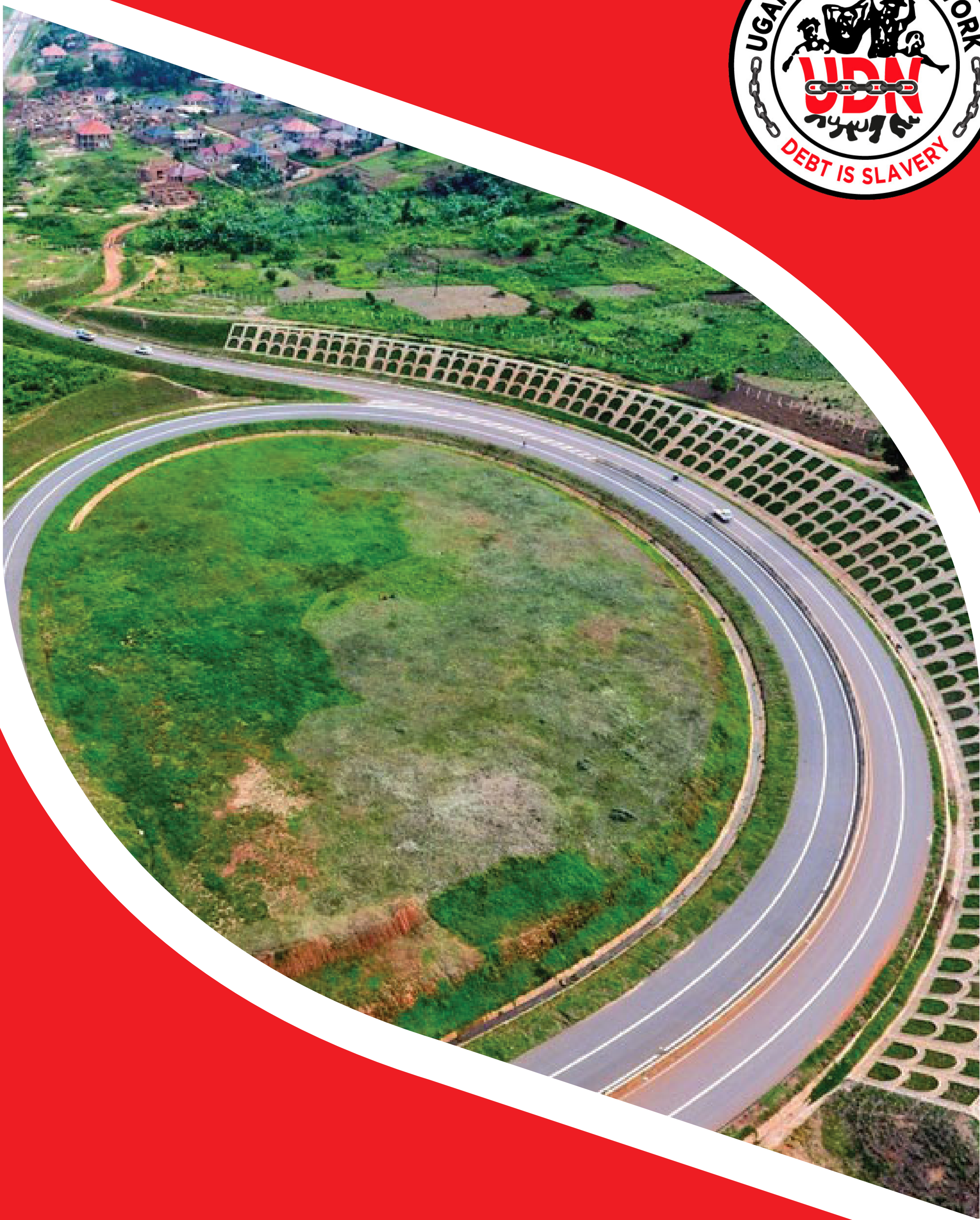
UGANDA DEBT NETWORK
UDN
DEBT IS SLAVERY



COVID19 DEBT ANALYSIS & POLICY OPTIONS

JULY 2020, RESEARCH PAPER

ABSTRACT

COVID 19 pandemic came and spread rapidly, indiscriminately hitting individuals, families, countries from all walks of life- rich or poor, black, colored or white. Efforts to stem it both therapeutically and through vaccine development are still an uphill task even for developed economies. Poor countries already had systemic gaps and had made borrowing a routine to near unsustainable levels. With the pandemic's devastating impact especially on Low Income Countries, we seek policy options regarding public debt, using Uganda's Case.

A UDN Policy Paper Series – July 2020

PRELUDE to the UDN COVD 19 Study Paper Series

The unprecedented COVID 19 pandemic occasioned a paradigm shift in various social – economic facets of all economies worldwide. As at the time of producing this paper, the ravaging malady was still ongoing, with no clear policy options in sight. The economic base has a substantial bearing on the possible interventions to stem the immediate, medium and long term ramifications of such a catastrophe. Although currently all countries seem to be facing it almost squarely, it is the underdogs that usually have it rough when global shocks set in. So Low Income Countries (including Uganda) seem to be at the receiving end of the worst case scenarios.

It is against this background that UDN deemed it expedient to make a study - Public Debt Ramifications for Low Income Countries Amidst Covid 19 Pandemic: The case of Uganda. The study aimed at examining the status and potential of the impact, as well as Fiscal and monetary policy options of Covid 19 as the global war against still wages on.

This is the first of such studies, and the trends being very dynamic, we shall continue conducting more analyses. Watch out for more to come.

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ACRONYMS / ABBREVIATIONS

ACRONYM	MEANING
BOP	Balance Of Payments
CBR	Central Bank Rate
CIs	Credit Institutions
COVID19	Coronavirus Disease
CPIA	Country Policy and Institutional Assessment
CPIA	Country Policy and Institutional Assessment
DFID	Department for International Development
DSIBs	Domestic Systemically Important Banks
DSIs	Debt Sustainability Indicators
EPRC	Economic Policy Research Centre
FDI	Foreign Direct Investment
IDA	International Development Association - part of World Bank that helps the world's poorest countries.
LICs	Low Income Countries
MDIs	Microfinance Deposit taking Institutions
MoFPED	Ministry of Finance, Planning and Economic Development
NDP	National Development Plan
ODA	Official Development Assistance
PAYE	Pay As You Earn
PSC	Private Sector Credit
SAGE	Social Assistance Grants for Empowerment
SDGCA	Sustainable Development Goals Center for Africa
SFIs	Standing Financial Instructions
SMEs	Small and Medium-Sized Enterprises
SSA	Sub Saharan Africa
TVET	Technical and Vocational Education Project
UDB,	Uganda Development Bank
UDC.	Uganda Development Cooperation
URA	Uganda Revenue Authority
URA	Uganda Revenue Authority
VAT	Value-Added Tax

1 INTRODUCTION

Coronavirus Disease (COVID19) officially surfaced on 19th December 2019 in Wuhan city of China. The year 2020 started, with spread of Coronavirus Disease (COVID19) in some few countries, and eventually it was declared by World Health Organization (WHO) as a global pandemic. As of 9th July 2020, the global COBID19 confirmed cases had reached 12.47m), with 6.74 million recoveries and the deaths were only 560,000[1]. Despite the low associated mortality and declared recoveries 80,000, without action, the spread has been exponential and growing. Africa on the other end still accounts for the least number of confirmed cases, although it also has lowest level of testing cases per 1,000 people compared to other regions[2]. In response, the world has been imposed under different forms of restrictions (inter ***alia*** full or partial lock downs, travel restrictions and border closures).

Consequently, the health pandemic resulted an economic plague, and the resultant twin crises (health and economic) pose significant downsides to each and every other nation. Global growth is now forecast to be in range of -4.9% (IMF, 2020a)[3] and -5.2% (World Bank,2020)[4]. COVID19 has and continues to affect nearly all sectors and all regions. The collapse of domestic activity in many regions also reflected in available Purchasing Managers Indices[5] and economic indicators. World Trade expected to decline by 20% in 2020[6], stock market prices have crumbled and consequently returns on all factors of production have been dented sizably. The world faces an unprecedented deep recession of the magnitude second the 1930s global depression. Equally, Africa is forecast to experience a global recession of a size not experienced since 1970. In revised June 2020 IMF forecast, Africa' economic growth is projected to dwindle to negative -3.2% in 2020, consistent with the **Sustainable Development Goals Center for Africa[7] (SDGC/A)** -2020 analysis that shows that lockdowns would in moderate scenario last two to forth months and sluggish recovery in second half of 2020, would translate into negative (3-6%) in 2020[8]. Uganda's growth expected to take a nose dive.

The economic slowdown, is forecast to translate substantial reduction in financing streams. ***Inter alia,*** remittances, ODA, portfolio inflows, FDI and domestic revenue streams to reduce by a magnitude, most in double digits[9]. Consequently, the fiscal space will be narrower – already pre- COVID-19 debt

1 https://ourworldindata.org/covid-cases
2 SDGCA (2020). COVID19: Unprecedented risks to SDGs. https://sdgcafrica.org/wp-content/uploads/2020/06/COVID-19-UNPRECEDENTED-RISK-TO-SDGs-IN-AFRICA_Web-Final.pdf
3 IMF(2020a).
https://www.imf.org/~/media/Files/Publications/WEO/2020/Update/June/English/WEOENG202006.ashx?la=en
4 World Bank (2020a). https://openknowledge.worldbank.org/bitstream/handle/10986/33748/9781464815539.pdf
5 https://www.markiteconomics.com/public
6 UNCTAD (2020). https://unctad.org/en/PublicationsLibrary/ditcmisc2020d2_en.pdf
7 SDGC/A is an international organization that supports governments, civil society, businesses and academic institutions to accelerate progress towards the achievement of the Sustainable Development Goals (SDGs) in Africa
8 Ibid SDGCA 2020
9 World Bank (2020b). COVID-19 Crisis through a Migration Lens. Migration and Development Brief, No. 32. Washington, D.C.: World Bank Group.

sustainability analyses depicted nearly 1 in 5 countries were either experiencing high debt stress risk or debt burdened. Even countries like Uganda that are, arguably, in low debt stress category, have high levels of debt service obligations – one in five of domestic revenue was being paid in interest payments alone by FY 2019/20.

Such reality may provide credence for policy discourse solutions like Debt cancellation or medium-term freeze of interest payment on new debts in context of COVID-19 mitigation broadly for LICs and Uganda in particular. Currently, 19 African countries have already benefited from debt relief from IMF[10]. Africa countries, including Uganda, are more than ever, at cross roads – given limited financial space and the increasing trinity problem to mitigate health, economics while maintaining sustainable path to sustainable development targets (SDGs 2030). Overall debt is expected to increase due to widening fiscal deficits linked to capital expenditures and dwindling revenue streams associated with COVID19 downsides[11]. Arguably, most debt sustainability parameters are expected to deteriorate broadly, and Uganda is not spared.

The backdrop gives context to the rationale of this study, to examine the comparative debt evolution including the COVID debt and their implications on debt sustainability parameters. The economic shock is expected to also influence corporate debt as both household and corporate bankruptcies are envisaged.

Methodologically, a multi-pronged approach was used in carrying out the diagnostic assessment. The assessment used several sources of data collection while using a blend of analytical methods, validation and triangulation of evidence against the objectives. Sources of data and methods of collection included: document review and administrative data analysis as well adopting meta-synthesis of evidence from existing analytical work, and known global best practices on public and corporate debt. The study was also conducted between June and July 2020. Challenges included the fast of changes in global, continental and national context under the COVID-19 situation. The conclusions drawn herein have, therefore, revolve on the extent of the changing scope in overall global and continental policy discourse, as well as interventions that have kept changing form and format at country level under COVID-19 mitigation endeavours. Meanwhile, the multi-pronged focus of the study is provided in following sections – covering the state of health crisis in Uganda, the economic impact of COVID19 crisis, policy measures undertaken to mitigate COVID19 crisis, stock take of the COVID support (loans and grants), the state of Public Debt and associated risks, corporate debt at glance and lastly providing practical pathways.

10 https://www.imf.org/en/News/Articles/2020/04/13/pr20151-imf-executive-board-approves-immediate-debt-relief-for-25-countries
11 IMF (2020). Fiscal monitor

2 COVID19 as a Health Crisis

The coronavirus disease (COVID-19) was first reported in late December 2019. Since then, it has become a global pandemic with confirmed cases across 206 countries, areas and territories. The spread of the virus has led to unprecedented actions by countries globally including border closures, quarantines, curfews, and so on, not seen since the second world war in a bid to slow down the global contagion that is already underway in Europe, Americas and now Africa. Uganda is still assessed to be steeply associated with stringent restrictions – according to the Government Response Stringency Index score of 87.04 in July, an increase from June 77.8 though still lower than end of March and early May score of 93.5[12]. The Government Response Stringency Index is a composite measure based on nine response indicators including school closures, workplace closures, and travel bans, rescaled to a value from 0 to 100 (100 being the strictest response). This implies restrictions are easing marginally but still stringent. As of 9th July 2020 (7am GMT), in Africa522,643 confirmed cases had been reported with 252,944 recoveries and 12,233 deaths. Though testing remains relatively low compared to other regions. Uganda reached 1147 confirmed cases on 31st July, 2020, with 1028 recoveries and two deaths. In July, 258 cases were confirmed compared to 457 cases in June, 332 cases in May, 48 cases in April and 33 cases from 22nd to 31st March 2020. This shows that cases have been increasing on monthly basis and Uganda is yet to see the flattening and eventual decline of the Curve. The daily cases and cumulative cases are presented in Figure 1 and Figure 2 respectively.

Figure 1: Daily confirmed cases (average 7 days) in Uganda, March -July 2020

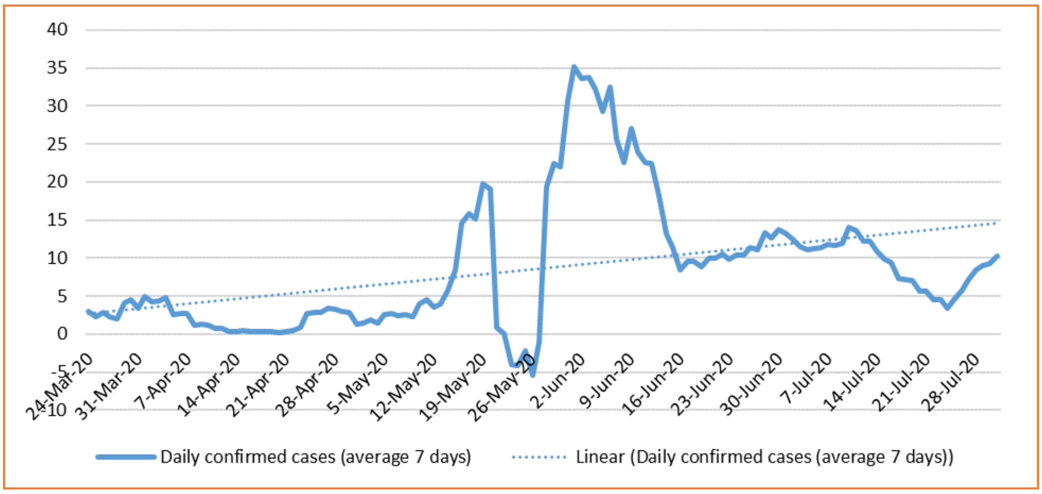
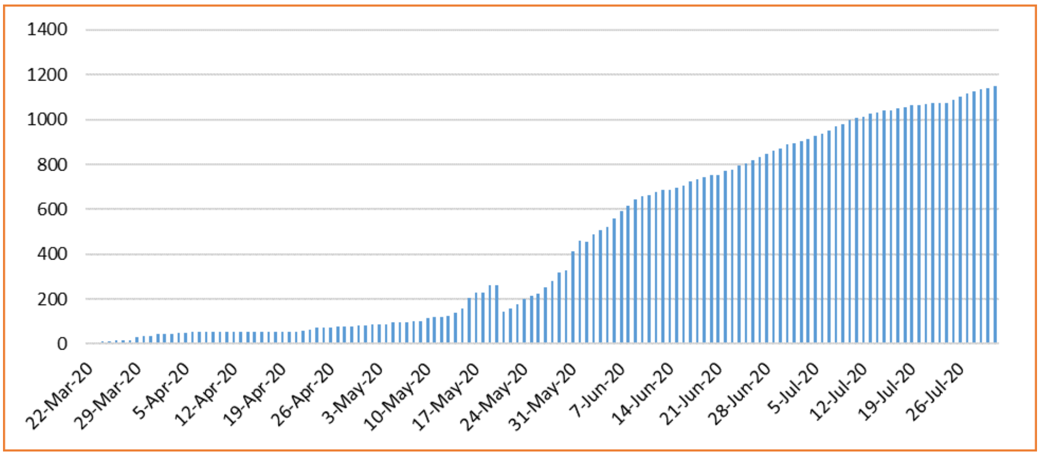


Figure 2: Cumulative COVID-19 cases Uganda, March- July 2020

Source: https://ourworldindata.org/



Source: https://ourworldindata.org/

12 https://www.bsg.ox.ac.uk/research/research-projects/coronavirus-government-response-tracker

Despite the continued rise of cases, Uganda is accessed to be relatively to be better Health system preparedness for epidemic threats. Uganda is ranked 65th among 195 countries on the 2019 Global Health Security Index and 3rd among 54 African countries[13]. The preparedness is also mirrored in the number of recoveries.

Figure 3: Members of the Uganda People's Defence Force (UPDF), help distribute food to people affected by the lockdown measures aimed at curbing the spread of the coronavirus, in the Bwaise a Kampala City suburb.

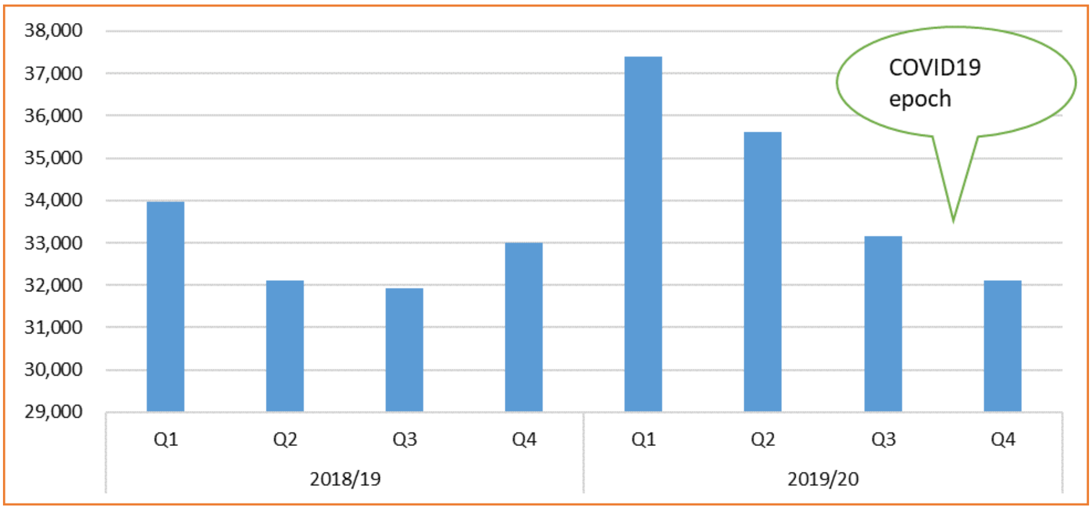
13 AfDB (2020). African Economic Outlook

3 Economic Impact of COVID 19

The recent (May 2020) IMF analysis reveals that the Uganda economy is gravely affected by COVID19. The transmission mechanisms are both domestic and external[14]. Externally, largely associated to lockdowns, restrictions and travel restrictions. In a recent (March,2020) BoU report[15], they underline several transmission mechanisms in which economic shocks of COVID-19 manifest including but not limited ; underutilized domestic capital—human as well as financial capacity, declining commodity prices, subdued tourism activity, domestic currency predominating risks, portfolio outflows, sluggish foreign flows (FDI and ODA), global recession and growing uncertainty. Both IMF and World Bank project that economic growth is expected to dwindle to -5% globally in 2020. Sub Saharan Africa (SSA) is forecast to grow also at negative 3.2% in 2020. Uganda on the other end is expected to remain with positive growth at 1.6% in 2020, the lowest in over two and half decades – translating into negative GDP per capita growth in 2020 (back to level of early 2010s) and expected to remain negative in 2021[16]. World Bank also estimates Uganda's Real GDP growth in 2020 at 0.4 and 1.7% compared to 5.6% in 2019[17].

Reliant on UBOS statistics (also see Figure 3), at current prices in quarter three of 2019/20 declined by 7% relative to quarter two, and by 3% in quarter four relative to previous quarter. In constant prices, the first half of 2020 GDP is only 99.3% of similar period in 2019. This implies negative growth of -0.7%.

Figure 4: Uganda Quarterly GDP at Market prices (Billion shillings)



Source: UBOS statistics.

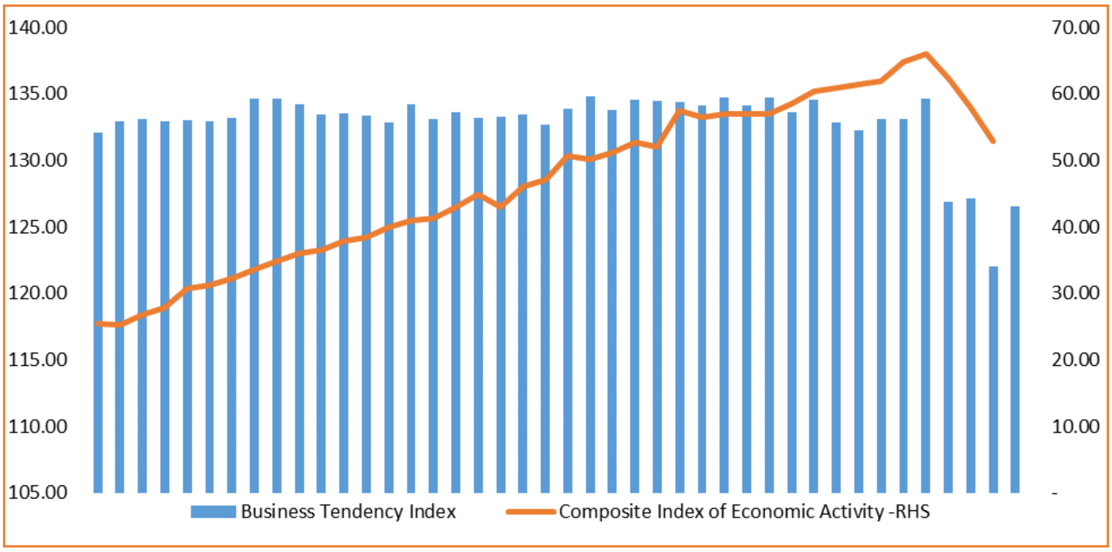
UDN own estimates – project that Uganda may endure a recession and negative growth in 2020 largely due to the lockdown of at least two months. For the two months only of lockdown and an assumed less than half production capacity (reiterated in some formal speeches and UNECA survey for Africa (On average, businesses in Africa report to be operating at only 43 percent between 14 and 20 April, though with larger firms reporting to operate at a slightly better capacity)[18], at least a full month of GDP is lost. This then would automatically translate into negative GDP growth in 2020 even assuming fully production capacity for the remaining months. The same narrative is preliminary DFID funded Technical Assistance report for COVID-19 Pandemic Response that indicates GDP loss could vary between USD 2.2-3.2 Bn, that is 7 to 10 percentage point reduction in 2020 mostly due to

14 IMF (2020). Uganda https://www.imf.org/en/Publications/CR/Issues/2020/05/14/Uganda-Request-for-Disbursement-under-the-Rapid-Credit-Facility-Press-Release-Staff-Report-49427
15 BoU. https://www.bou.or.ug/bou/bouwebsite/bouwebsitecontent/publications/StateofEconomy/publications/StateOfEconomyReports/2020/Mar/State-of-Economy-report-March-2020_board.pdf
16 IMF (2020). Regional Economic Outlook Update: Sub-Saharan Africa https://www.imf.org/~/media/Files/Publications/REO/AFR/2020/Update/June/English/SREOENG202006.ashx?la=en
17 World Bank (2020). 15th Uganda Economic Update,
18 ECA (2020). COVID-19: Lockdown Exit Strategies for Africa, May.

drop in local consumption.

The high frequency indicators of economic activity (the BoU Business Tendency Index and Composite Index of Economic activity) slumped sharply since February 2020 to May 2020 showing the confidence investors have about doing business in the country as well as a subdued level of economic activity (see Figure 4). However, with easing, there is an incremental recovery of economic activity as shown by the June Business Tendency Index and PMI.

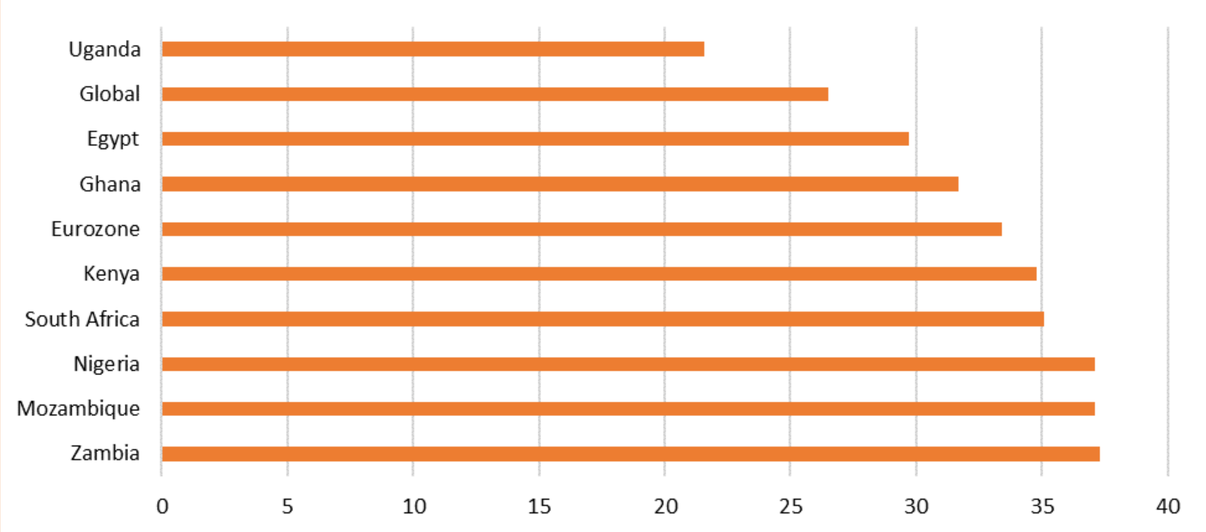
Figure 5: Business Tendency and Composite Indicator of Economic Activity



Source: BoU

The steep nosedive of economic activity also mirrored in the Stanbic's Purchasing Manager's Index that shows deterioration in all indicators of New Orders, Output, Employment, Suppliers' Delivery Times, and Stocks of Purchases. The PMI is a composite index, calculated as a weighted average of five individual sub-components: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). Readings above 50.0 signal an improvement in business conditions on the previous month, while readings below 50.0 show deterioration. In the first 6 months of 2020, PMI averaged 45.1 compared to 51.7 average in the same period in 2019 - indicating lethargic economic activity. PMI in June 2020 stood 46.5, still indicating economic contraction when PMI is below 50. Prior to that, Business activity amongst Ugandan private sector companies was 41.6 in May 2020 and remained below average since survey began 4 years ago**.** This followed Uganda's PMI having hit its record low of 21.6 in April, from 45.3 in March and 56.2 in February 2020. It was also sharpest decline compared with other countries as shown in Figure 5.

Figure 6: IHS Markit PMI (April) 2020



Source: IHS Markit.

The drop in economic activity is also corroborated by perception surveys, some revealing that 8 in 10 of the medium small Micro Enterprises expect revenue shortfalls of more than 10% relative to 2019 and nearly 9 in 10 of business businesses are likely to financially distressed after three months of lockdown measures[19]. The same are corroborated in an EPRC study[20], that indicates potential mortality of the small medium enterprises in 1-3 months if the strict lockdown conditions prevail. The agricultural sector being the hit substantially due to subdued demand and supply distortions.

Overall, the near term to medium outlook risks remain pronounced and masked with uncertainty that surrounds COVID19 containment. This makes all projections remain uncertain given that the path of this pandemic remains unknown or when it will be fully contained. Lack of vaccine suggests subdued near term activity that would be associated with strict continued containment restrictions including travel restrictions. Global recovery expected to remain muted in 2021. Regional risks as well climate change and desert locusts that expected to affect agricultural productivity.

3.1 Policy measures for COVID19

Globally and at continent level, nations have adopted a wave of economic stimulus packages aimed at combating the twin crisis. At economic level, monetary and fiscal expansion have been adopted. The same expansionary nature is expressed by call of African Ministers for an economic stimulus package of USD 100m[21]. Some countries have adopted large fiscal stimulus packages (January to April 2020) – as share of GDP, South Africa has the largest at 10%, Niger at 7.7%, Senegal at 7.5%, Namibia (4.2%). Uganda on the other end has lower than 1% of GDP fiscal stimulus[22]. However, the IMF estimates COVID related expenditure at 1.7% of GDP[23] but for interventions in 2020 to June 2021. An exposition of the policy measures by Uganda is provided in Table 1.

19 Ministry of Trade, Industry and Cooperatives et al (2020). Impact of COVID-19 on Ugandan MSMEs. Assessment of COVID 19 in Uganda.
20 EPRC (2020). https://eprcug.org/research/education/652-how-has-the-covid-19-pandemic-impacted-ugandan-businesses-results-from-a-business-climate-survey/download
21
22 AfDB (2020). https://www.afdb.org/en/documents/african-economic-outlook-2020-supplement
23 Ibid. IMF (2020). Uganda

Table 1: Policy Responses in Uganda

Fiscal Policy	Monetary Measures	Other measures
Defer payment of corporate tax income or presumptive tax for corporations and small and medium enterprises (SMEs). Defer the payment of PAYE until September 2020 Waived interest on tax arrears Tax deductibility of donations for coronavirus response Payment of outstanding VAT refunds. An extension until May 2020 for taxpayers who had instalment payment agreements with the Uganda Revenue Authority (URA) which were due in March 2020. Introducing tax exemption on items used for medical use and expanding labor-intensive public works programmes in the Roads and Water and Environment sector. Fiscal stimulus – from the Contingency Fund of USD 1.3million from the Ministry of Health Preparedness and Response Plan from January to June 2020. Provision of more resources to the Uganda Development Bank (UDB), and Uganda Development Cooperation (UDC). Additional finance to SMEs Domestic arrears repayments	April and June reduction in CBR respectively by xx% and XX% Supervised Financial Institutions (SFIs) to defer payments of all discretionary distributions such as dividends and bonus payments for at least 90 days' effective end March 2020 Liquidity provisions to commercial banks in liquidity distress for a period of up to one year Purchase of Treasury Bonds held by Microfinance Deposit taking Institutions (MDIs) and Credit Institutions (CIs) Central Bank Instructions for SFIs to provide credit relief measures to borrowers. SFIs' exceptional permission to restructure loans of corporate and individual customers including a moratorium on loan repayment for borrowers affected by the pandemic, on a case by case basis, for up to 12 months, effective April 1st, 2020. BOP support from the IMF of USD US$491.5 million in emergency financing	Provision of relief food to Ugandans who are largely informal sector workers and vulnerable. Heightened attention to Social Assistance Grants for Empowerment (SAGE) Scheme Ugandan Businesses facing economic distress to reschedule their NSSF contributions for the next three (3) months without accumulating any penalty.

Source: Various BoU Monetary Policy statements, Back ground to Budget FY 2020/21, IMF Global Policy

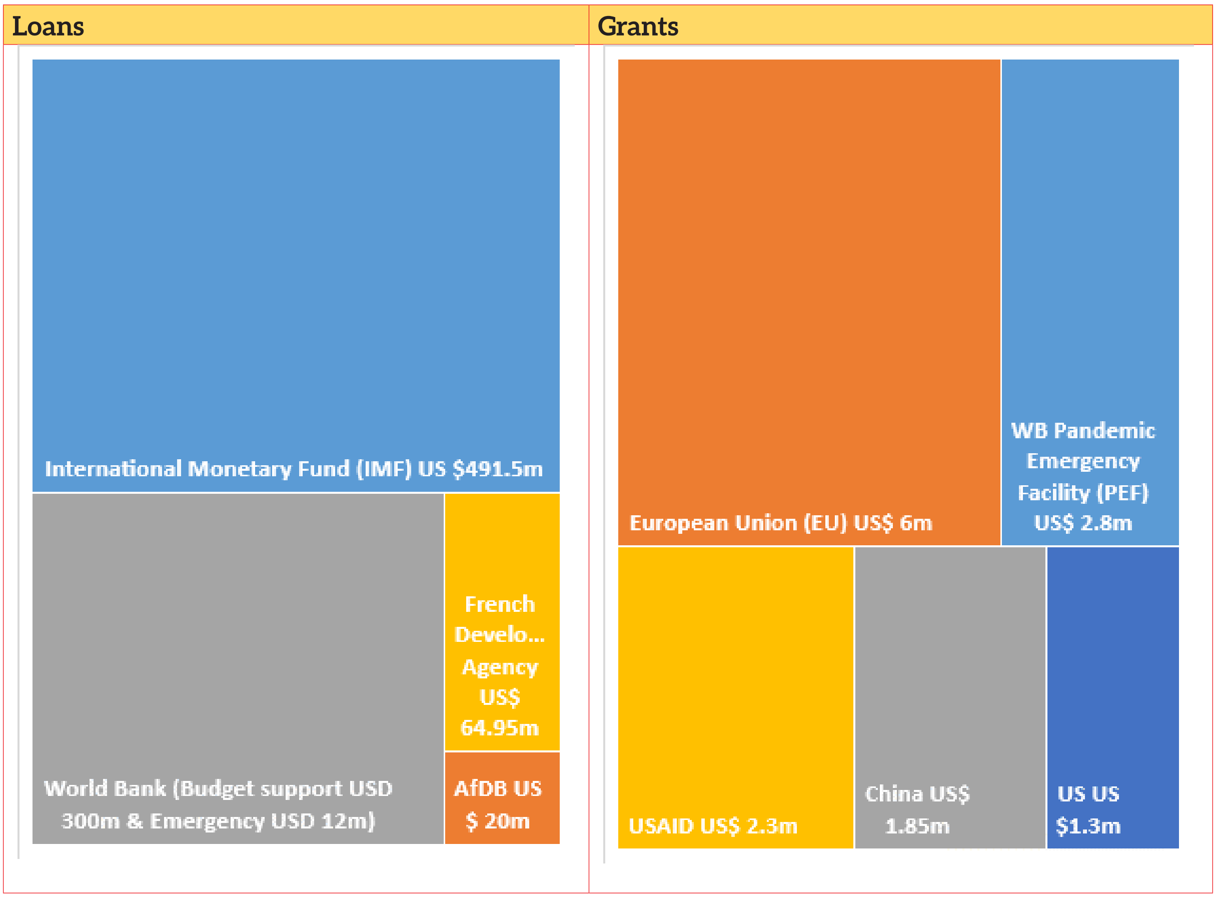
Several countries in Africa have since the beginning of the year have reduced monetary policy rates, with percentage points change ranging from 0.5%ge points in Rwanda and Botswana to as high as 2.7%ge points in South Africa, 2.5% (The Gambia, Lesotho, Mozambique and Namibia) and 2% (Seychelles, South Sudan and Uganda)[26]. Additionally, some countries have provided liquidity into the banking system ranging from 0.5 percent of GDP in Angola to 2.4 percent of GDP in Nigeria and 3 percent of GDP in Zambia.

4 COVID19 Loans and Grants

Uganda has so far acquired USD 888 million in loans towards COVID related support towards mitigating both economic and health crisis. The IMF accounts for the 55% of the total COVID19 loans with funds from the Rapid Credit Facility aimed to balance of payments stabilization, social protection and Uganda Development Bank additional financing.

Annotated details of COVID19 related loans and grants are provided in Figure 6.

Figure 7: COVID19 Loans and Grants (March to June 2020)



*Source: Various including MoFPED and funding agencies. Note: * Government requested US$350 million from the African Development Bank towards supporting the budget for FY 2020/21.*

Prior to COVID19 responses, GoU has acquired syndicated loan from syndicated loan from Stanbic Bank and the Trade Development Bank totaling close to US$0.7 billion in March 2020 to meet the budget support needs and current account deficit. Details of loans approved by Parliament in Fy

24 https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19
25 https://www.ilo.org/global/topics/coronavirus/country-responses/lang--en/index.htm#BW
26 IMF (2020). June REO.

2019/20 as of 31st March 2020 are detailed in Table 2.

Table 2: Loans approved by Parliament FY 2019/20 as at 31st March 2020

Creditor	Project Name	Sector	USD M equivalent	Parliament Approval Date
IDB	Technical and Vocational Education Project (TVET)	Education and Sports	45.00	15-Aug-2019
UKEF	Development of Solar powered water supply system project	Water and Environment	114.00	17-Sep-2019
China	Development of Oil Roads – Lots 1, 2 & 3	Works and Transport	456.37	27-Nov-2019
Spain	Airborne Geophysical Survey and Geological Mapping of Karamoja	Energy and Mineral Development	23.28	30-Jan-2020
China	Development of Industrial parks (Power supply to Industrial Parks and Power Transmission line extension)	Energy and Mineral Development	178.28	30-Jan-2020
Stanbic Bank	Financing budget deficit for FY 2019/20	Accountability	328.88	11-Feb-2020
TDB	Financing budget deficit for FY 2019/20	Accountability	328.88	11-Feb-2020
TOTAL			**1,474.68**	

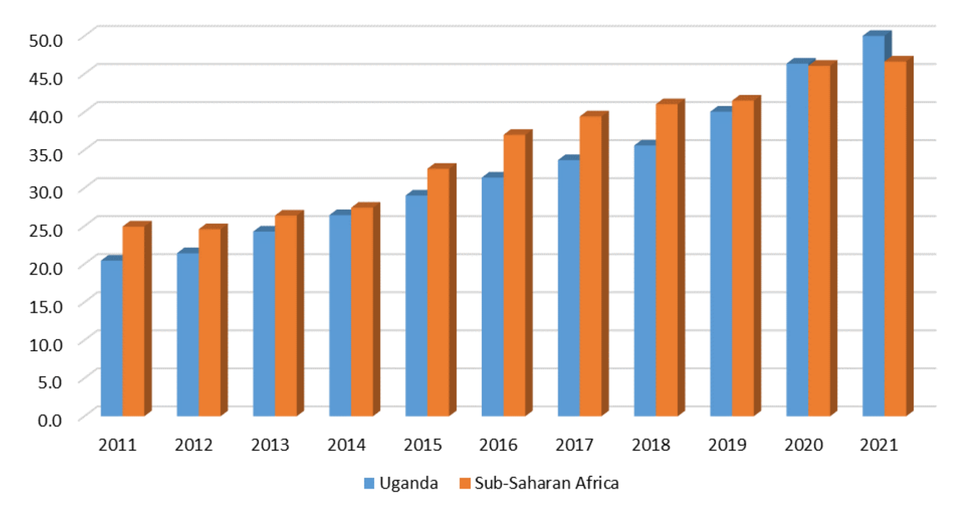
Source: MoFPED

4.1 Public Debt Trend and Related Analysis (Key Issues)

As of end of December 2019, total Public debt stood at USD 13.5 billion of which, nearly two thirds (USD 8.75 billion) are from external sources[27] but declining owing to increased appetite for domestic borrowing. Over, last couple of years the fiscal deficits have increased since 2011 (reaching 8.9% in FY 2019/20) leading to public debt as share of GDP to more than double over the period, and expected to cross the 50% of GDP. In FY 2019/20, new external loans equivalent to USD 1.5 trillion were approved by Parliament[28]. Figure 7 shows that Uganda debt accumulation over the 2011 to 2020 has been faster than the average for Sub Saharan Africa.

27 MOFPED, 2020. Report on Public Debt, Guarantees, Other Financial Liabilities and Grants for FY 2019/20 and the Medium Term Debt Management Strategy 2020/21 – 2023/24
28 MoFPED (2020). Report on Public Debt, Guarantees, other Financial Liabilities and Grants for FY 2019/20

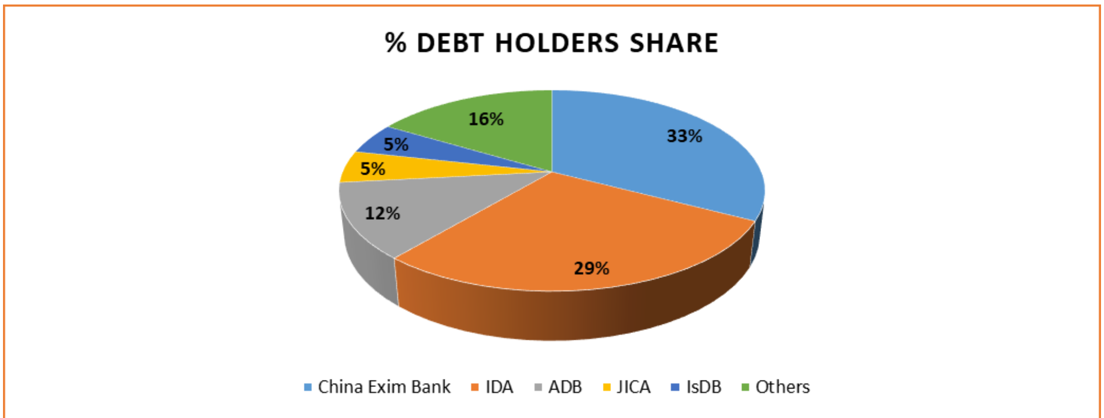
Figure 8: Public Debt Trend – Uganda Vs SSA (2011 to 2021)



Source: IMF Fiscal Monitor, 2020. Figures for 2020 and 2021 are Forecasts.

The recent upsurge in public debt is largely from non-traditional sources - the non-concessional terms. As shown in Figure 8, China Exim Bank now accounts for a third of the external debt, followed by World Bank (IDA) at 29%. In totality, however, external debt remains largely concessional, accounting for more than two thirds of the portfolio.

Figure 9: External Debt Composition



Source: MoFPED

As of May, 2020 domestic debt stood at UGX 18.8 trillion – a 17% increase from the June 2019 debt stock. On average, it has increased at annual rate of 15% since 2013/14, more than doubling over the period. This is also in part attributed by significant over run of the appropriated borrowing as shown by double digit % of variation in Table below.

Table 3: Domestic Debt (Appropriated Vs Outturn)

	2015/16	2016/17	2017/18	2018/19	2019/20
Appropriated (UGX Billion)	1,384	602	954	940	2,569.80
Outturn (UGX Billion)	1,854	229	1,505	2,470	2,743
% of Variation	34%	-62%	58%	163%	7%

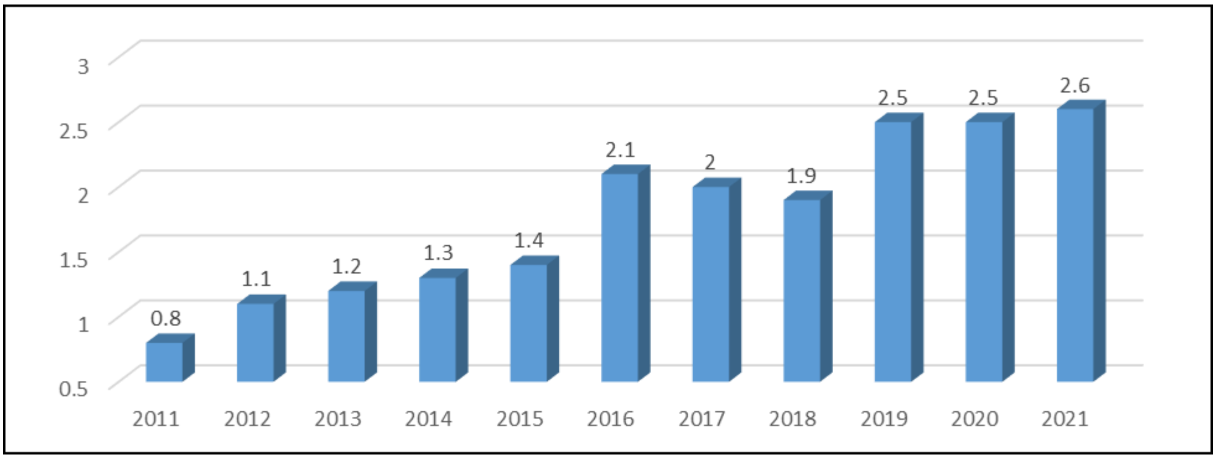
Source: MoFPED (appropriated) and BoU (outtturns).

Domestic debt rising rapidly with visible ponzi scheme and hieghtened refinancing risk Government planned domestic borrowing in FY 2020/21 (UGX 4.1 billion) is more than 100% of interest payments – indicative of Ponzi scheme, a trend observed over the last decade in – borrowing to pay debts. The dependence on domestic markets is even more pronounced with increased use of supplementary budgets – with an outturn of 8% of approved budget.

Despite Treasury bonds accounting for three quarters of the total domestic debt, Average Term to Maturity, for domestic debt in 2020 is estimated at 3.7 years – which is relatively still short term, hiegtening the risk of domestic refinancing risk The proportion of domestic debt maturing in one year falls below the recommended benchmark of 40%, and estimated at 38% at end of 2019. However, notably a mismatch in numbers, more than 40% of the outstanding domestic debt planned to be rolled over in FY 2020/21. The current practice of rolling over maturing debt, implies that Government faces a growing risk of being unable to refinance its maturing domestic debt in the near term in case creditor's decide to pull out. For the sixth year since the Public Financial Management Act 2015, that requires all debt (including domestic debt) to be appropriated by Parliament – the budget for FY 2020/21 will include nearly UGX 8 trillion for domestic debt rollover (re-contracting). This increases also will

While Uganda is still assessed as low debt stress, the near to medium term now faces heightened vulnerability/downside risks, arising from increased nature of non-concessional loans, rising liquidity, rollover and exchange risks[29]. Over the years, interest rate payments have increased rapidly, with the 2020 interest payments as share of GDP more than triple the share in 2011 (also see Figure 8).

Figure 10:Interest Payments As Share of GDP



Source: World Fiscal Monitor, April 2020

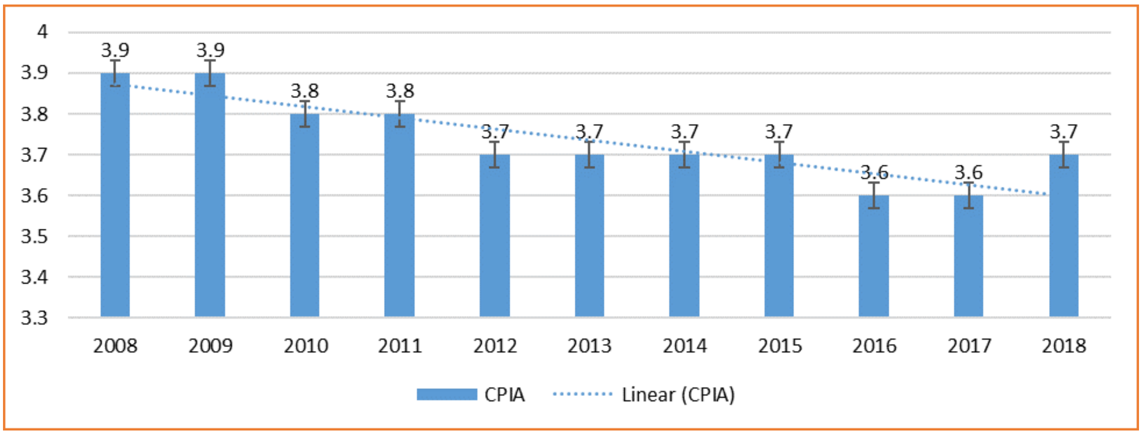
At end of 2019, 1 of 5 shillings' revenue collected is paid in interest payments compared to only 10% in 2013. This implies that Uganda falls in the debt service range of high risk of debt stress or debt burdened countries[30]. Compared to Sub- Saharan Africa average for interest payments as share of

29 BOU (2020). State of the Nation, March
30 IMF (2019). Uganda https://www.imf.org/~/media/Files/Publications/CR/2019/1UGAEA2019001.ashx

GDP, Uganda's share is three times more. Between 2011/12 and 2019/20, interest payments have increased annually by over 25%. Consequently, domestic interest payments as share of total interest payments has reduced marginally but still accounts for over 80% of the interest payments.

Currently, total debt service (interest and principal due) is about to 44.5% of domestic revenue and was expected pre-COVID19 forecasts in February 2020 indicated that it to average around 41.5 percent of government revenue over the next six years[31]. However, more recent data suggests that total debt service (interest and principal due) expected to average around 55 percent of government revenues over the next three years[32].This situation, means that the investment gap is likely to widen unless Uganda embarks on further debt accumulation which would be contrary to the Charter of Fiscal Responsibility that envisages fiscal adjustment in medium term. In recent years, the debt path has deviated from Charter implementation targets, forecast to surpass the 50% mark of GDP in 2021 despite the investment gap remaining persistent – falling short of planned investments. Over the last decade, Uganda the average Country Policy and Institutional Assessment (CPIA) score on debt policy has tilted downwards from strong performer to moderate performer – with overall CPIA score reducing from 3.9 in 2008 to 3.7 in 2018 (see Figure 9). The underperforming areas being under public sector in particular related to Transparency, Accountability and Corruption in Public Institutions.

Figure 11: CPIA (2008-2010) – Uganda Rating



Source: World Bank data http://datatopics.worldbank.org/cpia/country/uganda

4.2 Exclusion from Debt Sustainability.

Domestic arrears on the rise remaining at over 3% of GDP, and only proportion is verified and validated. As at the end of June,2019, domestic arrears stood at UGX 4 trillion of which 85% were verified and only 65% of the verified were valid. However, in FY 2019/20 – the expected budget expenditure for arrears was only UGX 300 billion are only 11% of the total outstanding arrears as end of June 2019 (also see Table 4). The trend continues, despite Section 13(10) (a) (iv) of the Public Finance Management Act, 2015 (as amended) defines an annual budget as the financing estimates for the financial year to which the budget relates, including a plan for Government debt and any other financial liabilities for the financial year to which the annual budget relates. Additionally, Government has no arrears clearance strategy in place. Historical trend shows that there is continued growth in domestic arrears despite annual provisions to clear the arrears implying that the fiscal indiscipline of commitments beyond the commitment control system.

31 World Bank (2020a). http://documents1.worldbank.org/curated/en/571011581515307951/pdf/Uganda-Economic-Update-14th-Edition-Strengthening-Social-Protection-to-Reduce-Vulnerability-and-Promote-Inclusive-Growth.pdf
32 World Bank (2020b). 15th Uganda Economic Update.

Table 4: Domestic Arrears

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Stock of domestic arrears (bn)	1,434	1,390	2,701	2,908*	3,255**	4,010***
% growth of arrears		-3	94	8	11	23
Arrears/GDP (%)	2.0	1.8	3.2	3.2	3.3	3.6
Arrears expenditure % of GDP	0.1	0.3	0.1	0.1	0.2	0.3

*Source: MOFPED Strategic Plan 2016 – 2021; OAG report FY 2016/17. Note: * 79% (UGX 2,284 bn) is for arrears payable and 21% for pension (UGX 623 bn). OAG underscores that UGX.27.8 billion was not properly supported with adequate documentation to confirm delivery of the goods and/or services. ** UGX 2,567,4 bn for arrears payable. ***UGX 3,482.10 billion was verified, and only 65% were considered valid.*

Additionally, other exclusions in DSA are contingent liabilities including the PPP stock estimated over 2% of GDP[33]. Also debt owed to state owned corporations of 8% of GDP is excluded. In accordance to MoFPED, as at June 2019, the stock of Debt (Direct domestic and External, plus on-lent) of public Corporations/ state owned enterprises (SOEs) and Extra Budgetary Units (EBUs) amounted to UGX 9,101 Billion (USD 2.49 Billion), which is a 13.7% increase from UGX 8,009 Billion as at end June 2018. Again, like public debt, the annualized growth has been over and above the growth of the economy, signifying long term risks of meeting the planned obligations. Growth is a proxy for effective demand and economy's income.

5 COVID19 and Potential Impact on Public Debt Sustainability Parameters.

COVID19 and the vivid downside effect on economic activity is expected to increase fiscal pressure and further narrow the fiscal space – increasing debt sustainability risks[34]. As also documented in the NDP III, COVID19 will tilt debt risks to the down side[35].

5.1 Debt Sustainability Indicators and Risks

The Debt sustainability is premised on key parameters related to revenue, growth dividends, fiscal adjustment and exports. The underlying assumption also is that while Uganda's fiscal policy (budget) will remain expansionary in the short term owing largely to the large infrastructure and oil investments and now COVID19 shock mitigation, it is expected that fiscal deficit will narrow to 3% of the approved budget in line with agreed Charter of Fiscal responsibility. This also reflects the expected development (debt) needs of about 10% of GDP. However, over the last decade, spates of deviation of the agreed targets in the debt sustainability frameworks (of 2013, 2016 and 2019). Thereby making the charter of fiscal responsibility not an effective anchor even in the short term for fiscal policy[36]. The realities of the fiscal adjustment in near term are suspect given the ambitious projects in the NDPIII. Experience has also demonstrated that non NDP projects were implemented in both NDP 1 and 2 and of sizeable magnitude including but not limited to the re-establishment of the Uganda Airlines. Increasingly a number of Africa nations (about 20% of SSA countries) are already at risk of high debt stress or debt burdened (see Table 5), which points to the likelihood of muted fiscal adjustment in the medium term. In short term, the risks are pronounced also due to COVID impact.

33 World Bank (2020)
34 UN (2020). Debt and COVID-19: A Global Response in Solidarity. https://in.one.un.org/wp-content/uploads/2020/06/un_policy_brief_on_debt_relief_and_covid_april_2020.pdf

35
36 IMF (2019)

Table 5: Debt Relief and High Debt Risk/In distress African Nations

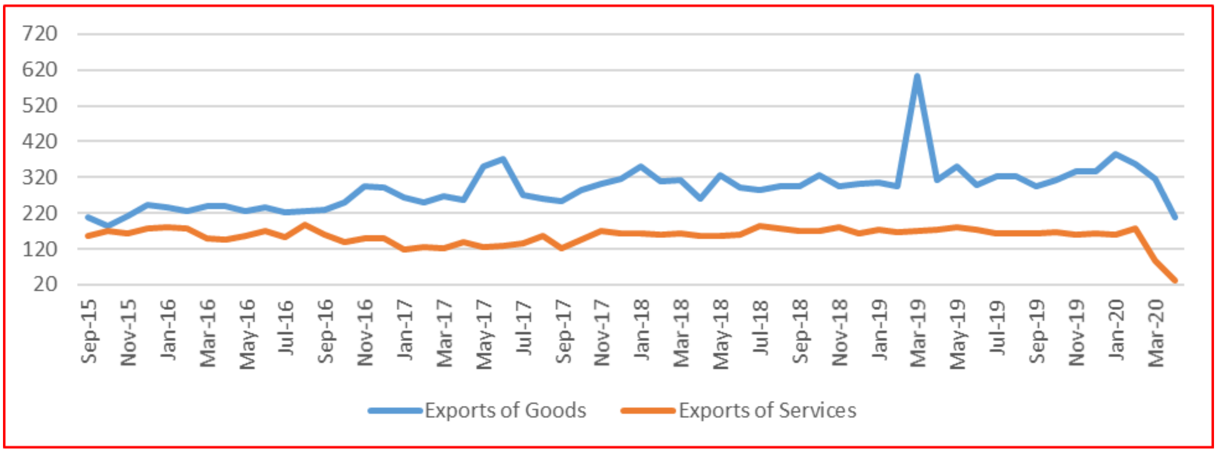
Debt Relief (2020)	In distress and High risk*
Benin	Burundi (Dec 2018) -high risk
Burkina Faso	Cabo Verde (Nov. 2017) -high risk
Central African Republic	Cameroon (July 2017) -high risk
Chad	Central African Rep. (Dec 2017)-high risk
Comoros	Chad (Aug. 2017) - Distress
Congo, D.R.	Djibouti (April 2017) -high risk
The Gambia	Eritrea (Jan. 2019) - Distress
Guinea	Ethiopia (Jan. 2019) -high risk
Guinea-Bissau	Gambia (Jan. 2019) - Distress
Liberia	Mauritania (Dec. 2017) --high risk
Madagascar	Mozambique (Mar. 2018)- Distress
Malawi	São Tomé and Príncipe (Dec. 2018) - Distress
Mali	Somalia (Dec. 2017) - Distress
Mozambique	South Sudan (Mar. 2017) - Distress
Niger	Sudan (Dec. 2017) - Distress
Rwanda	Zambia (Oct. 2017) - Distress
São Tomé and Príncipe	Zimbabwe (Jul.2017) – Distress
Sierra Leone	
Togo	

***Note:** COVID19 vulnerability: -World Bank Debt Sustainability Analysis with high vulnerability if country is in debt distress or at high risk of debt distress. In bold, high debt stress or debt burden but also benefited from Debt relief in 2020.

Growth prospects have dwindled substantially, with growth-interest rate differential tilting to the downside. Uganda economy has been characterized by output gaps with growth being lower than projections in both NDP1 and NDP II as well below the historical average. COVID19 as aforementioned has heightened downside risks that materialize in lower growth. Growth is forecast to reduce to 3.5% by GoU in 2020 and subdued recovery in 2021. This implies that the negative growth – interest rate deferential is expected to widen – further exacerbating the prospects of growth dividends to meet debt obligations. The interest-rate-to-growth differential is one of the main driver of prudent public debt dynamics and is favorable when positive, implying growth as proxy for economic activity generates income proceeds sufficient to meeting the obligations (interest payments). The higher interest rates imply higher interest payments to service government debt so adversely influencing debt dynamics, whereas higher nominal GDP growth will tend to lower the debt-to-GDP ratio by increasing the denominator. The differential is also likely to rise in the future owing to tight global conditions, heightened domestic risks and increased debt vulnerability. As aforementioned, growth risks are pronounced as does uncertainty in terms of recovery. Arguably, the growth prospects to remain below full potential in the medium term. While the IMF uses 3.3% in FY 2020 as growth variable in DSA, our own estimates suggest that growth is likely to negative in 2020 with prospects remaining muted in 2021.

COVID19 is increasing external indebtedness risks encapsulated in dwindling export revenues, tourism receipts, foreign currency reserves and exchange rate risks all in the context of open capital accounts. Foreign receipts on inflows to deteriorate significantly. Exports are critical for debt sustainability, owing to fact they are main source of foreign currency needed for subsequent payment of foreign currency obligations. BoU statistics indicate that monthly exports of goods since February have been on the decline, reaching the lowest level of USD 200 million in April 2020 (See Figure 10) and expected to remain subdued over the year and in 2021. Similar nose dive trend is witnessed with exports of services. Exports forecast to decline by 13 percent in FY2019/20, and 19 percent in FY2020/21[37]. Debt service ratio relative to export of Goods and services (also consistent with SDG 17.4.1) are imperative in a country's debt sustainability. In part it reflects a government's ability to meet external creditor claims on the public sector through export revenues. An increase of this ratio is expected due to aforementioned decline in export earnings, which heightens the risks of higher debt servicing costs. With exports expected to remain subdued in the near to medium term, the risks are pronounced. A persistent deterioration of this ratio signals an inability to generate enough foreign exchange income to meet external creditor obligations on a country's debt, and thus potential debt distress in the absence of multilateral support or effective sovereign debt restructuring[38].

Figure 12: Monthly Exports (USD Million)

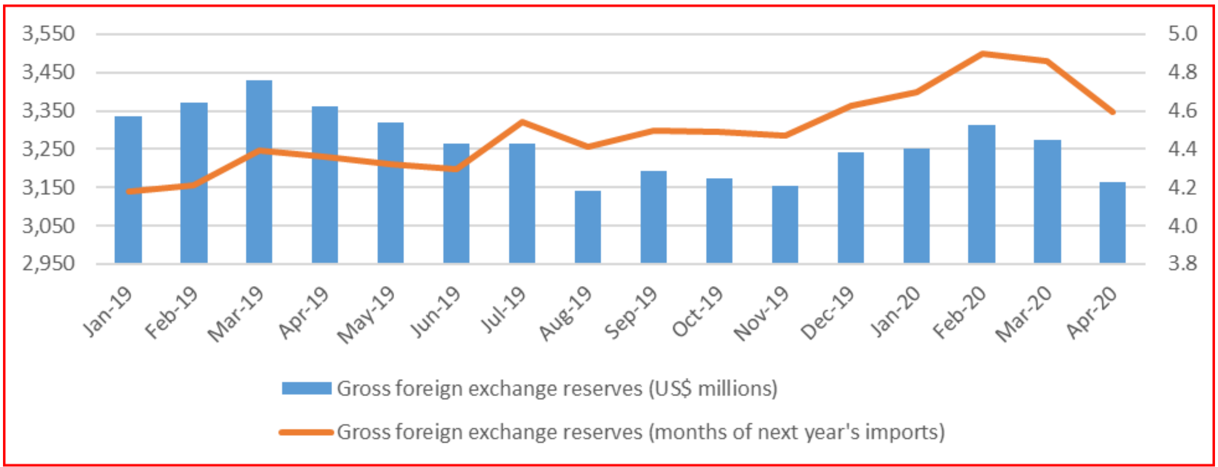


Source: BoU

Tourism, a major source of foreign exchange earnings is in limbo, owing to Uganda closure of airports and border for travelers (since Mid-March 2020) and travel restriction around the world. Foreign tourism demand is near zero, and uncertainty prevails on when it would be restored to full potential. This year alone, they tourist receipts are expected to half in both 2020 and 2021[39]. Remittances are forecast to also decline by over 40% in 2020 and 50% in 2021 reaching 2% of GDP. And a decline in this significant inflow of foreign currency will likely increase economic, fiscal, and social pressures on government, which was already struggling to cope even in normal times. Foreign Direct Investments are also expected to half in 2020 and in 2021. Consequently, the decline in foreign earnings coupled with capital outflows increased external vulnerabilities, that have materialized in both exchange rate volatility (weakening of domestic currency), particularly in March 2020 and increased pressure on foreign exchange reserves. A case in point, the UGX has depreciated by 3% (UGX 105) since January 2020, which implies an additional increment of external debt in Uganda shillings of UGX 893 billion (USD 8.5 billion times 105) – equivalent to 4% of domestic revenue or two thirds of the Agriculture sector budget in FY 2020/21. The reserves have declined (also in absolute terms) but still remain at modest level in excess of 4.5 months of future imports (see Figure 11). However, this is also due to fact that future imports will remain likely subdued.

37 IMF (2020). https://www.imf.org/en/Publications/CR/Issues/2020/05/14/Uganda-Request-for-Disbursement-under-the-Rapid-Credit-Facility-Press-Release-Staff-Report-49427
38 https://sdgpulse.unctad.org/debt-sustainability/
39 IMF (2020).

Figure 13: Monthly Exports (USD Million)



Source: BoU

Domestic Revenue gaps predominate and expected to widen due to COVID19. Revenue to GDP to remain subdued in the near term. Uganda has added 4 percentage points of Tax to GDP since 2012 (see Figure 12). The progress is commendable but still revenue gaps predominate, estimated at 5% of GDP in the medium term. In the recent years, domestic revenue has fallen short of the 0.5% of GDP increase stipulated in the Medium term strategy. Even at half year in 2019/20 (also pre- COVID19), revenue shortfalls of 0.4 percent of annualized GDP[40]. The World Bank estimates revenue to GDP in 2019/20 of 1%ge point less than outturn less than in 2018/19[41]. However, it is expected that weaker economic activity and growth manifests in poor performance of fiscal revenues. The result of this lower than expected growth in 2020 will have a direct impact on the revenues raised in order to fund its next fiscal period. As result of COVID19, Tax revenue short falls are envisaged by URA at UGX 3 trillion (approximately 3% of GDP) in FY 2019-2020[42]. This is also consistent with BoU underpinning on Uganda's public finance being highly susceptible to the COVID19 shock, consequently, likely to increase Uganda's vulnerability to debt stress[43]. Recent World Bank estimates indicate that revenue to GDP to remain below 13.5%, and this is just about the minimal level to meet basic needs[44]. Debt sustainability ratio in total debt service to Domestic Revenue is likely to increase, signifying increased vulnerability. The short falls, are attributed both from subdued domestic and international activity (exports and also imports). In debt sustainability, domestic revenue remains the main anchor for stability and generation of buffer to meet required obligations and the necessary development expenditure.

40 Ibid IMF (2020).

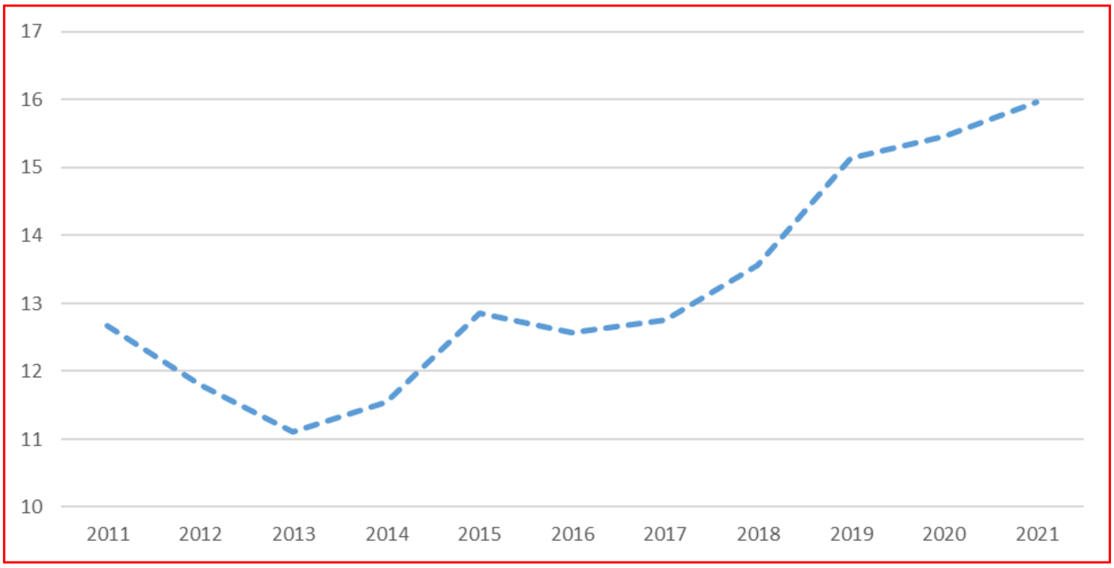
41 World Bank (2020). 15th Uganda Economic update

42 URA (2020). Tax Amendments FY 2020/21

43 BOU (2020). State of the economy, March.

44 World Bank (2020). 15th Uganda Economic update.

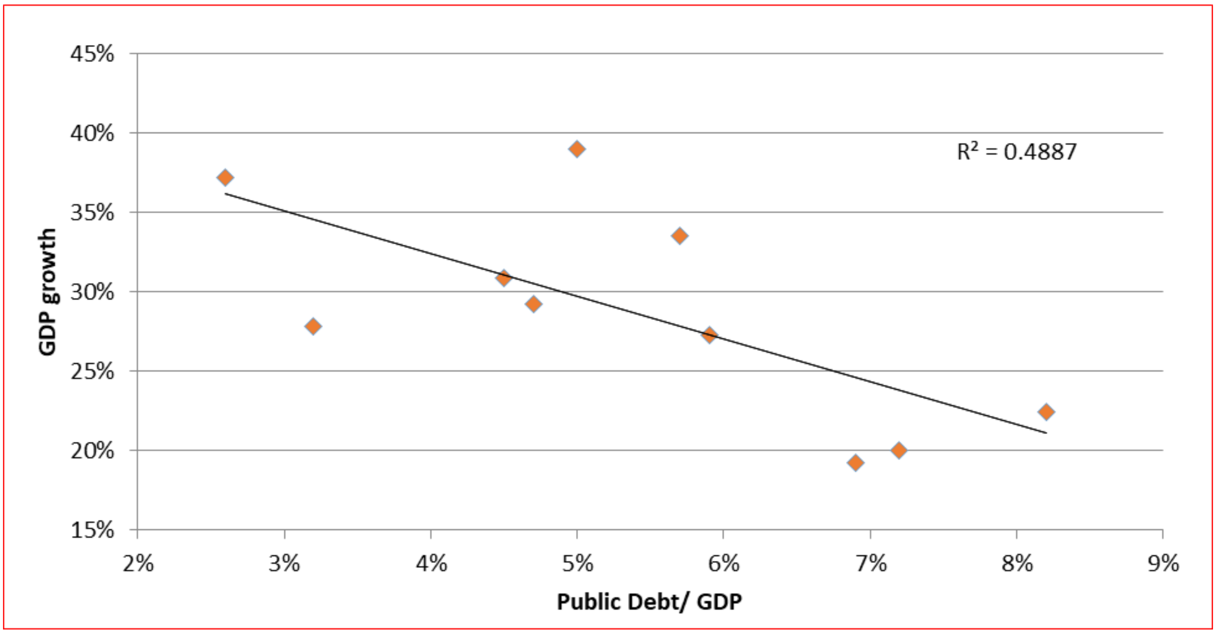
Figure 14: Domestic Revenue (% share of GDP)



Source: IMF Fiscal Monitor

Public debt has not led to optimal growth dividends and capital accumulation. The weak public debt and growth nexus is found in the incremental capital ratio estimated by World the World Bank (2016) findings that for every dollar invested in the development of public capital stock, it generates only 0.8 dollars' worth of economic activity[45]. Public Investment efficiency in Uganda currently stands at between 0.33 and 0.36, implying that over 60% of the resources invested in public projects go to waste. Consequently, US$ 300M is lost annually due to wasteful expenditure. The results suggest that Uganda is accumulating public debt faster than the rate of capital accumulation. This is also encapsulated in the negative correlation (-0.7) between public debt and growth (as shown in Figure 13).

Figure 15: Correlation between Public Debt and Growth (2008 and 2020)



45 World bank Country economic update 2016: Uganda Economic Update; from smart budgets to smart returns: Unleashing the power of public investment management, World Bank, April 2016

Authors Calculations based on WEO database

Irregularities in acquiring of some of the loans and non-adherence to the due process, as also identified by Office of the Auditor General reports (See Box 1)

Box 1: Contravention of the Loan Agreement

There were a number of contraventions to the Government Concession Loan Agreement between GoU and EXIM Bank of China for the upgrading and expansion of the Entebbe International Airport. These include: failure to open the Repayment Reserve Account; failure to bank revenue collections on Escrow accounts; failure to comply with the budgeting requirements for funds on Escrow accounts; and delays in project implementation leading to increase in commitment fees.

Extract from: Auditor General's report FY 2018/19 [46]

It remains imperative to expanding productive capacities in the public and private sectors as well as matching loans to the available capacity to invest.

Uganda's credit rating Credit rating has been downgraded over the years. Standard and poor re-affirmed Uganda's credit rating at B with a stable outlook. In Jun 24 2020; Fitch affirmed Uganda's credit rating at B+ and with a stable outlook. For credit ratings - See Table 6. The rating is attributed to a stable macro-economic environment, expected recovery of growth and medium term risks. Uganda's debt to GDP of less than 40% is less than the B median category peers and the fiscal deficit is consistent with the B median. However, Uganda's debt to tax ratio of over 260% is above the B median for Africa of 198%. Also compared with the formal economy which is only 55% of the national economy, public debt accounts for 77% of formal sector, thus indicating a heightened risk. Uganda also scores unfavourably to the B median peers on the World Bank's Governance Indicators.

Table 6: Credit Rating

Credit rating						
Country	S&P		Moody's		Fitch	
Kenya	B+	Stable	B1	Stable	B+	Negative
Rwanda	B	Stable	B2	Stable	B+	Stable
Uganda	B	Stable	B1	Negative	B+	Stable

Notes:

- AAA to A-: Very strong to strong capacity to meet its financial commitments. The AAA rated are Austria, Australia, Canada, Denmark, Germany, Hong Kong, Luxembourg, Netherlands, Norway, Singapore, Sweden, and Switzerland.
- BBB+ to BBB-: adequate capacity to meet its financial commitments. Examples of BBB+ rating; China, Iceland and India
- BB+ to BB-: Has capacity to meet its financial commitments and less vulnerable in in the near term but with modest uncertainty and risks. Examples include Azerbaijan, Ivory Coast and Jordan
- B+ to B-: Same as BB rating but with intensified uncertainty and vulnerability in medium term. Examples include Zambia, Sri Lanka and Senegal.
- CCC to C: Intensified vulnerability, and some risk of default. These are Argentina, Mozambique and Ukraine.
- D: Failed to pay one or more of its financial obligations (rated or unrated) when it became due. None included

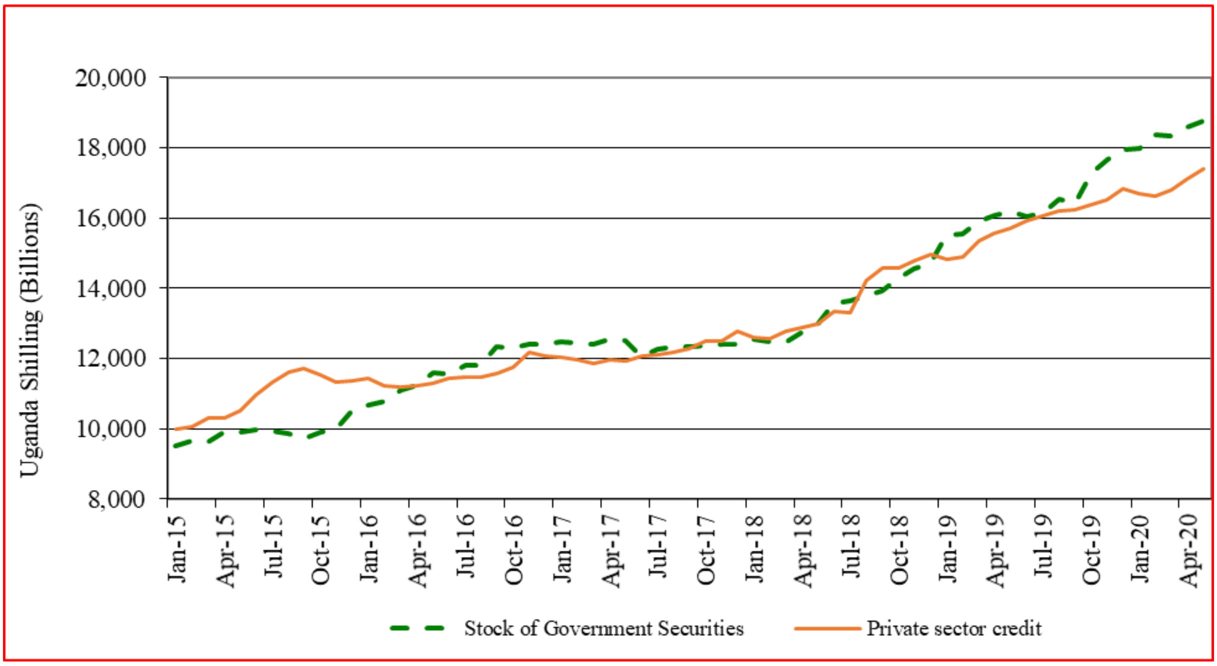
46 http://www.oag.go.ug/wp-content/uploads/2020/01/AG-Consolidated-Report-2019.pdf

6 Corporate Debt and COVID 19

COVID19 and the associated ensuing global tight conditions and subdued aggregate demand are expected to increase financial vulnerabilities and heightened credit risk. The situation is expected to increase corporate stress. This is also exhibited in recent Central Bank Monetary statement and actions[47]

As of May 2020, private sector credit stood at UGX 17.4 trillion compared to the total outstanding domestic debt of UGX 18.8 trillion (see Figure 14). This means that the Domestic debt stock/Private Sector Credit (PSC) is over the 100%, indicative that government borrowing may be crowding out the provision of credit to the private sector. The Government's own target is Domestic debt stock/Private Sector Credit (PSC) of 75%.

Figure 16: Private sector credit and Public Domestic Debt

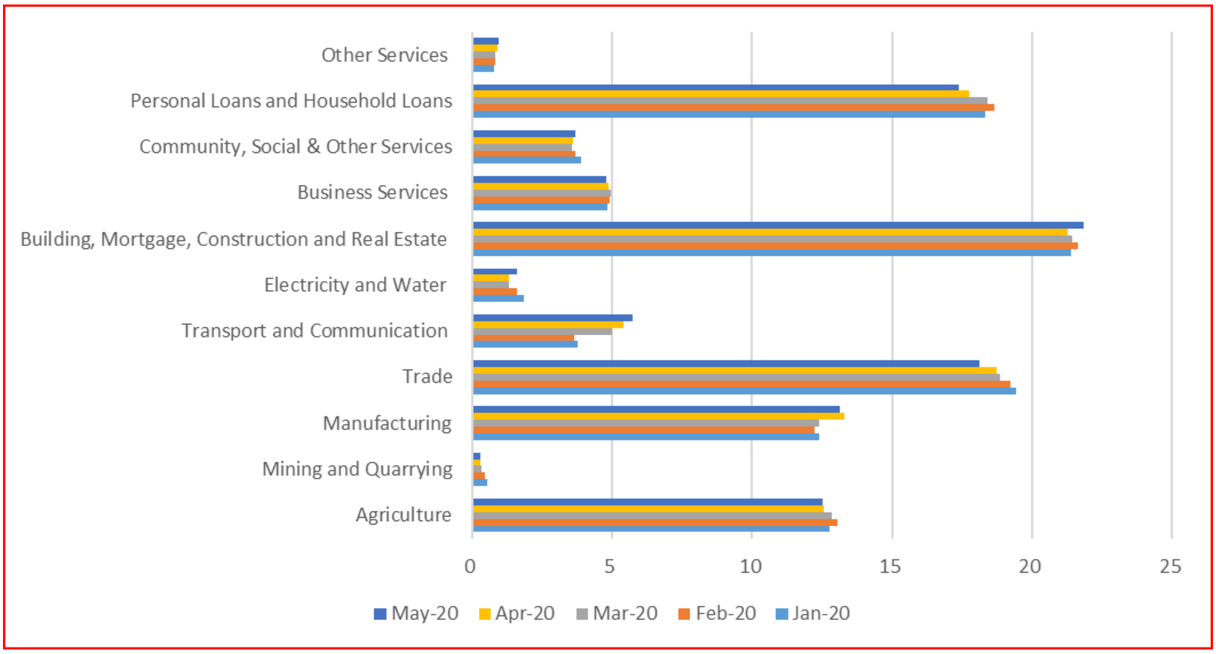


Source Bank of Uganda.

Overall Bank lending to private sector continued to increase 2020, with total bank lending reaching UGX 15.4 trillion, increasing by 3% in the first five months of 2020, slower than the 4.3 percent increase over the prior five months. The construction sector (building, mortgage, construction and real estate) continued to account for largest share of the bank credit to the private sector while also enduring an increase in credit. While it is followed by both Trade, and personal and household loans, the two endured a decline over the first five months of 2020(see Figure 15).

47 Bou https://www.bou.or.ug/bou/bouwebsite/bouwebsitecontent/MonetaryPolicy/Monetary_Policy_Statements/Monetary-Policy-Statement-for-June-2020.pdf

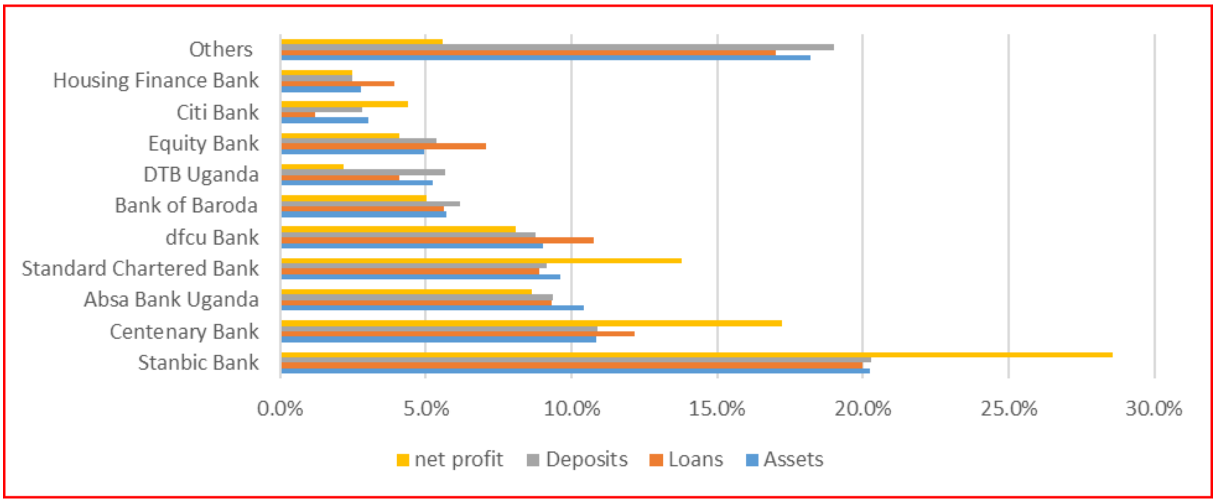
Figure 17: Composition of Bank Lending



Source: BoU

The banking portfolio not only accounts of 94% of the total financial sector lending but also the bank lending is dominated by top banks, with top 10 accounting for 85% of the loan portfolio by end of 2019. The same trend is observed with assets and profits after taxes and deposits as shown in Figure 16. Overall total assets for the banking sector increased by 2.3% reaching UGX 33.6 in quarter 1 of 2020 but pace of increase was much lower than quarter 4 of 2019. Similarly, Bank deposits increased by 3.1 percent over the quarter ended March 2020 to UGX .23.6 trillion, slower than 6.1 percent growth registered over the quarter ended December 2019.Foreign currency and shilling denominated deposits rose by 4.2 percent and 2.4 percent, respectively[48].

Figure 18: Bank share (Assets, Loans, Deposits and Net Profits) –end of 2019

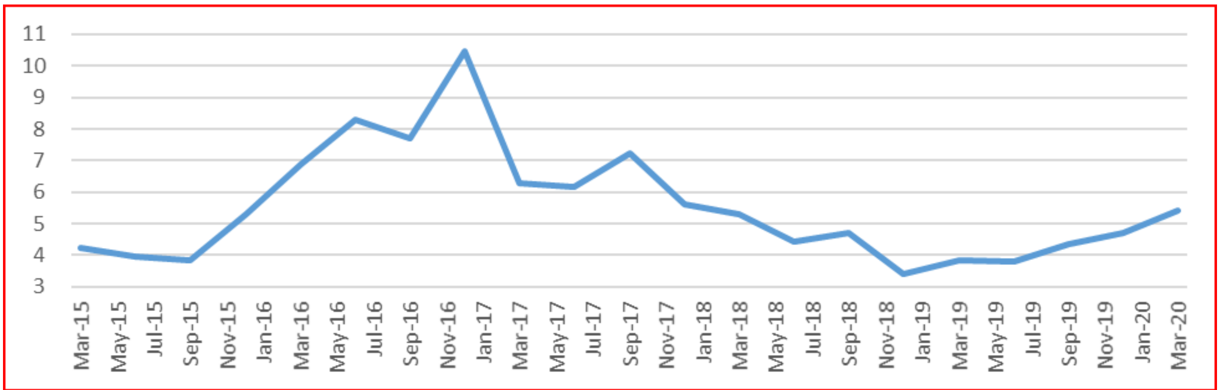


Source: Audited financial statements of banks

48 BoU (2020). Financial Stability Review, end March 2020

However, also the level of nonperforming loans (a measure of asset quality) has increased since December 2018 (at 3.4%) reaching 5.4% in March 2020 (see Figure 17). However, the rise is largely by foreign currency loans (34%) compared to local currency loans (7%)49.

Figure 19: Non performing loans as share of Total Gross Loans



Source: BoU

Despite the rise on NPLs across all banks, BoU still assesses commercial banks to have liquidity buffers and well capitalized to mitigate the merging risks. Imperatively, the Domestic Systemically Important Banks (DSIBs) i.e. Stanbic, Standard Chartered, ABSA, and Centenary bank remained profitable and held capital and liquidity buffers.

However, the COVID19 manifesting in bankruptcies on household and firms, the Center Bank has put in place measures ranging from allowing restructuring of loans and debt relief by banks to its creditors, imposed restrictions on payment of dividends, Set a limit of 85% on the Loan to Value Ratio for new residential mortgage loans and loans for land purchase. Further measures expected should second round effects of the COVID19 manifest.

Even pre- COVID19, Uganda's credit penetration remained low compared to other countries. Private sector credit to GDP stood at only 12% of GDP which is considerably lower average for LICs and SSA (estimated at over 20%) and emerging economies that higher than 40%. Even the limited share penetration is shared amongst the few – as shown by numbers on the Credit Reference Bureau data. The cumulative number of cards stood 1,709,521 by June 2019[50]. The interest rate structure remains high relative to region but also Central Bank rate at low rates remains arguably ineffective as BoU statistics indicate that the spread between lending rates and CBR tends to widen when CBR is in single digits indicative of structural rigidity of banks to adhere to policy rates.

49 BoU 2020. Quarterly ....
50 BoU (2019). Annual Report 2019.

7 Policy Options

Overall, the risks to Uganda's debt are pronounced, with increasing debt service obligations already at 45% of domestic revenue, crowding up space for development investment. This realistically means Uganda's debt path is likely to remain linear skewing the odds of Uganda tipping into debt distress like already 20% of African Nations. It is therefore imperative that while Uganda addresses the buffers of debt sustainability while waiting also on oil proceeds, it is key that the following short to long term measures are pursued.

- Prospects of debt relief. Uganda like many developing countries needs fiscal breathing space that could be leveraged by the ongoing initiatives by G20 debt relief in April 2020 that agreed official bilateral creditors to offer a temporary suspension of principal and interest payments due from May-December 2020. This is suspension but not cancellation. Uganda as indicated in the formal documents with IMF, intends to apply for Debt relief. It has US$94 million worth of debt service falling due could benefit from the moratorium and contribute to reducing the financing gap resulting from the Covid-related crisis. With uncertainty related to COVID19 containment and effect on the economies, it is imperative to push for G20 extension of the debt payment suspension beyond December 2020 but also extended to private creditors. However, collaboratively at regional level, dialogue for debt cancellation and restructuring should be pushed for. This is our continued call but also should be linked to Government reforms to avoid cycle of debt cancellations.

- Global initiatives encouraging debt sustainability should be monitored and supported. This includes a potential framework for restructuring sovereign debt, improving debt sustainability analysis, encouraging responsible behavior on the part of the lenders.

- Debt transparency, Governance and Bankability. The heightened accumulation of COVID19 loans and grants must be handled with utmost transparency. We re-iterate the model of on Extractive Industries Transparency Initiative Model where Governments declare what they receive and supporters declare. Full disclosure ensures effective follow up by different stakeholders and demand for accountability. The precedence exhibited so far falls short of the desired transparency. There is no full consolidated list of on budget and off budget. Additionally, there is need ensure that loans are matched to need and economic return. This will mitigate the rising trend of commitment fees. Overall, compilation of State owned enterprise debt, contingent liabilities and reconciliation of arrears is imperative and a must.

- Focused attention to address the ability to invest. Important to continue focused reform on Public Investment Management ecosystem to ensure that the borrowed funds meet the intended role. Public investment quality needs to be improved to make sure that return on investment is higher than debt servicing costs and the investment will increase and sustain economic growth. Political economy and governance issues around investment, such as investment selection, procurement practices, transparency and corruption, should be addressed in high level dialogue This also requires political will as it has been on the analytical front for long. To effectively yield results, enforcement and punitive measures against errant cadres is critical.

- Prudent Macroeconomic policies in form of fiscal anchor and rules and sound monetary and exchange rate frameworks are essential to mitigate the economic shocks and pass through effects through exchange rate misalignments. Enforcement of rules is key to fiscal sustainability as much as there is pressure in the short run to overrun these. Reprioritizing budget spending to ensure manageable expansion of fiscal deficits is critical in the short term. Scaled-up support to domestic revenue mobilization and fight against illicit financial flows, as we committed in Addis, will create an additional, more sustainable source of financing for developing countries, thereby reducing dependence on external financing.

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