td>
<td>4.0</td>
<td>4.2</td>
<td>4.3</td>
<td>4.6</td>
</tr>
</tbody>
</table>

Sources: Ugandan authorities and IMF staff estimates and projections.
Key messages – a recap

✓ The economy maintains momentum, and the outlook is favorable
✓ The key challenge is to make growth inclusive and ensure stability
✓ Uganda lacks an effective fiscal anchor, and the budget does not provide sufficient guidance for top-down resource allocation and spending control
✓ Infrastructure investments are positive; protect also human capital development
✓ Uganda remains at low risk of debt distress, but there are significant vulnerabilities
✓ Inflation targeting and flexible exchange rate continue to serve Uganda well
✓ BoU has successfully ensured financial sector stability, including through resolving banks that posed systemic risks
Key policy recommendations

✓ Adopt an effective fiscal anchor and strengthen the budget process
✓ The fiscal anchor could be keeping debt at 50 percent of GDP in nominal terms, while developing a fiscal rule for managing oil revenues.
✓ Finalize and implement the Domestic Revenue Mobilization Strategy
✓ Continue strengthening Public Investment Management
✓ Support human capital development: provide adequate budget allocations for social sectors, improve efficiency of public services
✓ Maintain inflation targeting and the flexible exchange rate
Thank You