FREQUENTLY ASKED QUESTIONS ON UGANDA

Key Questions on Uganda

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Read the key questions regarding the IMF arrangement with Uganda

BACK TO TOP ▲

What are the goals of Uganda's Extended Credit Facility (ECF) program?

The IMF's Extended Credit Facility (ECF) (https://www.imf.org/en/About/Factsheets/Sheets/2016/08/02/21/04/Extended-Credit-Facility) provides financial assistance to countries facing protracted balance of payments difficulties, with the aim of restoring macroeconomic stability and reducing poverty through strong growth. The ECF carries a zero-interest rate, with a grace period of 5½ years, and a final maturity of 10 years.

About $1 billion will be disbursed under Uganda's ECF-supported program, in semi-annual tranches over three years. Disbursements are subject to review, which are scheduled, at most, six months apart. These reviews assess the government's progress in implementing its economic reforms. The first tranche of $258 million was disbursed when the program was approved by the IMF Executive Board on June 28, 2021.

The central objective of the authorities' reform program is to support the recovery from the COVID-19 pandemic, while generating strong and inclusive private sector-led growth. The budget deficit and debt will be reduced over time (as the COVID-19 shock eases) through lower non-priority spending, the phase-out of crisis measures, and higher government revenue. Greater public sector efficiency will ensure increased spending on social programs, including on health, education, and social assistance.

A strong multi-year approach to lowering deficits and improving the composition of public spending is necessary to achieve these goals. Greater transparency in public accounts, a stronger anticorruption framework, and higher financial sector resilience are also needed for more inclusive growth.

BACK TO TOP ▲

What were the findings of the first review of the ECF?

On March 9, 2022, the IMF Executive Board completed the first review of the ECF arrangement with Uganda, allowing an immediate disbursement of around $128 million to cover budget needs.

The authorities were able to maintain macroeconomic stability—a key pre-requisite for sustained growth. The financing provided, both by the IMF and through non-resident inflows and syndicated loans, helped the government preserve priority social spending and increase COVID-19-related spending, despite revenue shortfalls following the lockdown introduced in June-July 2021. Inflation remained low and external reserve buffers remained strong. Reduced financing needs have helped to contain the rise in debt and keep it sustainable.

To generate more inclusive growth, the authorities implemented various structural reforms over the past six months aimed at improving revenue mobilization (identification of tax exemptions), strengthening governance (improved accountability for public officials), upgrading the public investment management framework and strengthening cash and arrears management.

BACK TO TOP ▲

How is Uganda's program advancing the governance and anti-corruption agenda?

Important progress in governance is being made with the recent tracking of COVID-19 expenditures, the publication of audits of COVID-19 spending, and the ongoing disclosure of beneficial ownership information for COVID-19 procurement contracts. A regulation requiring financial institutions to identify and apply enhanced due diligence measures for domestic politically exposed persons was adopted, in line with recommendations by the Financial Action Task Force. These initiatives have improved transparency and will help strengthen accountability in the use of public resources.

Recently published COVID-19 audits suggest that the resources ring-fenced in the FY20/21 budget for COVID-19 interventions were mostly used for their intended purposes. Part of the allocation was used to settle domestic arrears, boosting liquidity. The remaining amount went to support international reserves, recapitalize Uganda's Development Bank (UDB) and support procurement of vaccines and medical supplies, among others.

Going forward, the findings of the audits provide a basis for addressing institutional and procedural shortcomings. Further efforts are underway to strengthen accountability of high-level officials (including through asset declarations), accelerate the implementation of the Anti-Money Laundering/Combating the Financing of Terrorism, and enforce the legal framework for anti-corruption.

Why is the IMF pushing for a reduction in the fiscal deficit given Uganda's large developmental needs and how does the program ensure there is sufficient funding for social spending?

Lower fiscal deficits financed through higher domestic revenue and lower non-priority spending would help reduce high borrowing costs—particularly given high yields on domestic debt—and ensure debt remains sustainable. More contained government domestic borrowing would also create space for private sector development. Shifting the composition of spending towards priority social areas will help achieve the fiscal objectives and address Uganda's large development needs.

The program includes two quantitative targets that require minimum spending on: (i) education and health; and (ii) social protection. Both targets were met in September 2021.

BACK TO TOP ▲

What do higher international energy and food prices mean for Uganda and how does the program account for these shocks?

An increase in international energy and food prices will push up headline inflation and pose hardships on households. Tighter financial conditions could increase borrowing costs and lead to a reversal of capital flows, which would put pressure on the exchange rate.

To reduce vulnerability to such shocks, Uganda is building external reserves and strengthening social assistance programs.

The ECF-supported program has built-in flexibility, allowing targets to be modified—notably reserve and fiscal objectives—at the time of semi-annual reviews.

BACK TO TOP ▲

Is Uganda's debt sustainable?

Given plans to unwind crisis measures and raise revenue levels, Uganda's debt remains sustainable despite the recent increase in the debt stock stemming from the effects of the COVID-19 pandemic.

The program involves a credible, multi-year effort to mobilize domestic revenues, and reduce deficits and debt, while also improving spending quality and efficiency. This will lay the ground for durable and inclusive growth for the years to come. It will also help to catalyze other donor support.

To avoid sharper fiscal consolidation and more expensive commercial borrowing, the authorities are making use of part of their new SDR allocation to finance the budget and are also pursuing other concessional resources from development partners.

BACK TO TOP ▲

How does Uganda plan to use the newly allocated SDRs and how will you ensure accountability for these resources?

The SDR allocation (https://www.imf.org/en/Topics/special-drawing-right/2021-SDR-Allocation) aims to address global long-term needs for reserves, helping countries to cope with the impact of the COVID-19 crisis.

The Ugandan authorities have decided to use half of the allocation (about $250 million) to finance the FY21/22 budget deficit. The SDR allocation will replace more expensive foreign commercial borrowing of the same amount. It will be used on education, health and water and sanitation projects, including financing the reopening of schools.

The Ministry of Finance has a spending plan for SDRs, which will be monitored through special quarterly reports on budget execution. The implementation of the governance reforms under the ECF-supported program will also help safeguard the use of SDRs.