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Uganda: Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Staff Report; Staff Statement; and a Press Release on the Executive Board Discussion

In the context of the request for a three-year arrangement under the Poverty Reduction and Growth Facility, the following documents have been released and are included in this package:

- the staff report for the request for a three-year arrangement under the Poverty Reduction and Growth Facility, prepared by a staff team of the IMF, following discussions that ended on **June 28, 2002**, with the officials of Uganda on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on August 28, 2002.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a staff statement of **September 13, 2002** updating information on recent developments.

- a Press Release summarizing the **views of the Executive Board as expressed during its September 13, 2002 discussion** of the staff report that completed the review.

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

Letter of Intent sent to the IMF by the authorities of Uganda
Memorandum of Economic and Financial Policies by the authorities of Uganda

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to Publicationpolicy@imf.org.

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UGANDA

Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility

Prepared by the African Department

(In consultation with the Fiscal Affairs, Legal, Monetary and Exchange Affairs, Policy Development and Review, Statistics, and Treasurer's Departments)

Approved by Jürgen Reitmaier and Michael Hadjimichael

August 28, 2002

Contents

		Page
Executive Summary		5
I.	Introduction	7
II.	Performance Under the Last Fund-Supported Program and Policy Implementation—Lessons from Previous Program	8
	A. Areas of Strong Performance	8
	B. Areas of Weak Performance	9
	C. Policy Implementation Lessons	10
III.	Recent Economic Developments	11
IV.	Policy Discussions	21
	A. Medium-Term Macroeconomic Framework	23
	B. Economic and Financial Program for 2002/03	23
	Real sector issues	23
	Fiscal policy	24
	Decentralization	27
	Monetary and financial sector issues	27
	External sector policies	29
V.	Medium-Term Prospects and Capacity to Repay the Fund	30
VI.	Program Monitoring	32
VII.	Statistical Issues	34

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VIII. Risks to the Program 35

IX. Staff Appraisal 36

Boxes
1. Budget Outcomes Versus Budget Intentions 1999/2000–2001/02 13
2. Poverty Action Fund (PAF) Expenditures, 1997/98–2004/05 14
3. Poverty and Social Impact Analysis 22
4. Expenditure Reduction, Budget Management, and Tax Administration Measures Under the 2002/03 Program 24
5. Expected Revenue from the Tax Policy Measures in the 2002/03 Budget 25
6. Structural Conditionality in World Bank- and IMF-Supported Programs for 2002/03 33

Figures
1. Real GDP Growth, 1997/98–2004/05 8
2. Fiscal Indicators, 1997/98–2004/05 9
3. Savings and Investment, 1997/98– 2004/05 10
4. Revenue, 1997/98–2004/05 10
5. Average Inflation, 1997/98–2001/02 11
6. Central Government Expenditures, 1997/98–2004/05 12
7. Treasury Bill Market Indicators, 2001/02 16
8. Interest Rate Transmission, 2000/01–2001/02 16
9. Nominal Bilateral Exchange Rate and Bank of Uganda Foreign Exchange Sales and Purchases, 2000/01–2001/02 17
10. Nominal and Real Effective Exchange Rates, January 1997–April 2002 17
11. Selected Banking Sector Information, March 1999–2002 18
12 External Sector Indicators, 1997/98–2004/05 19

Tables
1. Selected Economic and Financial Indicators, 1997/98–2004/05 39
2. Balance of Payments, 1997/98–2004/05 40
3. Monetary Survey, 1997/98–2002/03 41
4. Fiscal Operations of the Central Government, 1997/98–2004/05 42
5. Fiscal Revenues of the Central Government, 1997/98–2004/05 43
6. Functional Classification of Domestic Budgetary Expenditures, 1997/98–2004/05 44
7. Budgeted Domestic Budgetary Expenditures and Outturns, 1999/2000–2001/02 45
8. Selected Banking Sector Information, December 2000–March 2002 46
9. Medium-Term Selected Financial and Economic Indicators, 2001/02–2006/07 47
10. Projected Payments to the Fund as of June 30, 2002 48
11. Low Growth Scenario, Medium-Term Selected Financial and Economic Indicators, 2001/02–2006/07 49
12. Schedule of Purchases Under the Proposed PRGF Arrangement 50

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Appendices

I. Letter of Intent 51
Attachment I: Memorandum of Economic and Financial Policies of the Government of Uganda for 2002–04 53
Attachment II: Technical Memorandum of Understanding 67
II. Relations with the Fund 74
III. Relations with the World Bank Group 79
IV. Statistical Issues 83
V. Social and Demographic Indicators 86

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BACKGROUND

- Uganda's previous arrangement with the Fund, a three-year arrangement under the ESAF (approved on November 10, 1997) that was converted in December 1999 to a PRGF arrangement, expired in March 2001.
- Since the expiration of the previous arrangement, the government of Uganda has continued to work closely with Fund staff in the design of its economic and financial policies and related structural issues. In addition, the Fund has provided technical assistance in the areas of public finance, banking supervision, monetary and exchange rate policies, and economic and financial statistics.
- Discussions for a new program that could be supported by a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) were initiated in May 2002 and concluded in June 2002.
- The staff team consisted of Mr. Kalinga (head), Mr. Caramazza, Mr. Chembe, Mr. Dunn, Ms. Sayek (all AFR), Mr. Tareq (PDR), Mr. Palomba (FAD), and Ms. Rondon (AFR, Assistant). Mr. Ouanes (MAE) worked closely with the team during the May 2002 mission on monetary and exchange rate policies, as well as on bank supervision issues. Mr. Mahler, the Fund's Senior Resident Representative in Uganda, also participated in the discussions.
- The mission held discussions with President Museveni; Mr. Ssendaula, the Minister of Finance, Planning and Economic Development; Mr. Tumusiime-Mutebile, Governor of the Bank of Uganda; and other senior officials. The staff also met with several members of parliament, as well as representatives of the donor and business communities, NGOs, and trade unions.
- In concluding the 2001 Article IV consultation and final review under the PRGF arrangement on March 26, 2001, Executive Directors commended the authorities for the continued implementation of prudent financial policies, which had helped to sustain strong economic growth, low inflation, and a comfortable level of foreign reserves in spite of a sharp deterioration in Uganda's terms of trade. They noted that this strong economic performance, combined with determined implementation of the poverty reduction strategy, had contributed to a substantial reduction in poverty; however, they were concerned that inequality had increased. Directors also expressed concern regarding weaknesses in local government budget management and project execution, expenditure management, and the fight against corruption, but welcomed the authorities' intentions to strengthen these areas. A mission will visit Kampala in October/November 2002 to hold discussions for the next Article IV consultation.
- The authorities' program outlined in the memorandum of economic and financial policies (MEFP), attached to the letter to the Managing Director dated August 26, 2002, is embedded in the Poverty Eradication Action Plan (PEAP), which was first elaborated in 1997 and revised in 2000. A summary of the 2000 PEAP served as Uganda's poverty reduction strategy paper (PRSP), which was endorsed by World Bank and Fund Directors in April 2000 as a basis for their concessional lending programs. Some policy issues identified in the authorities' 2002 Progress Report on the implementation of the PEAP/PRSP are also reflected in the MEFP. In their joint staff assessment of the 2002 PEAP/PRSP progress report (EBD/02/129; 8/26/02 and IDA/SecM2002-0366; 8/15/02), World Bank and Fund staffs have indicated that Uganda's efforts in the implementation of the strategy provide sufficient evidence for its continued commitment to poverty reduction, and that the strategy continues to provide a suitable basis for World Bank and Fund concessional assistance.

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Executive Summary

- Uganda has a good track record of implementing sound macroeconomic policies and far-reaching structural reforms. Moreover, under the Poverty Eradication Action Plan (PEAP), first published in 1997 and revised in 2000, the authorities have pursued a comprehensive strategy to reduce poverty, supported by substantial donor assistance. As a result, the economy achieved high real GDP growth rates over the past decade, and annual inflation was reduced to low single-digit rates. The incidence of poverty fell from 56 percent in 1992 to 35 percent in 2000.

- Despite the global economic slowdown and a further decline in the prices of its leading export commodities, the Ugandan economy performed relatively well in 2001/02 (July–June). Real GDP growth held steady at 5.7 percent, and underlying inflation declined to 3.4 percent. Owing mainly to a sharp drop in food crop prices, headline inflation was negative 1.8 percent. Although the target for the overall fiscal deficit, excluding grants, was met, relative to a lower-than-projected nominal GDP, the deficit increased somewhat (to 12.6 percent of GDP). Government revenues also increased relative to GDP. The deficit was largely financed by net donor inflows, which increased to 11.7 percent of GDP and supported increased expenditures on programs designed to reduce poverty. However, the necessary sterilization operations complicated monetary and exchange rate policies. Uganda's external position displayed some signs of strengthening, including solid growth in export volumes and rising international reserves, but external debt sustainability indicators deteriorated.

- Uganda has had trouble securing debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative from some of its creditors. Several commercial creditors and one official bilateral creditor have successfully sued the government in Ugandan courts for payment of claims against the government, including high interest charges (for a total of US$40 million).

- The program for 2002/03–2004/05, which could be supported by a new PRGF arrangement, aims to increase real GDP growth to about 6½ percent a year on average, while holding annual inflation at about 3½ percent. This baseline scenario is based on a major investment in the Bujagali hydro electricity project and a broad range of structural reforms to increase investor confidence and savings.

- The fiscal program places special attention on increasing government revenues, through measures in both tax policy and administration, and curbing nonessential expenditures to assure adequate financing of important programs to support economic growth and poverty reduction. Over the foreseeable future, however, Uganda will continue to rely heavily on donor assistance.

- Local governments play an important role in the donor-supported poverty reduction strategy. The program will emphasize reporting, monitoring, and accountability of local government operations to assure greater effectiveness of donor assistance.

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- Monetary and exchange rate policies will focus on maintaining stability in light of sizeable sterilization operations. The authorities will rely on market-based monetary instruments and will adhere to a flexible exchange rate policy.

- The program seeks to further strengthen the health of the financial sector through strict enforcement of banking regulations, passage and implementation of the new Financial Institutions Statute, and development of long-term instruments and institutions for financial intermediation.

- Uganda's external position is projected to improve under the program, which encompasses the authorities' initiative to diversify the export base and increase export earnings. The external debt sustainability situation is also expected to improve over the medium term.

- There are several risks to the successful implementation of the program, including delays to the Bujagali hydro electricity project; failure to terminate the granting of ad hoc investment incentives; failure to raise government revenues or cut nonessential spending on public administration; noncompliance with the HIPC Initiative by non-Paris Club creditors; failure to improve governance; and failure to improve the effectiveness of local government operations.

- With a strong and sustained commitment by the highest levels of government, there is a strong likelihood that these risks would be minimized and that the program would be successfully implemented.

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I. Introduction

1. In the attached letter (Attachment I of Appendix I), the Ugandan authorities request a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) in an amount equivalent to SDR 13.5 million (7.5 percent of quota). Seven disbursements are contemplated during the three-year period, with one disbursement of SDR 1.5 million (0.8 percent of quota) following the approval of the arrangement in September 2002 and six disbursements of SDR 2.0 million (1.1 percent of quota) in May and October of succeeding years, following satisfactory conclusion of the semiannual reviews under the program. The low access level takes into account Uganda's ample stock of international reserves and the projected availability of donor assistance on more concessional terms during the three-year program period. Fund assistance to Uganda could be augmented in the future in the event that the economic environment turns out to be worse than anticipated.

2. The authorities' request for a new PRGF arrangement is predicated upon a number of factors. First, notwithstanding the significant progress that Uganda has made in recent years in restoring financial stability, promoting strong economic growth, and reducing poverty, its medium-term macroeconomic prospects remain fragile. Large current account and fiscal deficits (before grants) are projected, which would narrow only gradually over the medium to long term. Accordingly, the maintenance of macroeconomic stability, as well as the implementation of the authorities' Poverty Eradication Action Plan (PEAP), will continue to depend on large disbursements of donor assistance. Present indications are that adequate donor assistance should be forthcoming to cover the projected financing needs if Uganda continues to pursue its poverty reduction program and strong policy reforms, addresses the major weaknesses in governance, and has in place a Fund-supported program. Second, Uganda has not yet built a critical mass of institutional and technical capability to implement, on a sustained basis, consistent policy reforms in the fiscal, monetary, and exchange rate areas. The building of such a capacity, as well as the sustained implementation of strong reforms, is essential to establishing credibility with foreign creditors. Third, Fund assistance in the areas of tax policy and administration will be needed to help Uganda raise its revenue effort from the current low level. Fourth, major improvements are needed in the areas of expenditure management and local government finances to minimize deviations between budget intentions and outcomes, and to improve the delivery of public services. Finally, in the period ahead, Uganda will need to foster an environment that is favorable to increased private investment, largely through sustained macroeconomic and financial sector stability, investments in infrastructure, and further improvements to the legal system and governance.

3. Accordingly, in view of the unfinished agenda of macroeconomic issues mentioned above and the important role of Fund-supported programs in the sustained implementation of structural reforms, as well as the complexity of the macroeconomic issues facing Uganda as it

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implements a large donor-funded poverty reduction program, the staff believes that a continued strong Fund presence will be helpful to Uganda and should be manifested in a new three-year PRGF arrangement.[1]

II. Performance Under the Last Fund-Supported Program and Policy Implementation—Lessons from Previous Program

A. Areas of Strong Performance

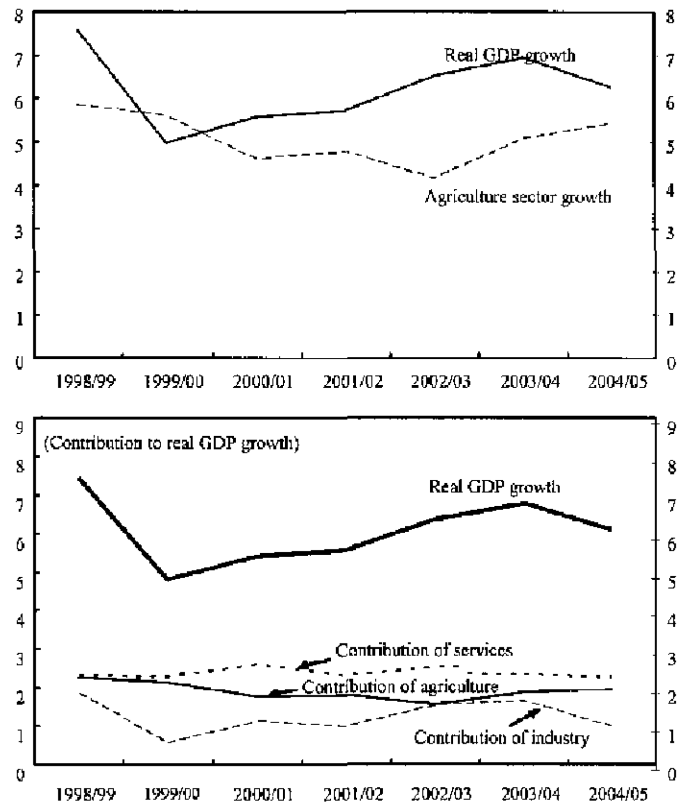
4. Strong performance was registered in the following areas during the last program period 1997–2001:

- The **incidence of poverty** fell markedly, with the proportion of the population below the poverty line declining from 56 percent in 1992 to 35 percent in 2000.

- Notwithstanding the sharp drop in the terms of trade, **relatively high growth rates were maintained**, with real GDP growth averaging 6.0 percent a year in the period 1998/99–2001/02 (July–June) (Figure 1 and Table 1). Most of the key economic sectors registered impressive gains.

- **Stable macroeconomic conditions** were maintained; the average year-on-year headline inflation rate, including food crops, was held to 4.1 percent per annum, below the 5 percent program target. The overall balance of payments position remained strong.

Figure 1. Uganda: Real GDP Growth, 1998/99-2004/05 1/
(Annual percentage change)



Source: Ugandan authorities.
1/ Fiscal year begins in July.

[1] Over the past year, several discussions among Fund staff and with the authorities were needed to determine the necessity and focus of the new program. The program presented here incorporates the conclusions of these discussions. Moreover, to assure successful implementation of the program, the authorities initiated two preliminary measures: a study on streamlining public administration expenditures and a judicial commission of inquiry to investigate corruption in the Ugandan Revenue Authority.

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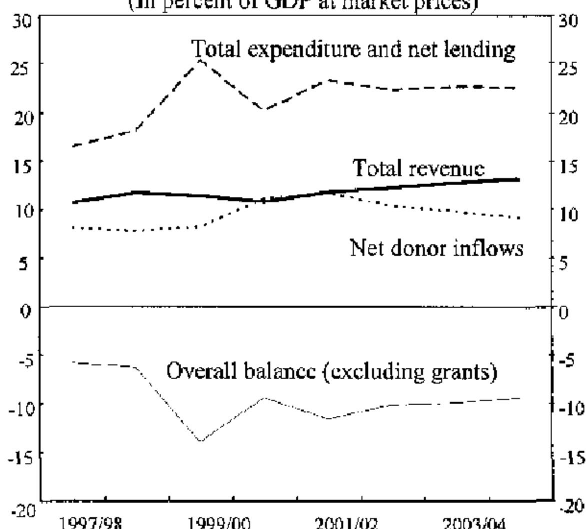
- The **contribution of the donor community** to Uganda's poverty reduction and economic reform efforts increased substantially, with net donor inflows rising from 8 percent of GDP a year during 1997/98–1999/2000 to 9½ percent of GDP in 2000/01 and above 11 percent of GDP in 2001/02 (Figure 2 and Table 2).

- The **budget management system**—particularly in the area of expenditure monitoring and control—**was strengthened considerably** with the introduction of the expenditure commitment control system (CCS).

- Major progress was made in **rationalizing the trade system** and other key structural reforms, including privatization.

Figure 2. Uganda: Fiscal Indicators, 1997/98-2004/05 1/

(In percent of GDP at market prices)



Sources: Ugandan authorities; and staff estimates and projections.

1/ Fiscal year begins in July.

B. Areas of Weak Performance

5. However, performance was weak in these areas:

- While the government established a comprehensive institutional framework for promoting **governance, transparency, and accountability** in the public sector, enforcement of the relevant rules and regulations has been problematic, reflecting in part weak capacity and inadequate budgetary resources.

- **Private investment, and foreign direct investment in particular, has not responded as strongly as expected** to the reforms and improved economic performance. Relative to GDP, private investment rose from 12.4 percent in 1997/98 to 13.2 percent of GDP in 2001/02 (Figure 3).

- **Financial intermediation** in Uganda has remained low both relative to the reforms and levels of the 1970s and compared with other African economies. Nevertheless, the expansion of the ratio of broad money to GDP from 12.2 percent in 1996/97 to 17.6 percent in 2001/02 was among the largest for sub-Saharan Africa (Table 3).

- Despite the improvements in tax policy and administration, **tax revenue (relative to GDP)** increased only slightly, on average, to 11.3 percent of GDP in the five years ended 2001/02 (Figure 4 and Table 4).

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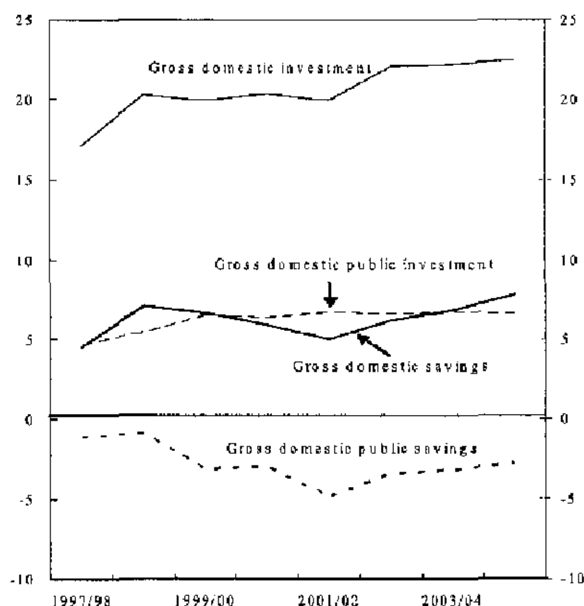
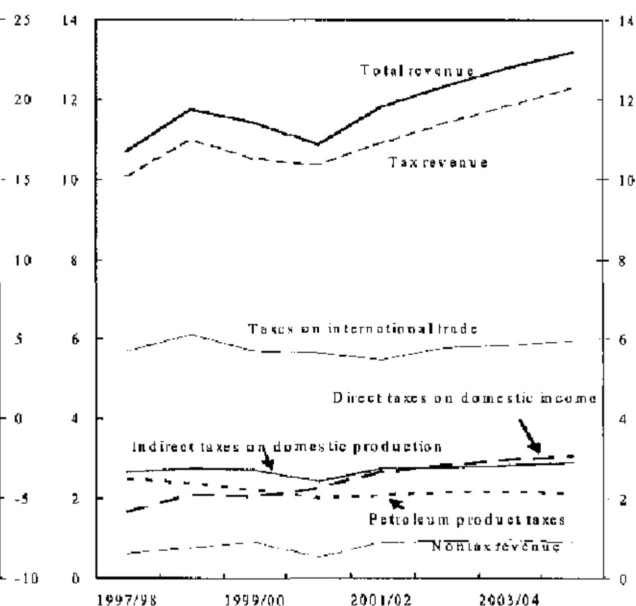
Figure 3. Uganda: Savings and Investment, 1997/98-2004/05 1/
(In percent of GDP at market prices)



Sources: Ugandan authorities; and staff estimates and projections.
1/ Fiscal year begins in July.

Figure 4. Uganda: Revenue, 1997/98-2004/05 1/
(In percent of GDP at market prices)



Sources: Ugandan authorities; and staff estimates and projections.
1/ Fiscal year begins in July.

- Notwithstanding the significant progress made in expenditure management, **the authorities failed to eliminate domestic arrears.** This was due to two factors: (a) the accumulation of new arrears in areas not covered by the CCS, and (b) identification of previously unknown obligations and validation of previously rejected arrears following improvements in the audit system.

- The **delivery of public services** by local authorities has been weak.

C. Policy Implementation Lessons

6. The good performance that was achieved in the areas of macroeconomic and budget management reflected the strong commitment to prudent financial policies and ownership of the poverty reduction program by the President and the key management teams in both the Bank of Uganda (BOU) and the Ministry of Finance. These characteristics were accompanied by strong indigenous technical capabilities at key economic institutions, which played a central role in (a) ensuring the overall development of policies; (b) coordinating the work of the large (including expatriate) numbers of technical assistance personnel; and (c) mediating among the political authorities, civil society, and the donor community.

7. The following sequencing lessons can be derived from Uganda's experience: the macroeconomic stabilization and liberalization of the foreign exchange market and export sector (primarily coffee) of the early 1990s set the stage for strong growth over the remainder of the decade. Fiscal consolidation was the main instrument of the initial stabilization

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process, and later market-oriented monetary policy instruments were developed to facilitate macroeconomic management. Subsequent reforms, such as the extensive privatization and liberalization of the external capital account, were initiated in 1997, as was the PEAP. While this sequencing was quite successful overall, the lack of a strong institutional setting for monitoring expenditures and enforcing good governance in the early stages of the PEAP likely resulted in some misuses of public resources.

8. The extensive technical assistance (both long and short term) that Uganda received from the donor community helped to ease Uganda's manpower constraints in important areas and facilitated the speedy formulation and implementation of a fairly consistent set of policies over a broad range of issues. The strong coordination among donors helped to forge a common approach to issues and resulted in a predictable flow of financial assistance.

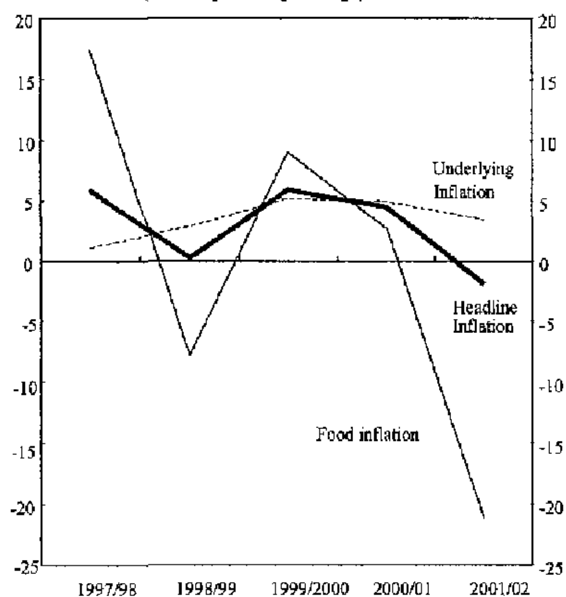
9. Improvements in the financial sector have helped to enhance the efficiency of monetary management.

10. Program implementation was hindered by the prevalence of insecurity in parts of the country and the subregion. In this connection, Uganda's military involvement in the Democratic Republic of the Congo (DRC) weakened fiscal discipline, resulted in delays in donor disbursements, and increased uncertainties.

III. Recent Economic Developments

11. As discussed in the authorities' memorandum of economic and financial policies (MEFP, Section A), **the Ugandan economy performed relatively well in 2001/02, despite unfavorable external conditions**. However, this performance still fell short of the 2001/02 budget projections and was largely accounted for by transitory factors, rather than a fundamental increase in productivity, investment, and savings. The expansion in food crop production, which still accounts for 25 percent of GDP, resulted in a sharp fall in headline inflation to negative levels (Figure 5), while underlying inflation, which excludes food crops, averaged 3.4 percent during the year. The fall in both food and cash crop prices also reduced the GDP deflator well below budget projections, as nominal GDP grew by 6.5 percent in 2001/02, compared with the 11.4 percent growth envisaged in the budget.

Figure 5. Uganda: Average Inflation, 1997/98-2001/02 1/
(Annual percentage change)



Source: Ugandan authorities.
1/ Fiscal year begins in July.

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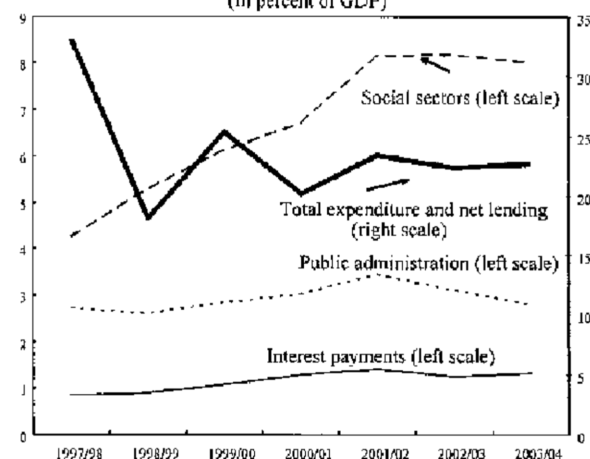
12. **Although the government adhered to the nominal target for the overall fiscal deficit, excluding grants, the deficit, relative to a lower nominal GDP, climbed to 12.6 percent in 2001/02, exceeding the budget projection by 0.4 percent of GDP**. For the first time in three years, government revenues increased relative to GDP (to 11.8 percent), even though nominal revenues fell slightly short of the budget target. The income and domestic value-added taxes performed well,[2] but an unanticipated appreciation of the Uganda shilling during the first half of the year and the elimination of import duties on raw materials weakened revenues from taxes on non-oil imports (Table 5). The removal of import duties on raw materials, which was not budgeted, was done to harmonize the trade regime with the systems in the other two members of the East African Community (Kenya and Tanzania). An increase in the excise duty rates on beer and cigarettes delivered only limited revenue gains. The overall deficit was largely covered by a substantial increase in donor assistance (net of external debt service) to 11.7 percent of GDP in 2001/02, up from 11.1 percent of GDP in the previous year, mainly reflecting the disbursement of budgetary support from the World Bank's first Poverty Reduction Support Credit (PRSC).

13. **Total expenditures and net lending jumped to 24.4 percent of GDP in 2001/02 from 21.5 percent in the previous year (Figure 6)**. Higher-than-budgeted expenditures on nonwage recurrent outlays (including public administration and defense) and increased expenditures under the Poverty Action Fund (PAF) primarily accounted for this increase (see MEFP, para. 5).[3] In particular, the expenditure rise reflected an increase in emoluments for members of parliament and supplementary allocations for the state house, missions abroad, local

Figure 6. Uganda: Central Government Expenditures, 1997/98-2004/05 1/
(In percent of GDP)



Sources: Ugandan authorities; and Fund staff estimates and projections.
1/ Fiscal year begins in July.

[2] The revenue to GDP ratio of these two tax categories increased by 0.4 and 0.2 percentage points, respectively. This buoyancy remains positive even when discounting for the decline in the GDP deflator due to the unexpected decline in food prices.

[3] The PAF is a virtual fund created in 1998/99 to channel HIPC Initiative and other debt-relief funds, donor budget support, and the government's own resources into activities supporting the objectives of the PEAP. The PAF does not include all poverty-related outlays, but budget outlays under the PAF have three key characteristics. First, all PAF expenditures must support poverty reduction directly. Second, budget additionality is achieved by comparing current financing with the financing level of the same activities in the 1997/98 budget. Third, PAF outlays are subject to stringent accountability requirements.

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government elections, and defense.[4] The increase in defense expenditures was associated with purchases of equipment and was financed by cuts in other expenditures within the defense budget and by increased appropriations over a two-year period (2001/02–2002/03). Defense expenditure thus exceeded its 2 percent of GDP target for the first time in two years. As in past years, large supplementary allocations led to significant overspending on public administration, to the detriment of some PEAP priority sectors (Box 1 and Table 10). Unprotected nonwage recurrent and domestic development spending was slashed dramatically late in the year to meet budget limits on total spending.

Box 1. Budget Outcomes Versus Budget Intentions 1999/2000-2001/02

(In percent of budgeted revenues/allocations; over/under +/-)

	1999/2000	2000/01	2001/02
Total revenue	-10.0	-5.1	-3.6
Total expenditure	-3.5	-1.4	-1.4
Social and economic sectors	-4.3	-6.6	-3.9
Education	-4.8	-7.2	-0.6
Health	-3.7	-5.1	-4.3
Roads	-4.6	-7.4	-8.0
Agriculture	-1.4	-9.7	-13.7
Water	0.0	0.0	-9.4
Others sectors 1/	-9.6	-8.4	-7.1
Security	-1.5	-0.6	3.4
Public administration	2.6	13.9	12.8
Interest payments	5.7	19.1	-2.8
Totals			
Wage	-5.8	-5.7	1.3
Nonwage recurrent	4.7	4.6	5.9
Domestic development	-13.4	-7.6	-10.6
Memorandum Items:			
Commissions under MTEF 2/	10.1	38.2	39.8
State House	0.9	33.4	13.2
Foreign Affairs/Missions	41.0	19.3	14.2

Sources: Ugandan authorities; and Fund staff estimates.

1/ Other sectors include: Law and Order, Accountability, and Economic Functions.
2/ MTEF Commissions include: Education, Health, Judicial, Law Reform, Public Service, Parliamentary, Local Government Finance, Uganda Human Rights, and Electoral Commissions.

[4] Defense spending on new equipment was fully accounted for in fiscal year 2001/02, with half of the cost financed through short-term loans. Supplementary military spending amounted to 0.1 percent of GDP.

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14. **Supported by the large increase in donor assistance, budgetary releases under the PAF in 2001/02 increased by 1.5 percentage points of GDP, to 5.7 percent of GDP** (Box 2). As discussed in the MEFP (para. 6), expenditures on programs designed to improve

Box 2. Poverty Action Fund (PAF) Expenditures, 1997/98-2004/05 1/

	1997/98	1998/99	1999/00	2000/01	2001/02 Prel.	2002/03 Budget	2003/04 Projections	2004/5
	(In billions of Uganda shillings)							
Rural roads	8.4	20.2	24.6	27.9	37.9	41.7	48.0	52.0
Agriculture	1.0	0.7	14.5	20.5	41.6	45.0	53.4	55.1
Primary health	4.3	20.8	21.4	56.4	105.4	133.9	156.6	182.8
Of which: Conditional grant	1.6	14.6	13.3	35.5	73.1	87.7	100.9	117.5
AIDS funding	0.2	0.5	0.7	1.2	3.6	4.5	5.2	6.2
Water and Sanitation	3.9	12.3	17.6	35.3	48.2	47.8	51.7	54.0
Primary education	120.2	169.8	211.6	253.5	296.7	313.7	332.7	347.9
Monitoring and accountability 2/	3.7	7.7	10.6	17.6	24.5	28.5	30.1	32.8
Other 3/	0.0	0.9	2.5	13.0	50.4	71.0	84.9	90.1
Unidentified expenditures from extra support 4/							27.9	58.1
Total	141.6	232.4	302.7	424.3	604.6	681.5	785.2	872.8
	(In percent of total PAF expenditures)							
Rural roads	5.9	8.7	8.1	6.6	6.3	6.1	6.1	6.0
Agriculture	0.7	0.3	4.8	4.8	6.9	6.6	6.8	6.3
Primary health	3.1	8.9	7.1	13.3	17.4	19.7	19.9	20.9
Of which: Conditional grant	1.2	6.3	4.4	8.4	12.1	12.9	12.8	13.5
AIDS funding	0.1	0.2	0.2	0.3	0.6	0.7	0.7	0.7
Water and sanitation	2.7	5.3	5.8	8.3	8.0	7.0	6.6	6.2
Primary education	84.9	73.1	69.9	59.8	49.1	46.0	42.4	39.9
Monitoring and accountability 2/	2.6	3.3	3.5	4.1	4.0	4.2	3.8	3.8
Other 3/	0.0	0.4	0.8	3.1	8.3	10.4	10.8	10.3
Unidentified expenditures from extra support 4/							3.6	6.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Memorandum items:								
PAF expenditures in terms of:								
Total expenditures and net lending	11.5	15.9	13.5	21.1	24.4	26.3	26.9	27.4
Nominal GDP at market prices	1.9	2.9	3.4	4.3	5.7	5.9	6.1	6.2

Sources: Ugandan authorities; and Fund staff estimates and projections.

1/ The PAF is a virtual fund that only includes public expenditures directly related to poverty-oriented outlays.
2/ Inspector General of Government, Auditor General, and Directorate of Accounts.
3/ Adult literacy, court backlog reduction, environmental protection, underfunded areas of PEAP, equalization grant, nonsectoral PMA grant for LCIII, Dutch district development grant, and delayed programs.
4/ These additional expenditures refer to revenue from expected but not yet formally committed budget support and from new tax

the income of the poor (road, agriculture, and the export promotion initiative) more than doubled compared with last year, with releases for the strategic export promotion initiative accounting for 47 percent of this increase. Still, programs designed to improve the quality of life of the poor (primary education, water and sanitation, and primary health) continued to absorb the bulk of PAF resources. Despite the significant achievements to date, the second

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annual poverty reduction strategy paper (PRSP) progress report,[5] which was finalized in March 2002 (EBD/02/128; 8/26/02), and describes the progress made to date in implementing the PEAP, indicates that, in most areas, the PEAP/PRSP targets are not expected to be achieved within the envisaged time horizon, given the levels of spending contained in the medium-term expenditure framework (MTEF).

15. **The budget management system was strengthened substantially with the implementation of the provisions of the 2001 Budget Act and the extension of the CCS to cover the development budget during 2001/02.** The new Budget Act is expected to result in a more efficient management of the budget process, as it sets out a precise timetable for the completion of each step of the system. Moreover, the Act requires that a draft budget be submitted for parliamentary review and comment three months before the commencement of a new financial year. This action is expected to expedite an improvement in the parliament's budget approval process. The extension of the CCS to cover the development budget should enhance the monitoring of expenditure and improve the transparency of the budget.

16. **However, three areas of budget management have remained problematic. First, as mentioned above, the government's resort to supplementary appropriations has not diminished, with the result that budget outcomes continue to deviate markedly from original intentions.** This situation has weakened the effectiveness of the budget as a development instrument, as politically sensitive expenditures have tended to crowd out essential social and economic outlays, with the share of public administration expenditures to GDP increasing over time (Tables 6 and 7). In addition, the resulting uncertainty in prospective quarterly releases has undermined the efficient implementation of programs and complicated the procurement process.

17. **Second, a number of issues have emerged in the implementation of the CCS that need addressing:** (a) the gap between the arrears reported under the CCS and audited arrears has remained significant, in part because of weaknesses in the utilities payments system; (b) political oversight is poor over the strong ministries that incur most of the overcommitments; (c) the application of sanctions against accounting officers has been problematic, primarily because the responsibility for overcommitments tends also to be a political issue; and (d) the limiting of the length of commitments to the quarter has tended to hamper the efficient management of commitments that have a long lead time.

18. **Finally, in the context of decentralization of public services, budget management remains a key problem.** The tracking of local governments' activities, as well as the systematic accounting of funds extended to local authorities, has been problematic, in large part because local authorities have not complied with the government's requirement to

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[5] As discussed in the World Bank/Fund joint staff assessment (EBD/02/129 and IDA SECM2002-0366), the report provides a candid account of the targets that have so far not been met (e.g., infant mortality) and addresses other problem areas, mainly governance and corruption.

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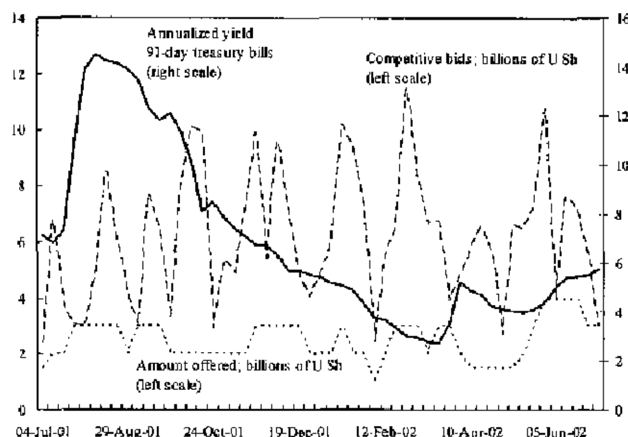
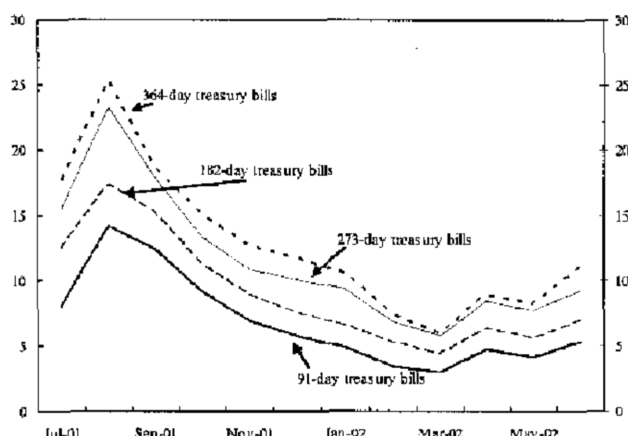
submit monthly, as well as annual accounts, on a timely basis. Moreover, under the PEAP a substantial share of total government expenditure is effected at the local level.

19. **The objective of monetary policy remained the maintenance of low and stable inflation.** Accordingly, in response to the sharp fall in the headline inflation rate to negative levels and to the subdued underlying inflation, the authorities accommodated significant deviations of base money from the targeted path. The BOU also permitted a significant buildup in the excess liquidity of commercial banks. The accumulation in banks' excess reserves stemmed in part from a reduction in the volume of treasury bills offered, with the result that interest rates fell sharply across the yield curve (Figure 7). However, the decline in treasury bill rates translated into only a moderate decline in banks' lending and deposit rates (Figure 8). In consequence, the accommodative monetary policy stance did not lead to a significant expansion of private sector credit, which rose by 4.8 percent in 2001/02. Yields rose toward the end of the fiscal year, as the BOU stepped up efforts to mop up excess liquidity. Growth in broad money (M3), including foreign exchange deposits, was 17.6 percent during 2001/02. Excluding foreign exchange deposits, broad money (M2) grew by 21.9 percent during the year. Velocity continued to decline.

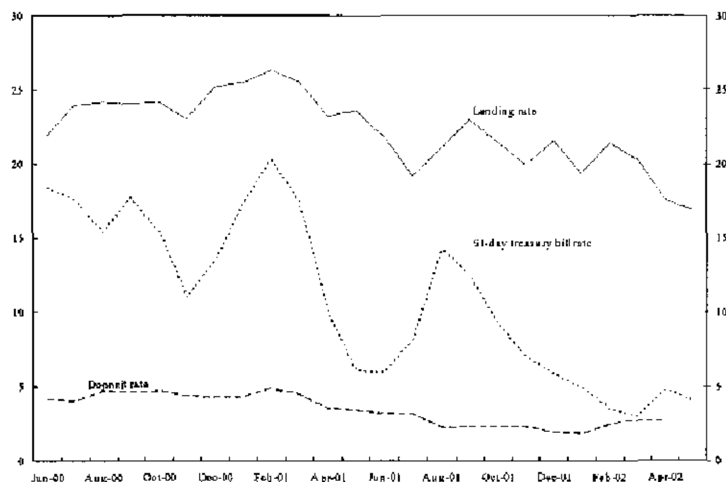
Figure 7. Uganda: Treasury Bill Market Indicators, 2001/02 1/
(In percent, unless otherwise indicated)





Source: Ugandan authorities.
1/ Fiscal year begins in July.

Figure 8. Uganda: Interest Rate Transmission, 2000/01-2001/02 1/
(In percent)



Source: Bank of Uganda.
1/ Fiscal year begins in July.

20. **The management of monetary and exchange rate policies was complicated by the large sterilization requirements**

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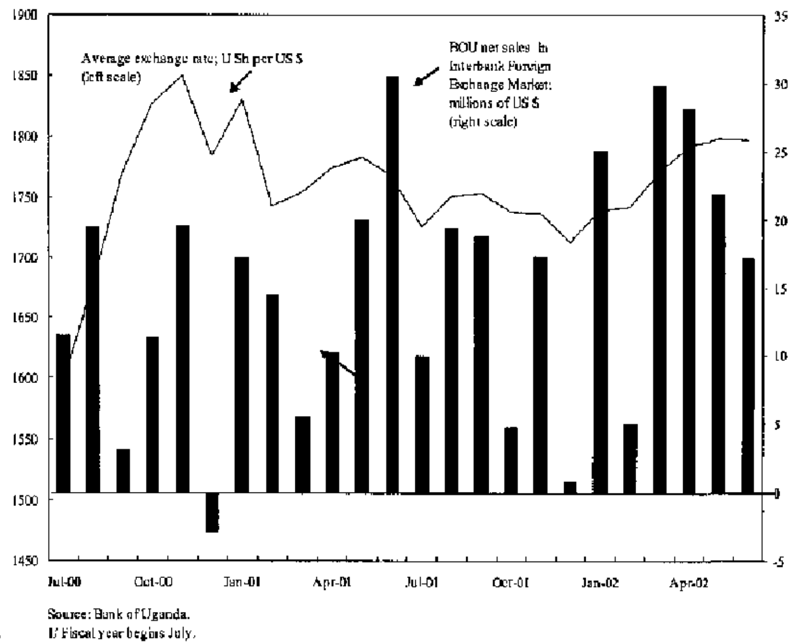
arising from PEAP-related donor inflows. Moreover, weaknesses in the operating procedures for monetary and exchange rate policies made it difficult for market participants to distinguish sterilization from short-term liquidity management and intervention operations. This created uncertainty with regard to policy objectives.

21. **With regard to exchange rate policy**, large and somewhat erratic interventions (on the sales side) by the BOU led to a small appreciation of the Uganda shilling against the U.S. dollars between June and December 2001, followed by a 5 percent depreciation between December 2001 and June 2002 (Figure 9). In real effective terms, the Uganda shilling appreciated by 3.3 percent on a year-end basis (Figure 10).

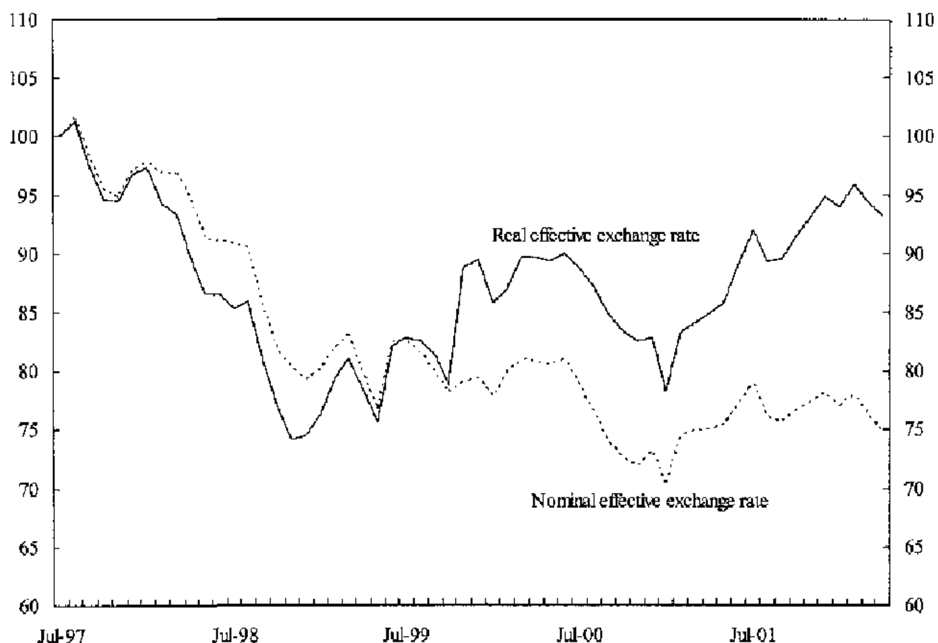
22. **The health of the banking system improved in 2001/02** (Figure 11 and Table 8). Banking supervision by the BOU was stepped up substantially. Both on-site and off-site surveillance was increased,

Figure 9. Uganda: Nominal Bilateral Exchange Rate and Bank of Uganda Foreign Exchange Sales and Purchases, 2000/01-2001/02



Source: Bank of Uganda.
1/ Fiscal year begins July.

Figure 10. Uganda: Nominal and Real Effective Exchange Rates, July 1997-April 2002
(July 1997=100; foreign currency per Uganda shilling)



Source: IMF, Information Notice System.

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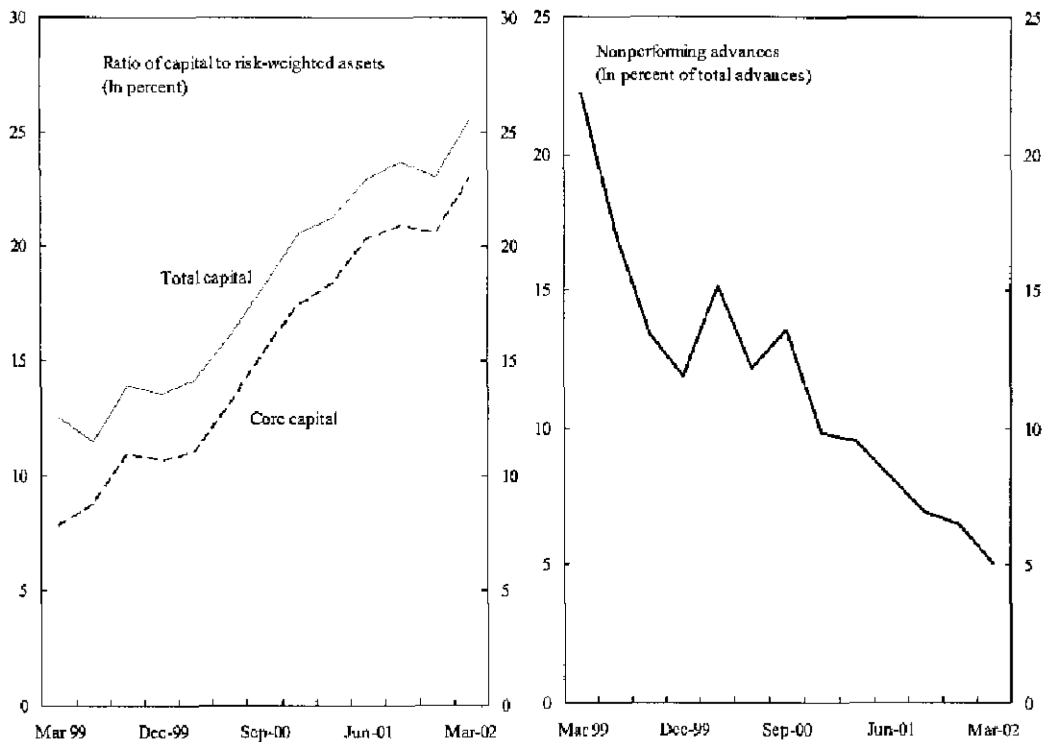
and prudential norms under existing legislation were enforced more rigorously. Notwithstanding the recent progress in strengthening the financial system, some problems remain. First, long-standing weaknesses in the operations of some small banks have not yet been adequately addressed. Second, the banking sector is constrained by an inefficient payments system, poor credit discipline, an inadequate legal framework to support the enforcement of commercial contracts, high transaction costs, and a limited menu of financial assets. Third, the financial system is in the short term susceptible to interest rate volatility and dollarization.

Figure 11. Uganda: Selected Banking Sector Information, March 1999-2002



Source: Ugandan authorities.

23. **The external position showed some signs of strengthening in 2001/02; however, Uganda is still heavily dependent on donor assistance to finance a large external current account deficit.** In particular, for the first time in three years, Uganda's export earnings increased (by 3 percent) in 2001/02, even though prices of export commodities remained weak (MEFP, para.10). The increase in export volumes, especially for noncoffee exports, suggests that Uganda was still internationally competitive (Figure 12). Still, the external current account deficit, excluding grants, widened by ½ of 1 percentage point of GDP (to 14.9 percent of GDP) in 2001/02, as import growth picked up, boosted in part by the strength of the Uganda shilling and the elimination of the duty on raw materials (Table 2 and

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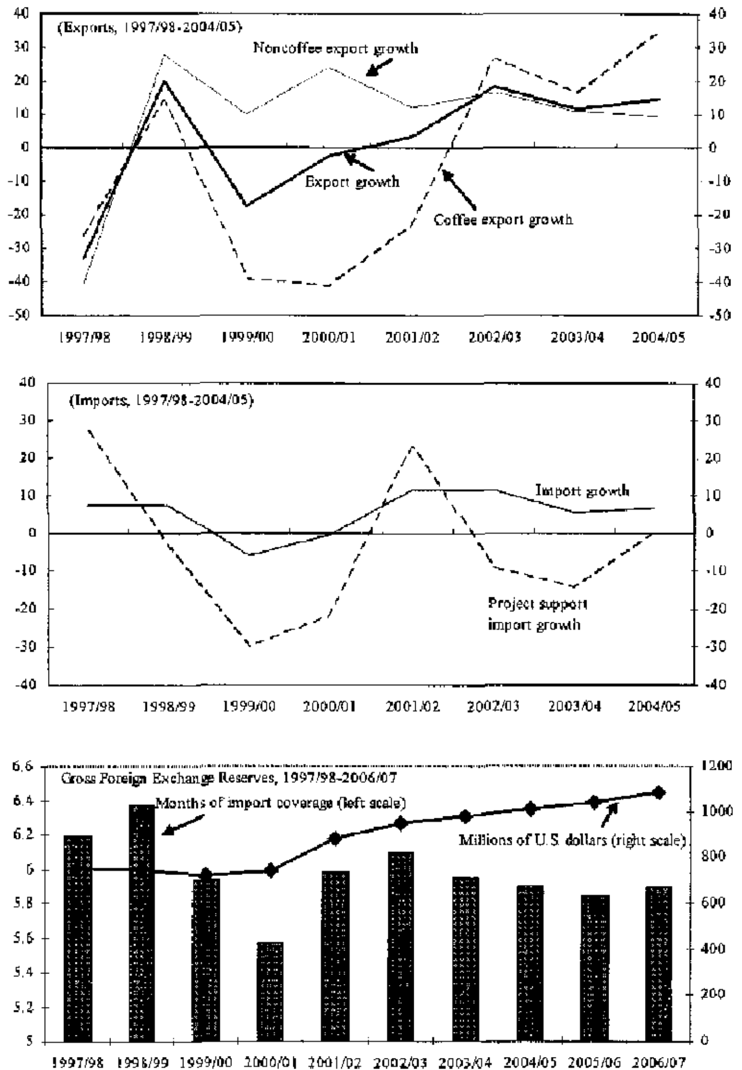
Figure 12). As a result of the strength in donor support (including assistance under the HIPC Initiative) and private capital inflows, gross international reserves rose to six months of import cover (Figure 12). The Fund's Trade Restrictiveness Index rates Uganda's trade regime as "open," with a rating of "2."

24. **Uganda's external debt sustainability has deteriorated since its enhanced HIPC Initiative completion point, under which it was granted US$656 million of debt relief in net present value terms, mainly because of the sharp drop in coffee exports in recent years.**[6] **Moreover, Uganda has had difficulty in securing agreements for HIPC debt relief from some of its creditors**. While the authorities signed agreements for debt relief under the HIPC Initiative with four non-Paris Club creditors[7] in 2001/02, and received additional debt relief beyond HIPC assistance from most Paris Club creditors (MEFP, para. 11), little progress was made in reaching agreements with other creditors during the year.[8] Moreover, Iraq and some commercial creditors (from Spain, United Kingdom, and Yugoslavia) have filed suits against the

Figure 12. Uganda: External Sector Indicators, 1997/98-2004/05 1/
(Annual percentage change, unless otherwise indicated)



Sources: Ugandan authorities; and staff estimates and projections.
1/ Fiscal year begins in July.

[6] The details are provided in the accompanying document on Uganda's external debt sustainability position.

[7] Saudi Arabia, Kuwait, Islamic Development Bank, and BADEA.

[8] In the absence of such agreements, Uganda is not servicing debts owed to these creditors.

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government in local courts to recover their claims. As of July 2002, these creditors have won judgments totaling US$40 million,[9] most of which represent high interest charges. These judgments have complicated the authorities' efforts to reach agreement with other creditors, the largest of which are India, Libya, and Tanzania.

25. **Important structural measures were implemented in 2001/02, aimed largely at improving governance and reducing constraints on private industry.** Late in the year, parliament approved the new Leadership Code (MEFP, para. 12). The new Inspectorate General Statute is aimed at strengthening enforcement of regulations governing the public sector. The authorities also introduced a commercial court to expedite the resolution of business conflicts. In the electricity sector (poor service delivery has been cited as the leading constraint on doing business in Uganda), preparations have been made for the privatizing of the generation and distribution companies. In June 2001, electricity rates were increased to reflect full cost recovery, although a temporary discount was applied to ease the initial burden of the higher tariffs. This discount, financed by the government, is scheduled to be terminated in January 2003. The bidding process for 20-year operating concessions of the generation and distribution companies was closed in July 2002, and a decision is expected shortly. Also, the third unit (40 megawatts) of the Kiira hydroelectric plant came into service in June 2002, which will temporarily ease shortages; however, financing for the Bujagali hydroelectric project[10] (200–250 megawatts), which is needed to meet long-term demand, has yet to be finalized.

26. The recent improvements in national accounts, balance of payments, and government finance statistics represent an important step toward modernizing Uganda's database, although much progress is still needed, particularly in developing more reliable survey data. With regard to external debt data, the BOU maintains a computerized database of public sector debt that is quite accurate, however, data on private sector debt is lacking (EBS/02/162; 8/26/02 and IDA/SecM2002-0419; 8/15/02).

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[9] Thus far, the authorities have made payments of about US$5 million to the Yugoslav creditors, out of US$10.5 million owed. The authorities are appealing the other cases.

[10] Preliminary construction began in February 2002, but delays in concluding the financing arrangements have set the project back several months. The MIGA Board is expected to meet within the next few months to decide on credit guarantees, which would enable the project to proceed. A subsidiary of U.S.-based AES corporation will manage the project, which is expected to cost US$550 million and would roughly double Uganda's present electricity generating capacity. The plant is now expected to come on-line in 2006/07. The Uganda Electricity Transmission Co., an autonomous public enterprise, signed a power purchasing agreement (PPA) for the energy to be produced by the Bujagali plant, which obligates it to maintain a reserve deposit, in an external account, of US$20 million for electricity purchases. Under the PPA, the government of Uganda is the ultimate guarantor for payments to AES Nile Power, which could reach up to US$15 million a year under a low-growth scenario where Uganda's real GDP growth averages 3 percent a year over the next decade.

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IV. Policy Discussions

27. **In the discussions on a new economic and financial program, the authorities reaffirmed their commitment to pursue their poverty reduction objectives through both direct pro-poor government programs and a broader policy agenda aimed at increasing economic growth, as elaborated in the PEAP** (Box 3). The main challenges facing the authorities will be to foster and maintain an environment that encourages a high rate of economic growth through stepped-up private investment and supporting government policies, institutional changes, and investment in infrastructure. Poverty reduction will also depend directly on the effectiveness of pro-poor spending and efforts to improve governance. Accordingly, the discussions focused on the following:

- actions to promote strong economic growth, including structural and institutional reforms, as well as public investment, aimed at reducing impediments to strong economic growth and promoting export diversification;
- financial policies to support macroeconomic stability;
- progress toward fiscal and debt sustainability compatible with achieving poverty reduction objectives;
- measures to build a credible budget management and effective monitoring and accountability systems to support improved delivery of essential public services, particularly by local authorities; and
- actions to promote financial intermediation and improve long-term finance.

A. Medium-Term Macroeconomic Framework

28. **Discussions on the medium-term framework were conducted in the context of the forthcoming revision of the authorities' PRSP. Agreement was reached on a revised framework** based on developments to date and the macroeconomic objectives outlined by the authorities. The revised macroeconomic framework would be incorporated in the revised PRSP. The medium-term macroeconomic framework envisages average annual real GDP growth of about 6½ percent over the next three years (2002/03–2004/05) and maintenance of the underlying annual average inflation rate at 3½ percent (MEFP, para. 17 and Table 1).

29. **Uganda will continue to rely heavily on generous donor support over the foreseeable future to promote its development objectives**. The staff expects net donor inflows (grants and concessional loans,[11] including HIPC Initiative assistance, less debt

[11] However, the MTEF underpinning the 2002/03 budget forecasts a decline in donor support, as these projections are based on firm commitments by donors as of June 2002. However, most donors have indicated their intentions to maintain or raise aid to higher levels in order to meet the ambitious poverty reduction targets set out in the PEAP.

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service falling due) to total US$630–650 million a year, with roughly equal amounts allocated to project and budget support; about two-thirds of the total would be in the form of grants. Based on staff estimates, net donor support is expected to remain steady in U.S. dollars, but to diminish in relation to GDP over the medium term. Accordingly, to finance adequately key social and economic programs, a gradual restructuring of public outlays, as well as a stronger revenue effort, will be needed over the medium term.

Box 3. Poverty and Social Impact Analysis

In the context of the Poverty Eradication Action Plan (PEAP), the authorities have incorporated poverty and social impact analyses (PSIAs) into the design and evaluation of their policy framework. Most notably, evidence from the 1999/2000 Ugandan household survey showed that while the incidence of poverty had been reduced dramatically (from 56 percent of the population in 1992 to 35 percent in 2000), mainly as a result of strong economic growth, income inequality across regions of the country had increased. In the Northern and Eastern regions, incomes failed to improve owing mainly to a lack of security. To address this situation, the government deployed the Ugandan People's Defense Forces (UPDF) to restore order and, with the support of the World Bank, designed a regional infrastructure development program specifically targeted for these areas that are lagging behind. The incidence of poverty is also greater in rural areas.

The next thorough analysis of the overall poverty situation will be based on the household survey that is scheduled to be completed by the Spring of 2003. This analysis will be an important input to the revision of the PEAP, scheduled for later that year, and in subsequent progress reports. With regard to the formal analysis of specific policy measures, the authorities, together with an expert funded by the United Kingdom's Department for International Development (DFID), are presently evaluating the poverty and social impact of the strategic exports program (SEP), which is a central component of the authorities' economic program. Since a major feature of the SEP is the subsidized provision of plantlets and seeds of cash crops to small farmers, this program could directly impact the rural poor, especially during the current period of low prices for Uganda's export commodities. Results of this study, which also aims to build the authorities' capacity to conduct ex-ante PSIAs, are expected in October 2002.

With regard to the authorities' program that could be supported by a new PRGF, there are several measures, besides the SEP, that are likely to have a direct impact on the poor, but for which a formal PSIA has not been done. First, a key component of the program, controlling public administration expenditures, is aimed at assuring full funding for government economic and social programs that are not protected under the PAF, but which directly benefit the poor and are critical to achieving high economic growth rates (e.g., agricultural research and extension services, construction of fish landings, and other domestic development projects). Increased taxes on fuel and vehicles, however, are likely to have a modest negative impact on the poor, though less so on subsistence farmers.

Other tax measures announced in the budget speech are likely to impact the poor. Lower taxes on beer, which is major consumption item of low income individuals, would provide some tax relief. But the newly introduced excise tax (15 percent) on used clothing, a measure aimed at protecting textile manufacturers, would fall heavily and directly on the poorest members of society. In a 2001 study of the sugar industry, it was determined that some protection was warranted, owing to the education and health services provided by local manufacturers; however, this study did not incorporate the impact of the recent increase in sugar tariffs.

The large Bujagali hydro electricity project is expected to be a major contributor to the Ugandan economy, and as such would have a strong impact on the poor. In the near term, the construction phase of the project would stimulate economic growth and, by alleviating electricity constraints over the longer term, would provide a boost to manufacturing, thus leading to increased job opportunities for the poor in the construction and manufacturing sectors.

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B. Economic and Financial Program for 2002/03

Real sector issues

30. **The macroeconomic framework for 2002/03 is based on the assumption that real GDP growth will pick up to 6.5 percent and underlying inflation will hold steady at 3.5 percent** (on a period-average basis). Strong GDP growth is expected to be driven by the construction, manufacturing, cash crop, and education sectors. The telecommunications sector is also expected to continue to perform strongly. Moreover, the full-scale construction phase of the Bujagali project is expected to commence in the second half of 2002, which will have a stimulative effect on the economy. In education, the 2002/03 budget provides resources for 10,000 more primary school teachers, raising the total to 125,000. Under the 2000 PEAP, the number of primary school teachers is programmed to rise to 145,000 by 2004/05. Cash crops are expected to reap dividends from the supply-side interventions under the government's strategic exports program (SEP), including a large increase in cotton planting. Because weather conditions are expected to return to normal in 2002/03, after two years of excellent conditions, growth in food crop production is forecast to slow down, with a corresponding recovery in prices. As a result, end-period headline inflation and, to a lesser extent, underlying inflation are expected to be temporarily higher than targeted.

31. Although there have been some significant private sector investments in recent years, notably in the telecommunications sector, **the authorities expressed impatience with the response of foreign direct investment (particularly in the export sector) to Uganda's long track record of sound macroeconomic policies and economic liberalization**. The authorities also expressed concern that the simplification of the investment code of the early 1990s, which also involved the elimination of tax holidays, may have placed Uganda at a comparative disadvantage relative to neighboring countries. Accordingly, in an effort to compete with more generous incentives in neighboring countries, and also to take advantage of the U.S. African Growth and Opportunity Act (AGOA), the authorities recently began to grant some incentives to garment manufacturers on an ad hoc basis. These include long-term loans (from the UDB) with below-market interest rates and subsidies on the rent of factory premises, training of labor, and railway transport to and from the coastal port in Kenya. Realizing the potential negative effects of such an approach, they have agreed to discontinue this practice and to standardize incentives under a new investment code, which would be based on a generalized nondiscriminatory system of investment incentives. They have requested Fund and World Bank technical assistance in the development of the new investment incentive system. In addition, the authorities are keen to harmonize their investment code with those of the other members of the East African Community (EAC)—Kenya and Tanzania—so as to avoid an unhealthy competition to attract investors.

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Fiscal policy

32. **Fiscal policy aims at reconciling the provision of adequate resources for essential poverty reduction programs with financial sustainability.** Accordingly, the overall deficit before grants is targeted to fall gradually over the three-year period 2002/03–2004/05. The budget for 2002/03 envisages a reduction in the deficit (before grants) of 2.2 percent of GDP to 10.4 percent of GDP and foresees a marginal buildup of government deposits with the banking system, as net donor inflows are projected to amount to 10.4 percent of GDP. The domestic budget deficit would also fall by about 1.7 percent of GDP to 4.9 percent of GDP in 2002/03 (Table 4). This will reduce the liquidity injected into the economy by fiscal operations, and thereby ease pressures on the exchange rate and interest rates.

33. **For 2002/03, the program seeks an increase in the revenue-to-GDP ratio to 12.3 percent of GDP (½ percentage point increase),** predicated upon a combination of new tax policy and administration measures (Boxes 4 and 5). New tax policy measures are

Box 4. Expenditure Reduction, Budget Management, and Tax Administration Measures Under the 2002/03 Program

Expenditure reduction and budget management measures:

1. Moratorium on the creation of new districts during the current parliament.
2. Implementation of pay reform in the civil services to reduce incentives for the creation of alternative administration structures, as well as for nonproductive activities.
3. Level of domestic government arrears as of June 30, 2002 determined by March 31, 2003.
4. Verification of domestic budget arrears outstanding as of December 2002.
5. Enforce sanctions and penalties on accounting officers, accountants, internal auditors, and inspectors in cases of continued accumulation of arrears and failure to comply with Commitment Control System (CCS).
6. Internal Auditor's, Auditor Generals Office at each line ministry/department to conduct regular audits of the CCS.
7. Review the desirability and feasibility of extending the CCS to local governments.
8. Clearance of all budgetary arrears under the nonwage recurrent and development budget accumulated in each quarter by the end of the subsequent quarter.

Tax administration measures:

1. Production by Uganda Revenue Authority (URA) of a business plan for raising revenue by 2.5 percent of GDP over a five-year period beginning in FY 2002/03.
2. Development of an emergency project for equipping URA with up-to-date surveillance equipment.
3. Provision of additional resources to URA to fund emergency re-equipment project.
4. Augmentation of remuneration of URA staff following retrenchment of corrupt staff identified by the Commission of Inquiry.
5. Implementation of computerization strategy and integration of software across URA departments.
6. Undertake intensive and systematic quarterly reviews of revenue performance by tax category.

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expected to raise revenue by about U Sh 17 billion (0.2 percent of GDP). Details are provided in Box 5. While staff welcomes the authorities' revenue effort, some of the tax policy measures are not in line with best practice (specifically, the excise taxes on used clothing and imported sugar, the levy on exports of hides and skins, and the reduction in the excises tax on beer, which effectively reverses previous efforts to bring this tax in line with the rates prevailing in the region). In the area of tax administration, the major focus of the program is on stamping out corruption in the Uganda Revenue Authority (URA). This effort started in 2001/02 with the requirement that all staff members and their immediate families declare their assets, income, and liabilities. In 2002/03, the URA will review the declarations and dismiss all employees whose submissions are found to have serious misdeclarations. A second element of the anticorruption strategy was the setting up in May 2002 of a Judicial Commission of Enquiry to investigate allegations of corrupt behavior by URA staff. The commission is expected to complete its work by September 2002. This would be followed by dismissals and prosecution of staff found to be guilty. This thorough anticorruption effort is likely to generate significant improvements in revenue collection over the medium-term, but its short-term effects are expected to be limited. In addition, under the 2002/03 budget, the authorities have provided increased resources for the URA's operations and capital requirements. The additional resources would support a business plan that URA is developing that aims at raising revenue collection to at least 14 percent of GDP over a five-year period.

Box: 5 Expected Revenue From the Tax Policy Measures in the 2002/03 Budget
(In billions of Uganda shillings)

The 2002/03 budget contained a number of tax policy measures. The estimated impact on revenue collection of the measures is provided below. 1/

	Custom Duty	Excise Tax	VAT	Other	Total
Revenue increasing tax measures					
Ten percent increase in excise on motor vehicles	-0.22	3.71	0.31		**3.79**
Traffic Act: Increase in fees and charges				6.00	**6.00**
Increase in excise on gasoline by U Sh 30		6.64			**6.64**
Five percent excise on used clothing and ten percent on used shoes	-0.20	3.23	0.28		**3.31**
Ten percent increase in excise on imported sugar	-0.19	3.78	0.33		**3.92**
Fifteen percent levy on exports of hides and skins of bovine				3.00	**3.00**
Sub-total revenue increasing measures	**-0.61**	17.36	**0.91**	**9.00**	**26.66**
Revenue decreasing tax measures					
Ten percent reduction in the excise on beer		-8.37	-0.91		-9.28
Sub-total revenue decreasing measures	**0.00**	**-8.37**	**-0.91**	0.00	**-9.28**
Total	**-0.61**	**8.99**	**0.00**	**9.00**	17.38

Sources: Authorties; and IMF staff estimates.

1/ Estimates are based on an average elasticity of 0.5 percent.

34. **Total expenditure and net lending is projected to contract by 1.6 percentage points of GDP in 2002/03**, with most of the adjustment coming from current outlays (on a cash basis), including lower repayment of domestic arrears. Moreover, the budget envisages some reallocation of expenditures in favor of essential social and economic outlays, with the

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proportion of expenditures channeled through the PAF rising to 5.9 percent of GDP in 2002/03 from an estimated 5.7 percent of GDP in 2001/02. The program considers the reduction in public administration expenditures as the principal instrument for restructuring public resources toward poverty reduction. Under the new program, the authorities have committed themselves to a three-phase program to limit public administration expenditures along the lines proposed by a presidential committee on public administration expenditures.[13] The first phase of this program will begin before December 2002 and will include the standardization and trimming of benefits across the public sector. The second phase will be implemented in fiscal-year 2003/04 and will involve the reduction of personnel (in accordance with the civil service pay reform supported by the World Bank), the elimination of some activities, and the rationalization of both local and central government activities. The final phase relates to actions that require changes in the Constitution, such as a reduction in the size of parliament. The implementation of these measures would allow the government to finance its strategic export promotion initiative and raise expenditures under the PAF over the medium term, both as a percentage of GDP and as a proportion of total expenditure. In addition, the 2002/03 budget provides funds for implementing part of the civil service pay reform.

35. With World Bank support, the authorities are undertaking **civil service pay and pension reforms**, with the goals of increasing transparency and providing sufficient compensation to retain and recruit skilled staff. In this regard, higher-level civil servants will receive an average salary increase of just over 5 percent in 2002/03, compared with a 3 percent wage increase for lower-level staff. A review of the full cost of the civil service pay reforms is under way and is expected to be completed in December 2002. Under the program, the authorities are also developing a strategy for reforming the pension system. They also intend to complete an assessment of outstanding pension liabilities by June 2003.

36. **To assure that quarterly expenditure releases for key social and economic programs correspond closely to budgeted levels,** limits have been set, as performance benchmarks, on quarterly releases for public administration—the fastest-growing component of the overall budget in recent years and the source of most supplementary spending. As stated in the MEFP and defined in the TMU, any supplementary spending arising from public administration above the established limits would henceforth be financed by cuts in other areas within this sector that do not affect the delivery of public services. Moreover, a proposed amendment to the Public Finance Bill, which is now before parliament, will require prior parliamentary approval of all supplementary expenditure. The authorities' intention to strictly apply and enforce the CCS is another important step toward achieving this goal. Overcommitments would not be tolerated and would lead to the full application of the sanctions under the system. Arrears generated in one quarter would be cleared by the end of the following quarter.

[13] This three-phase program will provide the basis for future structural benchmarks and performance criteria in the area of streamlining public administration under the PRGF arrangement.

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Decentralization

37. **The 2002/03 budget provides for the channeling of about 30 percent of total expenditures to the districts** in the form of conditional grants and unconditional and equalization grants, amounting to 4.0 percent of total expenditures. Districts are required to submit quarterly work plans and reports prior to the release of conditional grants; no such reports are required for the releases of other grants and transfers. Districts are also required to submit monthly reports of their fiscal operations. However, submissions have not been made on a regular basis. The program for 2002/03 aims to achieve some immediate, basic improvements in the monitoring and accountability of local governments,[14] beginning with the compilation of local government financial accounts on a regular basis. Moreover, under the World Bank's Poverty Reduction Support Credit (PRSC), an initial assessment of the tendering systems of local governments is to be made, with a view to identifying areas for strengthening. This assessment is a critical element in ensuring the effective use of public resources on poverty reduction. The World Bank is also working with local governments to build their own revenue base.

Monetary and financial sector issues

38. **The base money framework—including the use of indirect instruments to keep inflation below 5 percent, with flexible exchange rates—served Uganda well under the last program and will be maintained. Under the 2002/03 program, a ceiling on reserve money will be the principal anchor for monetary policy.** A ceiling on claims on government by the banking system, as well as a floor on net international reserves of the monetary authorities, ha also been established. The adoption of formal inflation targeting within the program period was also discussed. However, the mission agreed with the authorities that such a step was premature at this stage, as more work was needed to improve the database and to develop a better understanding of the monetary transmission mechanism. In view of the sizable amount of banks' excess reserves built up during 2001/02, the monetary program for 2002/03 is predicated upon the mopping up of excess reserves to about 15 percent of required reserves by end-September 2002—a level consistent with the normal payment frictions within the system, including the transfer of government revenue collected from districts and the transfer of funds to districts from the central government. By end-June 2003, these reserves would not exceed 14 percent of the commercial banks' required reserves.

39. **The monetary authorities will conduct sterilization operations on a regular basis to mop up the liquidity injected into the economy by the donor-funded poverty reduction outlays.** The quarterly sterilization plan of the BOU will, therefore, be aligned to the quarterly spending releases of the government. Both treasury bill and foreign exchange

[14] There are indications that some local governments have severe financial imbalances, but formal analysis is needed.

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sales will be used in these operations, with the mix of instruments depending in part on seasonal conditions in the money and foreign exchange markets. Under the new operating procedures, recently developed with MAE technical assistance, the regularity of these operations will be readily distinguishable from short-term liquidity management transactions, involving repurchase operations, or from corresponding short-term foreign exchange intervention operations to smooth temporary, disorderly exchange rate fluctuations. The government will also introduce a long-term bond of three to five years, mainly for sterilization purposes and to establish a benchmark for long-term interest rates.

40. **Premised on the above monetary policies, the monetary program for 2002/03 envisages a continued decline in velocity and a resulting M2 and M3 growth of 11.0 percent and 11.4 percent, respectively. The growth of commercial bank credit to the private sector is projected to pick up to 10.0 percent during the year,** partly reflecting the use of large lines of credit established by some prominent corporate clients and, more broadly, a deepening of financial intermediation. In particular, the commencement of lending operations by the privatized Uganda Commercial Bank (UCB) should provide an important source of credit to private sector clients. Further supporting this expected pickup in financial intermediation, other banks have reported the establishment of substantial credit lines by some large corporate clients.

41. **The program includes several steps aimed at deepening financial intermediation and building greater confidence in the banking system**. In June 2002, the authorities submitted to parliament a new Financial Institutions Statute (FIS), which aims at strengthening the BOU's regulatory authority. The bill seeks to establish prudential norms and regulations in line with international standards and to remove the role of the government from bank intervention and resolution policies. Because of its political implications, passage of this statute may take a while. However, the authorities have, in the meantime, begun to put in place measures to deal with the more immediate problems of weak banks and the ability of banks to meet the new minimum capital requirements, which take effect from January 2003. The BOU recently completed full-scope examinations of two problem banks. Based on the results of these examinations—that is, if any of the two banks are found to be insolvent or in breach of the FIS, or if their operations are found to be inimical to the interest of depositors—the BOU will take decisive remedial measures by end-August 2002 as required under the law. Meanwhile, to ensure compliance with the capital requirement that will be in effect by January 2003 and to address concerns about the ability of six small banks to meet the higher capital requirements, the BOU has put in place a detailed compliance-monitoring plan; under the plan, each bank is required to submit by September 2002 details of how it expects to comply with the requirement and the contingency measures developed in the event of failure to meet the requirement. Where necessary, the BOU is encouraging smaller banks to seek mergers in an orderly manner.

42. **Work toward a modernized payments system, improved infrastructure, an expanded outreach of financial services to rural areas, and a strengthened legal environment for financial intermediation is progressing.** The National Payments System Project has been set up to develop an appropriate legal and regulatory framework to support

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the modernization of the financial system and to improve the efficiency of the payments system through an extension of the electronic clearing system to areas outside the urban centers. Other actions that seek to improve access to financial services include increasing the number of BOU cash centers in the rural areas, enacting the Micro-Finance Deposit-Taking Institutions Bill, which is expected to forge closer links between microfinancial institutions and commercial banks, and establishing a credit reference bureau. With the goal of developing longer-term financial instruments and improving the health of the nonbank financial sector, the authorities have decided to privatize the Ugandan Development Bank (UDB) and to restructure the pension system, beginning with the National Social Security Foundation (NSSF). In the run-up to its privatization, no new public resources will be extended to the UDB. In the near term, to strengthen supervision of the NSSF, the authorities intend to place it under the supervisory jurisdiction of the BOU. Over the longer term, in line with the recommendations of the financial sector appraisal by World Bank and Fund staff, the Capital Markets Authority should assume this supervisory responsibility, once it has built up sufficient capacity.

External sector policies

43. **Although the external current account deficit, excluding grants, is projected to widen by about 1 percentage point of GDP to 16 percent of GDP in 2002/03, in a broader sense, Uganda's external position would strengthen,** as imports (including freight and insurance) for the Bujagali project would account for about 2 percent of GDP. The project would be financed largely by private sector loans and, to a lesser extent, foreign direct investment. Export receipts are projected to rise by 18 percent in 2002/03, reflecting an 8 percent increase in export volume, as well as a strong recovery in export prices. The higher export volume partly reflects the effects of supply-side interventions under the strategic export program, particularly in the cotton sector, but also the results of earlier replanting programs in coffee and tea. Uganda remains internationally competitive in its core export products, as demonstrated by the strong growth in noncoffee exports in recent years. Moreover, its coffee production costs are among the lowest in the world, especially with the high yielding varieties, which are now being planted.[15] The program envisages international reserves remaining at about six months import cover.

44. **The strategic exports program (SEP) has become a central element of the government's external sector policies,** as the collapse in coffee prices in recent years has exposed Uganda's vulnerability to the erratic swings in coffee prices. Accordingly, the SEP is designed not only to increase total exports, including coffee, but also to diversify the export base. The program consists mainly of supply-side interventions in seven commodities in

[15] An estimated 80 percent of Uganda's coffee trees are over 40 years old, well past the prime production age (4–10 years of age). Yields of the new clonal plantlets would be four times higher, even with no improvement in maintenance, and up to six times higher with better maintenance.

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which Uganda has a demonstrated comparative advantage.[16] Programs under the strategy aim at providing new seed, plantlets, and stock, necessary infrastructure, and, in the case of livestock, medicines for disease control. However, the SEP, as it now stands, has not yet elaborated a strategy for expanding markets for Ugandan products, or for generating higher value added. The donor community is working with the government to address these shortcomings.

45. **The authorities intend to continue implementing a flexible exchange rate regime.** The BOU will not counter movements in the exchange rate that reflect changes in economic fundamentals, but it remains committed to maintaining orderly conditions in the foreign exchange market. It is expected that the new operating procedures for foreign exchange sales recently developed with MAE technical assistance (see para. 39 above) will result in a more efficient operation of the foreign exchange market.

46. **In view of the recent sharp deterioration in debt sustainability indicators,** the authorities have decided on a gradual fiscal consolidation, together with a buildup of the export base, as the appropriate approach for lowering the debt indicators to sustainable levels over time. However, the underdelivery of HIPC assistance is a serious problem. Already the courts have awarded some creditors payments that will cost the government about ½ of 1 percentage point of GDP, and the potential for additional court cases is large. The authorities have expressed interest in using LEG technical assistance to amend the law regarding the statute of limitations on financial claims on the government.

47. **In the area of trade policy**, Uganda will pursue further trade liberalization in the context of the Common Market for Eastern and Southern Africa (COMESA) and the EAC, both of which plan to implement common external tariffs and customs unions by 2004.[17]

V. Medium-Term Prospects and Capacity to Repay the Fund

48. **Based on the medium-term macroeconomic framework outlined in the MEFP, which foresees strong real GDP growth (6½ percent a year) and low inflation, Uganda's fiscal and external sustainability positions are projected to improve over the next five years (Table 9).** The gradual fiscal consolidation envisaged in the framework, arising from tax policy and administration measures to increase government revenues to 14 percent of GDP by 2006/07 and cuts in nonessential government spending, would generate an increase in public sector savings, excluding grants, of 3 percentage points of GDP between 2001/02 and 2006/07. Moreover, the primary and overall fiscal balances, excluding grants, are expected to improve by 1.9 percentage points and 3 percentage points of GDP, respectively, over the same period, indicating that, while Uganda will remain heavily dependent on donor

[16] Coffee, cotton, tea, fish, beef, hides, and horticulture.

[17] This could imply different obligations in respect of Tanzania, which is a member of the EAC but not of COMESA.

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assistance to support its poverty reduction program over the foreseeable future, it will nevertheless make substantial progress toward a more sustainable fiscal position.

49. **With regard to external sector sustainability**, although the external current account deficit, excluding grants, is expected to widen in 2002/03, reflecting increased imports for construction of the Bujagali project, the deficit is expected to narrow steadily over the medium term to 12.3 percent of GDP in 2006/07. In particular, exports of goods and services are projected to grow at nearly 13 percent a year with the support of the government's SEP; as a result, exports will increase by 85 percent to US$1.2 billion in 2006/07, compared with US$650 million in 2001/02. In addition to the impact of the SEP on export volumes, which are projected to grow by 9 percent a year on average, export prices are projected to recover over the medium term by an average of nearly 4 percent a year. Under the SEP, exports would be diversified, thus reducing Uganda's exposure to the risk of individual commodity price fluctuations. Donor support is expected to play a leading role in financing the current account deficit, but private sector capital is also projected to provide substantial financing, with annual foreign direct investment increasing gradually to about 4 percent of GDP in 2006/07. Import coverage of gross official international reserves is thus expected to remain steady at about six months over the medium term, a healthy stance given the authorities' commitment to maintain a flexible exchange rate policy. At the same time, international financial liabilities are expected to be reduced substantially as a large share of obligations to the Fund are repaid. It is anticipated that Uganda's terms of trade will partially recover over the medium term and that the real exchange rate would remain stable. Furthermore, as indicated in the updated debt sustainability analysis (see EBS/02/162 and IDA/SecM2002-0419), Uganda's debt sustainability indicators are expected to improve over the medium term, although the net present value (NPV) of debt-to-exports ratio is not projected to fall below the HIPC threshold for several years to come (Table 9).

50. **While Uganda will still remain heavily dependent on donor assistance over the foreseeable future, improving the predictability of aid flows would strengthen budget planning.** The most recent MTEF, which served as the basis for the 2002/03 budget, foresees a reduction in donor support (in U.S. dollar terms) over the next three years, based on current firm commitments by donors. However, the international community has, in the context of the March 2002 Monterrey conference, pledged a dramatic increase in aid to poor countries for achieving the Millennium Development Goals, which should translate into increased donor inflows to Uganda. In the discussions with the staff, the authorities expressed their intention to consult with donors to develop a more reliable approach to predicting aid flows on a longer-term basis, which would allow for better planning of pro-poor expenditures.

51. **Total Fund credit outstanding to Uganda is projected to fall from 34.3 percent of gross international reserves at end-June 2002 to 5.4 percent by end-June 2007 (Table 10).** Over this period, debt service to the Fund (after HIPC assistance) would decline as a share of exports of goods and services from 3.0 percent in 2002/03 to 2.4 percent in 2006/07. Over the longer term, while total debt service (after HIPC assistance) is projected to rise slightly to about 10 percent of exports, annual debt service to the Fund would fall off sharply to 0.8 percent of exports on average during 2007/08–2011/12. Given Uganda's good

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record of effecting payments to the Fund on a timely basis, the projected high level of gross foreign reserves, and the authorities' commitment to continue to implement strong economic and financial policies, Uganda is expected to meet its financial obligations to the Fund in a timely manner.

52. **Considerably weaker economic growth than envisaged in the program would have a damaging impact on poverty reduction and Uganda's progress toward achieving more sustainable fiscal and external positions.** Based on a downside scenario with lower annual real GDP growth over the medium term (by 3 percentage points), per capita real GDP growth would be reduced to about 1 percent a year. The projected narrowing of the overall fiscal deficit would be reduced from 4.2 percentage points of GDP between 2001/02 and 2006/07, to 1.5 percentage points, as government revenues are assumed to decline in line with GDP, but expenditures only partly adjust (Table 11). Higher foreign and domestic borrowing would be needed to finance the deficit, which combined with lower export growth, would result in a failure to reduce the NPV of external debt-to-exports ratio below 200 percent over the medium term (see also EBS/02/162 and IDA/SecM2002-0417). Under this scenario, the external current account deficit would be little changed, compared with a narrowing of 2.7 percentage points of GDP in the program, and the import cover of international reserves falls to 4.2 months in 2006/07.

VI. Program Monitoring

53. As indicated in the attached authorities' letter of intent and MEFP, **structural and quantitative targets will be monitored on a quarterly basis (see Tables 1 and 2, respectively, of the MEFP), with the end-December 2002 and end-June 2003 quantitative targets serving as performance criteria for the first year of the arrangement.** The structural actions focus on measures to support a gradual fiscal consolidation, effective fiscal decentralization, and the strengthening and deepening of the financial sector. While these benchmarks and designated performance criteria focus on macroeconomic issues (see Table 1 of the MEFP), they are complemented by extensive structural measures under the World Bank's PRSC that directly benefit the poor in the areas of health, education, productive services, and governance (Box 6). Other donors, notably the European Union and the African Development Bank, are providing budget support tied to the PRSC in the context of the joint donor framework, as well as support for structural and institutional reforms in the areas of civil service reform, results-oriented budget management, tax reform, legal and judicial reform, private sector development, rural development, sectoral projects, and capacity building.

54. **The first and second semiannual reviews will be completed by mid-May and mid-October 2003, respectively.** At the time of the first review, benchmarks and performance criteria for the second half of 2002/03 will be discussed and, if necessary, revised. Targets for the second year of the program will be set at the time of the second review. Disbursements will be semiannual, with the first taking place upon Board approval, and the second upon observance of end-December 2002 performance criteria and completion of the first review scheduled for May 2003 (Table 12).

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Box 6. Uganda: Structural Conditionality in World Bank- and IMF-Supported Programs for 2002/03

World Bank	IMF
Fiscal issues • To ensure allocations and actual spending remain consistent with PEAP targets, the government will agree on the MTEF for 2002/03-2004/05 with the donors, and will execute the 2002/03 budget accordingly. • For consistency with Public Investment Plans, Ministry of Finance, Planning and Development (MoFPED) will integrate donor-funded projects in the expenditure ceilings of additional sectors. • To minimize deviations of outturns from approved budgets MoFPED will publish semi-annual budget performance reports on outputs and will make quarterly reports available on request. • National service delivery survey will be used to introduce service delivery standards to assess performance in order to ensure PEAP goals are adequately translated into desired outcomes. • Sector plans and expenditure programs will incorporate output and outcome measures in the Budget Framework Papers (BFP) to replace the current input-oriented plans.	**Fiscal issues** • A time bound plan for implementing actions to streamline public administration expenditure will be developed and announced. • Uganda Revenue Authority (URA) will produce a business plan that will spell out its strategy for improving tax collection and associated costs. • The URA will be provided additional resources for funding of the emergency equipment project. • Domestic budget arrears outstanding as at end-June 2002 will be verified.
Local government • To strengthen local ownership and reduce reporting requirements, MoFPED and Ministry of Local Government (MoLG) will start implementing the streamlined strategy on intergovernmental transfers.	**Local government** • To improve monitoring and reporting, aggregated local government financial statistics for 2000/01 fiscal year will be produced.
Public service management • To avoid jeopardizing the achievement of the public service reforms to date, Ministry of Public Services (MoPS) will develop and adopt policies for regulating and controlling the expansion of public administration. • MoPS will implement salary adjustments, which will be linked to performance and that are consistent with the pay strategy. • Public procurement • Legal and regulatory framework on public procurement will be improved by: (i) creation of procurement units in relevant institutions; (ii) carrying out independent audits of procurements; (iii) establishing an Appeals board to handle complaints; and (iv) hiring • Procurement agents to provide support to weak entities.	**Financial sector** • Table to the Parliament a bill to annul the National Social Security Fund (NSSF) Statute to pave the way for regulation of sector by the Bank of Uganda (BOU). • All banks will develop a Capital Compliance Plan detailing proposals for complying with January 2003 capital requirement for minimum paid-up capital. • Undertake comprehensive on site inspection of two weak banks and take appropriate supervisory action if necessary.
Privatization • The consultant report on restructuring and privatization of National Medical Stores (NMS) will be approved by MoFPED.	**Privatization** • Placement of Uganda Development Bank (UDB) for sale.

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Box 6. Uganda: Structural Conditionality in World Bank- and IMF-Supported Programs for 2002/03

World Bank	IMF
Financial Management • To improve recording and reporting of financial transactions MoFPED: (i) will begin contracting the external supplier(s) of Integrated Financial Management System (IFMS), (ii) will deploy additional accounting staff to assist in implementation of IFMS.	
Transparency and Corruption • To allow greater accountability access to public information will be enhanced. Accordingly, (i) MoFPED will implement the communication strategy approved; (ii) leaders will comply with the provisions of the Leadership Code Act of 2002. • To ensure sanctioning and exposure of corrupt acts, (i) the government will implement a stronger follow-up mechanism as proposed by the Inspector General of Government (IGG); (ii) Directorate of Ethics and Integrity (DEI) will assemble recommendations for enactment of the whistleblower protection legislation; (iii) DEI will present to Cabinet the principles of anti-corruption legislation; and (iv) DEI and IGG will disseminate results of the second integrity survey.	**Transparency and Corruption** • Conclude the Commission of Enquiry on corruption in URA. • Verification of assets, liabilities, and income declared by URA staff, including their spouses and children as required by the new Leadership Code Bill.
Reforms to promote rural development • To increase the access and effectiveness of agricultural advisory services, National Agricultural Advisory Services (NAADS) will contract agricultural service providers in at least 30 sub-counties. • Reforms to improve access to and quality of education, health, and water sanitation and safety.	

VII. Statistical Issues

55. **While Uganda's economic statistics have improved and are adequate for program-monitoring purposes, there are several areas in need of further improvement:** (a) inclusion of summary public finance data in the monthly economic report produced by the Ministry of Finance; (b) production of reconciled fiscal and monetary data along the lines recommended by the December 2001 STA technical assistance mission; (c) accounting and reporting systems for local government finances and the consolidation of these data; (d) coverage and timeliness of national accounts; and (e) regular production of trade data.

56. The recent rebasing of the national accounts statistics, development of the expenditure side of the national accounts, and reconciliation of trade data in the balance of payments with the national accounts are all major positive developments. Further long-term technical assistance in the area of national accounts statistics, however, will be helpful to regularize the production and revisions of these data. Also, a follow-up mission to the December 2001 STA mission will be needed to assist in the production of fiscal data in accordance with the new manual on *Government Finance Statistics*. Meanwhile, with a view to benefiting further

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from previous technical assistance, the staff urges the authorities to ensure that adequate resources to the statistical agencies are available to implement the recommendations of the statistical experts.

VIII. Risks to the Program

57. Any delays in eliminating the authorities' recent ad hoc approach to investment incentives could pose a serious risk to the program. While the incentives already provided may prove costly to the budget, beyond that, their ad hoc nature could easily become fertile ground for corruption.

58. A soft approach to streamlining public administration operations and to reducing the use of supplementary appropriations by this branch of government could have a significant adverse impact on public finances and resource allocation. If the resource envelope does not expand sufficiently, cuts in important social and economic outlays would be necessary to offset any new public expenditure overruns. It is, therefore, important that a serious and aggressive rationalization of public administration operations be initiated by December 2002 as programmed. Similarly, a shortfall in revenue mobilization could also jeopardize the financing of important social and economic programs.

59. Export growth and diversification are an integral part of the strategy to stimulate the economy, reduce poverty, and restore external debt sustainability. The evolution of the external environment facing Uganda would be an important factor in achieving program targets. Continued weakness in commodity prices and poor implementation of the strategic export initiative could therefore pose an additional risk to the program.

60. Delays to the Bujagali hydro electricity project could have severe consequences, far beyond the forgone immediate stimulus to the economy. Unreliable electricity service has been cited as a leading constraint on increased economic growth in Uganda. Considerably weaker growth would severely limit gains in reducing poverty and adversely impact progress toward fiscal and external sustainability.

61. Court awards to non-Paris Club creditors filing for full repayment of their claims on Uganda are already a serious fiscal burden and could become much worse if some of the large non-Paris Club bilateral creditors take this route for resolving their claims.

62. Strengthening the monitoring, accountability, and implementation capacity of local governments is essential to enhancing the effectiveness of poverty reduction programs and achieving the PEAP objectives. Abuse and corruption, particularly in the tendering processes of local governments, are serious concerns. Failure to address local government capacity problems in the areas of program and budget management is likely to hinder the achievement of the poverty reduction and growth objectives, as well as of financial sustainability. The insolvency of some local governments could also pose risks to the budget, if not addressed in a timely manner and if bailouts become necessary.

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63. Increased donor assistance to Uganda is required to meet PEAP targets. However, steps need to be taken to ensure that it is used productively to build physical and human capital. Coordination between donors and the authorities is necessary to increase the predictability of aid flows. Although there are warning signs, Uganda's external debt situation is manageable.

64. Unfavorable weather conditions could also adversely affect GDP growth.

65. However, these risks are mitigated somewhat by the possibility that productive private investment, including foreign direct investment, could be higher as a result of continued macroeconomic stability and the structural reforms being implemented in Uganda. The AGOA and EU's "Everything but Arms" initiative would provide additional incentive for private investment.

IX. Staff Appraisal

66. Uganda's performance under the previous PRGF-supported arrangement was commendable. Strong economic growth was sustained despite a significantly worse than envisaged external environment, and a comprehensive poverty reduction program was initiated that has already contributed to a significant drop in the incidence of poverty. Moreover, commendable efforts were made to maintain macroeconomic stability and to strengthen the banking system. In the fiscal area, expenditure management was improved following the introduction of the CCS, which also helped to sharply reduce the buildup of government arrears. Furthermore, the system of delivering public services was comprehensively decentralized to the districts. Key priorities for the new arrangement include maintaining strong economic growth, raising the revenue effort, reorienting government expenditure toward essential social and economic services, building an effective budget management and accounting system at the local level, improving governance structures at all levels, strengthening financial intermediation, and making progress toward fiscal and debt sustainability.

67. The major challenge facing Uganda is to sustain strong economic growth and poverty reduction in the face of a relatively weak external environment, by effectively utilizing large projected donor inflows. The new program addresses this challenge through a strong focus on the reorientation of public outlays in favor of human and physical capital development, a streamlining of the private investment incentive system, and adequate funding for the strategic exports program, coupled with the maintenance of a flexible exchange rate for the Uganda shilling. At the same time, the medium-term reform strategy aims at addressing key impediments to growth, including weak financial intermediation. Staff welcomes the authorities' desire to harmonize investment incentives with other EAC countries, which would reduce an unhealthy competition to attract investors.

68. At the core of the program are determined steps to raise revenue collection, underpinned by bold actions to stamp out corruption at the URA, and improve tax compliance and enforcement. The staff welcomes the authorities' recognition that weak revenue collection could seriously hinder the sustained implementation of the poverty

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reduction program and the achievement of financial sustainability. However, it is important for the authorities to complement tax administration measures with bold new tax policy actions, in order to increase significantly revenue collection.

69. The staff welcomes the authorities' decision to continue to place poverty reduction at the center of its development strategy and to ensure that essential poverty reduction programs are adequately funded. The placement of a limit on public administration expenditure should help to minimize a crowding out of social and economic expenditures. Nevertheless, in view of the tight budgetary position and the limited scope for new revenue measures, the full protection of essential expenditure will require that the planned reorientation of expenditure be initiated as soon as possible. The staff would, therefore, urge the authorities to expedite the development and implementation of a public administration restructuring strategy. This will also help ensure that future deviations of actual expenditure from budget intentions are minimized. In this respect, the planned strengthening of public expenditure management, including the CCS, restrictions on the use of supplementary allocations, and the semi-annual auditing process, would contribute to ensure the successful implementation of expenditure programs.

70. The maintenance of stable macroeconomic conditions under the last program reflected not only a strengthened fiscal position but also a prudent monetary policy. Under the new program, monetary policy will need to remain focused on keeping inflation low. The recent adoption of new sterilization and short-term liquidity management procedures, as well as the decision to mop up the excess reserves built in 2001/02, is welcome, as it should improve the management of monetary policy. Moreover, the introduction of longer-term treasury paper should enhance the BOU's ability to conduct monetary operations and financial deepening.

71. An important stage of financial sector reform has been completed with the sale of the UCB to Stanbic Bank, as was recommended in the draft financial sector appraisal by World Bank and Fund staff. Stanbic is now seeking to fully merge the UCB into its operations, which would contribute to greater efficiency in the banking sector. The next stage of financial sector reform would be marked by the enactment of the new FIS, as well as by the successful consolidation of weak small banks, which are likely to find it difficult to operate under the new strengthened regulatory regime. A strengthening of financial intermediation is essential to sustaining strong private sector growth. The staff, therefore, welcomes the decision of the government to privatize the UDB and bring the NSSF under BOU supervision. These are important initial steps in building institutions for term lending. These endeavors will need to be supported by the establishment of an effective regulatory framework for developing finance institutions and encouraging long-term savings, in particular, by promoting the development of a sound insurance sector.

72. In addition to the reallocation of public resources, a significant strengthening of the governance structure, as well as better transparency in public finance, is needed to markedly improve the delivery of public services and the productivity of public outlays. This includes the production and publication of more timely and reliable data to facilitate an evaluation of

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the effectiveness of ongoing programs and public scrutiny and monitoring of projects. The ongoing reforms of accounting and budget management systems of local governments, as well as statistics systems, must therefore be pursued with vigor.

73. The projected widening of the current account of the balance of payments under the new program is not a source of major concern as it reflects the effects of increased investment on the Bujagali project, which is wholly externally funded. The underlying balance of payments is expected to strengthen, reflecting not only the effects of good macroeconomic policies, but also the positive impact of the ambitious export promotion strategy. The staff supports the authorities' decision to build their foreign reserves beyond the original five months import cover. Uganda's external debt sustainability indicators have recently deteriorated significantly. The authorities' focus on gradual fiscal consolidation, together with a strengthening of the export base, is an appropriate approach to lowering debt indicators to sustainable levels over time. The staff agrees with this position, but remains concerned that the failure of some non-Paris Club creditors to provide debt relief to Uganda, in line with Paris Club understandings, may seriously undermine the HIPC Initiative, as well as Uganda's poverty reduction strategy.

74. While the program faces real risks, Uganda's good track record under the last program and the strength of the measures under the program provide assurances that the new program will be implemented as planned and its objectives will be achieved. Against this background, the staff recommends the approval of the proposed PRGF arrangement.

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Table 1. Uganda: Selected Economic and Financial Indicators, 1997/98–2004/2005 1/

	1997/98	1998/99	1999/00	2000/01	2001/02		2002/03	2003/04	2004/05
					Budg.	Est.	Prog.	Prog.	Prog.
	(Annual percentage change, unless otherwise indicated)								
National income and prices									
GDP at constant prices	4.7	7.6	5.0	5.6	6.4	5.7	6.5	6.9	6.3
GDP deflator	10.1	0.4	4.1	6.6	4.6	0.7	2.5	3.7	3.4
GDP at market prices									
(in billions of Uganda shillings)	7,498	8,099	8,849	9,962	11,455	10,611	11,585	12,852	14,120
Consumer prices									
End of period	-0.9	5.3	1.9	6.4	5.0	-2.5	6.1	3.5	3.5
Underlying	1.9	4.5	2.9	8.5	5.0	0.1	4.5	3.5	3.5
Annual average	5.8	0.2	5.8	4.5	5.0	-2.0	1.0	3.5	3.5
Underlying	1.0	2.8	5.0	5.0	3.5	3.5	3.5	3.5	3.5
External sector (in U.S. dollars)									
Exports, f.o.b.	-32.9	19.8	-17.3	-2.7	-4.1	3.3	18.4	11.8	14.6
Imports, c.i.f.	7.5	7.6	-5.9	-0.5	4.4	11.4	11.4	5.6	6.6
Terms of trade (deterioration -)	9.2	-10.5	-18.0	-13.0	-1.9	1.5	8.3	2.5	-0.5
Average exchange rate									
(Uganda shillings per U.S. dollar)	1,150	1,362	1,511	1,763	...	1,755	...	...	...
Nominal effective exchange rate									
(average; depreciation -)	0.0	-14.0	-2.9	-7.0	...	3.2	...	...	...
Real effective exchange rate									
(average; depreciation -)	2.2	-13.0	2.0	-2.0	...	9.5	...	...	...
Government budget									
Total revenue and grants	17.1	13.2	12.4	25.9	12.7	6.6	10.2	11.4	10.1
Revenue	9.6	18.6	6.2	7.2	20.1	15.8	14.1	15.1	13.3
Expenditure and net lending	11.9	23.3	51.3	-10.4	27.5	21.0	1.9	12.2	8.9
	(Annual changes in percent of beginning-of-period stock of money and quasi money, unless otherwise indicated)								
Money and credit									
Net foreign assets	32.4	14.0	10.7	22.6	27.1	21.3	15.4	13.8	10.0
Net domestic assets	-6.3	-0.2	5.4	-5.1	-13.1	-3.7	-3.9	0.1	3.4
Domestic credit	2.7	17.2	46.9	7.0	-10.7	3.3	2.6	5.6	6.8
Central government	-8.3	0.1	46.7	3.4	-18.9	1.5	-0.9	0.8	1.7
Private sector	11.0	12.3	2.9	4.0	8.1	1.9	3.6	4.9	5.1
Money and quasi money (M3)	26.1	13.8	16.1	17.5	14.0	17.6	11.4	13.9	13.4
M2	23.7	9.1	8.8	15.2	14.0	21.9	11.0	13.7	13.4
Velocity (GDP/M2) 2/	9.5	8.9	8.9	8.9	8.2	8.0	7.6	7.5	7.2
Interest rate (in percent) 3/	9.3	6.4	10.4	14.3	...	6.7	...	...	...
	(In percent of GDP at market prices)								
National income accounts									
Gross domestic investment	17.1	20.3	19.9	20.4	19.7	19.9	22.1	22.2	22.5
Public	4.7	5.5	6.5	6.4	8.1	6.7	6.6	6.7	6.6
Private	12.4	14.8	13.5	14.0	11.6	13.2	15.5	15.5	15.9
Gross domestic savings (excluding grants)	4.6	7.1	6.7	5.9	7.3	5.0	6.2	6.8	7.8
Public	-1.1	-0.9	-3.1	-2.9	-3.0	-4.8	-3.4	-3.2	-2.7
Private	5.6	8.0	9.8	8.9	10.3	9.9	9.6	10.0	10.5
Gross national savings (including grants)	10.4	11.8	12.0	13.1	13.6	11.6	12.3	12.5	13.1
External sector									
Current account balance									
(including official grants)	-6.7	-8.5	-7.9	-7.3	-6.1	-8.3	-9.8	-9.8	-9.4
(excluding official grants)	-12.5	-13.1	-13.2	-14.4	-12.4	-14.9	-15.9	-15.4	-14.7
External debt (including Fund)	59.7	62.4	61.2	62.1	62.5	65.2	66.1	65.5	63.6
Government budget									
Revenue	10.7	11.7	11.4	10.9	11.3	11.8	12.3	12.8	13.2
Grants	5.3	5.0	5.8	8.4	7.6	7.5	7.1	6.8	6.4
Total expenditure and net lending	17.1	19.5	27.0	21.5	23.5	24.4	22.8	23.0	22.8
Government balance (excluding grants)	-6.4	-7.8	-15.6	-10.6	-12.2	-12.6	-10.4	-10.2	-9.6
Government balance (including grants)	-1.1	-2.7	-9.8	-2.2	-4.6	-5.1	-3.3	-3.5	-3.2
Domestic balance	-0.3	-1.6	-9.0	-4.3	-6.2	-6.6	-4.9	-5.0	-4.6
Net foreign financing	2.6	2.9	3.4	3.3	7.1	5.0	3.4	3.3	2.9
Domestic bank financing	-0.9	0.0	6.1	0.5	-2.6	0.2	-0.2	0.1	0.3
Domestic nonbank financing	-0.6	-0.2	0.4	-0.4	0.0	0.1	0.1	0.1	0.1
Net donor inflows	8.1	7.9	8.2	11.1	14.2	11.7	10.4	9.9	9.2
	(In percent of exports of goods and nonfactor services)								
Debt-service ratio 4/									
Including Fund obligations	26.4	18.2	13.9	7.2	6.3	8.5	9.1	9.8	9.7
Excluding Fund obligations	16.4	11.9	8.5	2.6	1.9	3.3	4.4	4.9	5.4
	(In millions of U.S. dollars, unless otherwise indicated)								
Overall balance of payments	109	-21	-92	-56	103	73	-2	-18	-18
External payments arrears (end of period)	276	241	0	0	0	0	0	0	0
Foreign exchange reserves	750	748	719	739	938	879	946	982	1,010
Gross foreign exchange reserves (in months of imports of goods and nonfactor services)	6.2	6.4	5.9	5.6	5.3	6.0	6.1	6.0	5.9

Sources: Ugandan authorities; and Fund staff estimates and projections.

1/ Fiscal year begins in July.
2/ Nominal GDP divided by average of current-year and previous-year end-period money stocks.
3/ Weighted annual average rate on 91-day treasury bills.
4/ The debt-service ratio incorporates the effects of rescheduling and assistance provided under the original and enhanced HIPC Initiatives and estimated HIPC assistance from non-Paris Club bilateral creditors with whom bilateral agreements have not yet been reached.

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Table 2. Uganda: Balance of Payments, 1997/98-2004/05 1/
(In millions of U.S. dollars, unless otherwise indicated)

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
Current account	-438.0	-504.7	-462.0	-410.5	-500.9	-617.5	-648.3
Trade balance	-507.7	-490.3	-523.8	-531.5	-628.3	-668.4	-671.8
Exports, f.o.b.	458.4	549.1	454.0	441.8	456.4	540.2	604.0
Coffee	268.9	306.7	186.9	109.7	84.0	106.4	123.7
Noncoffee	189.5	242.4	267.1	332.1	372.4	433.8	480.3
Imports, c.i.f.	966.1	1039.4	977.8	973.3	1084.7	1208.6	1275.7
Project related	170.8	164.3	114.9	89.6	110.4	100.2	85.9
Other imports	795.3	875.1	862.9	883.7	974.3	1108.3	1189.8
Services (net)	-284.4	-230.3	-235.2	-293.0	-313.6	-350.3	-366.4
Inflows	175.3	185.2	196.5	187.7	193.4	206.9	221.4
Outflows	459.6	415.5	431.7	480.7	507.0	557.3	587.9
Income (net)	-8.6	-50.2	-109.9	-114.8	-131.2	-140.6	-122.7
Net interest	-2.3	-14.4	-26.8	-24.8	-35.7	-39.9	-21.4
Of which : interest due 2/	-44.8	-44.8	-48.5	-41.7	-38.7	-41.2	-41.1
Net dividends and distributed earnings	-6.3	-35.8	-34.3	-47.9	-55.6	-57.8	-58.5
Transfers	362.6	266.1	406.9	528.8	572.1	541.7	512.6
Private transfers	-17.2	-10.4	94.8	123.9	173.9	158.6	139.2
Of which: Nongovernmental organizations	90.2	94.7	99.5	104.4	95.9	86.7	86.7
Official transfers 3/	379.8	276.5	312.2	404.9	398.2	383.1	373.3
Project support	217.9	203.0	202.3	252.1	227.7	205.8	205.8
Import support	162.0	73.5	109.8	152.8	170.5	177.3	167.5
Capital and financial account	276.7	138.2	201.2	197.4	203.9	376.8	319.3
Foreign direct investment	158.0	175.0	194.3	169.2	181.8	225.0	249.9
Official (net)	194.8	191.3	158.7	168.2	271.6	225.6	226.6
Disbursements	262.8	266.8	240.9	248.2	350.7	316.6	316.1
Project support	217.9	203.0	202.4	164.8	151.8	137.2	137.2
Import support	45.0	63.8	38.5	83.4	198.9	179.4	178.9
Amortization due	68.0	75.5	82.2	80.0	79.1	91.0	89.5
Commercial (net)	2.5	12.6	23.7	-18.1	102.5	165.1	153.8
Central government	0.0	0.0	28.3	-2.3	-4.6	-4.6	-4.6
Private	2.5	12.6	-4.6	-15.8	88.6	188.2	158.4
Errors and omissions	349.8	279.3	-7.1	35.7	18.3	0	0
Overall balance	109.2	-21.5	-92.3	-55.5	73.3	-2.0	-18.2
Financing	-109.2	21.5	92.3	55.5	-73.3	2.0	18.2
Central bank reserves (- = increase)	-133.3	-39.8	14.7	-41.0	-179.9	-107.5	-83.8
Gross reserve change	-128.6	2.4	28.6	-19.3	-140.6	-67.0	-36.0
IMF (net)	-5.0	-35.7	-13.9	-21.9	-39.3	-40.5	-47.8
Short term	0.3	-6.6	0.0	0.2	0.0	0.0	0.0
Change in arrears (net)	-43.1	-43.1	-241.4	-1.2	0.0	0.0	0.0
HIPC assistance 4/	67.2	104.4	318.9	97.7	106.6	109.5	102.0
Memorandum items:							
Gross international reserves 5/	6.2	6.4	5.9	5.6	6.0	6.1	6.0
Net international reserves 5/	3.0	3.4	3.1	3.3	4.2	4.7	4.9
Current account-to-GDP ratio (in percent)							
Including official transfers	-6.7	-8.5	-7.9	-7.3	-8.3	-9.8	-9.8
Excluding official transfers	-12.5	-13.1	-13.2	-14.4	-14.9	-15.9	-15.4
Debt-service ratio							
Before rescheduling (including IMF)	27.2	24.4	27.8	26.8	24.9	23.7	22.2
After rescheduling (including IMF)	26.4	18.2	13.9	7.2	8.5	9.1	9.8
Coffee price (U.S. cents per kg.)	156.6	136.3	102.5	64.4	46.2	54.1	58.9
Coffee export volume (in millions of 60-kg. bags)	2.9	3.8	3.0	2.8	3.0	3.3	3.5
Exports of goods and nonfactor services	633.7	734.3	650.5	629.5	649.8	747.1	825.4
Net donor support	529.9	468.0	479.1	629.2	708.1	653.5	654.3
(in percent of GDP)	8.1	7.9	8.2	11.1	11.7	10.4	9.9

Sources: Ugandan authorities; and Fund staff estimates and projections.

1/ Fiscal year begins in July.
2/ From 2000/01 onward, interest due include financing costs arising from the lease purchase of a presidential jet concluded in late March 2000.
3/ Includes capital grants.
4/ Includes debt relief provided through debt cancellation, grants, and rescheduling. It also includes estimated debt relief under the HIPC Initiatives from non-Paris Club bilateral creditors with whom bilateral agreements have not yet been reached.
5/ In months of imports of goods and services.

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Table 3. Uganda: Monetary Survey, 1997/98–2002/03 1/

	1997/98	1998/99	1999/200	2000/01	2001/02	2002/03
	(In billions of Uganda shillings; end of period)					
Monetary survey						
Net foreign assets	639	782	906	1,211	1,548	1,835
Net domestic assets	381	378	441	373	314	240
Domestic credit	292	468	1,012	1,107	1,159	1,208
Claims on public sector (net) 2/	-129	-79	432	472	493	476
Claims on private sector	421	546	580	635	665	732
Valuation	246	194	-48	-99	-140	-210
Other items (net)	-157	-283	-523	-635	-705	-758
Broad money (M3)	1,020	1,161	1,347	1,584	1,862	2,075
Of which: M2	873	953	1,036	1,193	1,454	1,614
Monetary authorities						
Net foreign assets	452	585	615	792	1,143	1,399
Foreign assets	928	1,098	1,147	1,300	1,611	1,815
Of which: foreign reserves	925	1,087	1,131	1,274	1,580	1,787
Foreign liabilities	476	513	533	508	468	416
Of which: liabilities to IMF	474	510	529	504	463	412
Net domestic assets	-79	-153	-172	-243	-517	-724
Domestic credit	-247	-154	219	235	48	-89
Claims on public sector (net) 2/	-249	-197	249	207	10	-127
Claims on private sector	0	0	0	0	0	0
Claims on commercial banks (net)	2	43	-31	28	38	38
Valuation	256	206	-39	-95	-129	-191
Other items (net)	-88	-204	-352	-383	-436	-443
Base money	373	432	442	550	626	675
Currency outside banks plus cash in vaults	270	317	336	387	428	469
Commercial bank deposits with BOU	103	115	107	163	198	206
Commercial banks						
Net foreign assets	187	197	291	419	405	436
Net domestic assets	593	679	749	815	1,062	1,209
Domestic credit	672	770	929	1,071	1,342	1,542
Claims on public sector (net) 2/	121	118	183	265	483	603
Claims on private sector	421	546	580	635	665	732
Of which: foreign exchange loans	0	62	87	118	161	187
Claims on BOU (net)	131	105	166	172	193	207
Claims on BOU						
Total reserves	112	125	118	178	211	221
Required reserves	72	83	101	138	164	181
Excess reserves	31	32	6	-15	34	25
Reserve-eligible vault cash	9	10	12	15	13	15
Other 3/	35	95	138	70	58	61
Valuation	-10	-12	-9	-4	-11	-19
Other items (net)	-69	-79	-171	-252	-269	-314
Deposit liabilities to nonbank residents	781	876	1,041	1,234	1,468	1,644
Shilling deposits	634	668	730	843	1,060	1,183
Foreign currency deposits	147	208	311	390	408	461
Memorandum items:						
M3-to-GDP ratio (percent)	13.6	14.3	15.2	15.9	17.6	17.9
M2-to-GDP ratio (percent)	11.6	11.8	11.7	12.0	13.7	13.9
Credit to private sector-to-GDP ratio (percent)	5.6	6.7	6.6	6.4	6.3	6.3
Currency outside banks-to-M3 ratio (percent)	23.5	24.5	22.8	22.1	21.2	20.8
Foreign currency deposits-to-M3 ratio (percent)	14.4	17.9	23.1	24.6	21.9	22.2
Credit to the private sector (12-month change in percent)	26.8	29.9	6.2	9.4	4.8	10.0
Base money multiplier (M2/base money)	2.3	2.2	2.3	2.2	2.3	2.4
Excess reserves-to-required-reserves ratio	43.1	38.2	5.9	-10.9	20.7	13.9
	(in millions of U.S. dollars)					
NFA of monetary authorities	367	403	391	460	636	741
Of which: foreign reserves	750	748	719	739	879	946
NFA of commercial banks	152	136	185	243	225	231

Sources: Ugandan authorities; and Fund staff estimates and projections.

1/ Fiscal year begins in July.
2/ The public sector includes the central government, the public enterprises and the local government.
3/ Other includes nonreserve vault cash, holdings of BOU bills and promissory notes, and borrowing at the BOU by the Commercial Banks.

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Table 4. Uganda: Fiscal Operations of the Central Government, 1997/98–2004/2005 1/

	1997/98	1998/99	1999/00	2000/01	2001/02		2002/03	2003/04	2004/05
					Budg.	Est.	Proj.	Proj.	Proj.
	(In billions of Uganda shillings)								
Total revenue and grants	1,199	1,358	1,526	1,921	2,174	2,047	2,256	2,513	2,766
Revenue	801	951	1,010	1,082	1,300	1,253	1,429	1,645	1,864
Tax	754	888	928	1,029	1,201	1,156	1,320	1,521	1,732
Nontax 2/	47	63	82	53	99	97	109	124	131
Grants	398	407	516	839	874	794	827	868	902
Import support	193	162	240	442	496	435	485	509	529
Of which: HIPC assistance	0	61	71	172	186	135	158	185	192
Project grants	204	245	275	397	378	360	341	359	373
Expenditures and net lending	1,281	1,579	2,389	2,141	2,697	2,591	2,640	2,961	3,223
Current expenditures	728	870	977	1,138	1,413	1,468	1,504	1,710	1,881
Wages and salaries	256	341	374	434	549	546	628	651	672
Of which: defense	30	68	101	116	118	118	128	130	137
Universal primary education (UPE)	87	96	103	144	156	170	185	190	192
Poverty Action Fund 3/	0	0	111	133	198	211	236	243	253
Interest payments	75	75	95	125	155	151	147	177	196
Domestic	29	21	30	57	93	90	75	101	114
External	46	54	66	68	62	62	72	76	83
Transfers to the Uganda Revenue Authority	25	30	32	35	41	45	63	57	59
Defense	75	113	69	70	82	124	65	115	137
Priority Program Areas 2/	110	154	184	0	0	0	0	0	0
Poverty Action Fund 3/	0	0	81	118	153	146	168	201	225
Statutory	62	35	74	88	107	127	103	101	105
Other 4/	125	122	148	269	326	328	331	347	361
Development expenditures	502	591	783	900	1,123	1,007	1,059	1,194	1,300
External	413	446	520	566	629	572	569	598	621
Domestic	90	145	263	335	494	435	490	553	592
Of which: defense	8	7	4	6	10	5	11	9	10
Poverty Action Fund 3/	0	0	111	164	258	245	277	313	338
UPE	5	31	63	0	0	0	0	0	0
Net lending and investment 5/	3	2	392	-27	-34	2	-24	-37	-39
Contingency	0	0	0	0	0	0	50	50	40
Additional fiscal measures	0	0	0	0	0	0	0	104	212
Domestic arrears repayment 6/	47	116	146	130	132	114	50	45	41
Overall balance									
Including grants	-82	-221	-864	-221	-523	-544	-384	-448	-457
Excluding grants	-479	-628	-1,379	-1,059	-1,397	-1,338	-1,210	-1,316	-1,359
Domestic balance 7/	-21	-129	-793	-425	-706	-704	-569	-642	-635
Financing	83	218	878	336	523	563	384	448	457
External financing (net)	196	232	304	326	817	526	391	421	407
Disbursement	256	332	333	412	902	589	558	586	591
Import support	52	87	58	147	651	349	331	347	343
Project loans	204	245	275	265	252	240	228	239	248
Commercial borrowing	0	0	43	0	0	0	0	0	0
Other short-term borrowing	0	0	0	0	0	32	-34	0	0
Amortization(-)	-78	-101	-120	-145	-137	-147	-176	-182	-188
of which: commercial debt	0	0	0	4	3	8	8	9	9
Payment of external arrears	-16	-14	-6	0	0	0	0	0	0
Payment of nondebt arrears	0	-15	0	0	0	0	0	0	0
Exceptional financing	34	31	54	59	52	52	43	18	4
Domestic financing (net)	-113	-14	574	11	0	36	-7	27	50
Bank financing 5/	-67	1	542	46	-299	25	-17	16	40
Bank of Uganda	-103	24	470	-42	-273	-197	-137	-88	-57
Of which: for Bank restructuring	0	0	476	0	476	-476	0	0	0
Commercial banks	36	-24	72	88	-26	222	120	104	97
Nonbank financing	-46	-15	31	-36	5	12	10	11	10
Check float	-33	-11	35	-57	0	4	0	0	0
Promissory notes (net)	-26	-8	-11	0	0	0	0	0	0
Other	13	4	7	21	5	8	10	11	10
Of which: treasury bills	13	4	7	21	5	8	10	11	10
Errors and omissions/financing gap	-1	3	-14	-116	0	-19	0	0	0
	(In percent of annual GDP at market prices, unless otherwise indicated)								
Total revenue and grants	16.0	16.8	17.2	19.3	19.0	19.3	19.5	19.6	19.6
Revenue	10.7	11.7	11.4	10.9	11.3	11.8	12.3	12.8	13.2
Grants	5.3	5.0	5.8	8.4	7.6	7.5	7.1	6.8	6.4
Expenditures and net lending	17.1	19.5	27.0	21.5	23.5	24.4	22.8	23.0	22.8
Current expenditure	9.7	10.7	11.0	11.4	12.3	13.8	13.0	13.3	13.3
Development expenditures	6.7	7.3	8.9	9.0	9.8	9.5	9.1	9.3	9.2
External	5.5	5.5	5.9	5.7	5.5	5.4	4.9	4.7	4.4
Domestic	1.2	1.8	3.0	3.4	4.3	4.1	4.2	4.3	4.2
Overall balance									
Including grants	-1.1	-2.7	-9.8	-2.2	-4.6	-5.1	-3.3	-3.5	-3.2
Excluding grants	-6.4	-7.8	-15.6	-10.6	-12.2	-12.6	-10.4	-10.2	-9.6
Domestic balance 6/	-0.3	-1.6	-9.0	-4.3	-6.2	-6.6	-4.9	-5.0	-4.6
Primary balance including grants	-0.1	-1.8	-8.7	-1.0	...	-3.7	-2.0	-2.1	-1.8
Financing									
External financing (net)	2.6	2.9	3.4	3.3	4.6	5.0	3.4	3.3	2.9
Domestic bank financing (net)	-0.9	0.0	6.1	0.5	7.1	0.2	-0.2	0.1	0.3
Domestic nonbank financing (net)	-0.6	-0.2	0.4	-0.4	-2.6	0.1	0.1	0.1	0.1
Bank recapitalization bonds (in billions of Uganda shillings)	72	72	72	72	72	72	72	72	72
Total defense expenditures	1.5	2.3	2.0	1.9	1.8	2.3	1.8	2.0	2.0
Wages and salaries	3.4	4.2	4.2	4.4	4.8	5.1	5.4	5.1	4.8
Priority Program Areas and primary education	1.5	1.9	2.1	...	...	...	...	...	...
development expenditure	1.5	2.3	2.8	...	...	...	...	...	...
Poverty Action Fund 3/	0.0	0.0	3.4	4.2	5.3	5.7	5.9	6.1	6.2

Sources: Ugandan authorities; and Fund staff estimates and projections.

1/ Fiscal year begins in July.
2/ From 2001/02 onward, nontax revenue includes nontax revenue collected by ministries.
3/ From 2000/01 onward, the Poverty Action Fund (PAF) replaces Priority Program Areas as the monitored measure of poverty reduction expenditures. For 1999/2000, PAF expenditures are shown for comparison purposes only.
4/ There is a break in this series in 2000/01 due to changes in classification because Priority Program Areas are no longer monitored.
5/ Excludes face value of recapitalization bonds issued to the Bank of Uganda and to the Uganda Commercial Bank. However, full provision is made for the interest costs and amortization associated with these bond issues. However, the 1999/00 figure includes U Sh 384.5 billion of a treasury note that was redeemed to recapitalize the Bank of Uganda.
6/ Domestic arrear repayments are included under total expenditure rather than domestic financing.

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Table 5. Uganda: Fiscal Revenues of the Central Government, 1997/98-2004/05 1/

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
						Budg.	Proj.	
				(In billions of Uganda shillings)				
Total revenue	801	951	1,010	1,082	1,253	1,429	1,645	1,864
Tax revenue	754	888	928	1,029	1,156	1,320	1,521	1,732
Taxes on international trade	429	496	504	564	581	669	753	843
Export taxes	0	0	0	0	0	3	3	4
Import taxes	428	496	504	564	581	666	749	839
Petroleum products	188	193	197	199	222	251	278	304
Non-oil products	240	302	308	365	359	415	471	535
Custom duties	78	96	105	141	117	133	153	173
Excises	18	25	24	24	23	36	41	46
Value-added tax	145	181	179	199	218	246	278	316
Taxes on domestic incomes	125	170	182	224	284	330	381	434
Taxes on domestic production	200	222	242	241	291	321	364	408
Value-added tax	103	118	134	140	175	197	224	250
Refunds	-14	-23	-30	-35	-39	-44	-50	-56
Excises	98	105	108	101	116	123	140	157
Unidentified revenue measures 2/		0	0	0	0	0	23	48
Nontax revenue	47	63	82	53	97	109	124	131
				(In percent of GDP at market prices)				
Total revenue	10.7	11.7	11.4	10.9	11.8	12.3	12.8	13.2
Tax revenue	10.1	11.0	10.5	10.3	10.9	11.4	11.8	12.3
Taxes on international trade	5.7	6.1	5.7	5.7	5.5	5.8	5.9	6.0
Export taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Import taxes	5.7	6.1	5.7	5.7	5.5	5.8	5.8	5.9
Petroleum products	2.5	2.4	2.2	2.0	2.1	2.2	2.2	2.2
Non-oil products	3.2	3.7	3.5	3.7	3.4	3.6	3.7	3.8
Custom duties	1.0	1.2	1.2	1.4	1.1	1.1	1.2	1.2
Excises	0.2	0.3	0.3	0.2	0.2	0.3	0.3	0.3
Value-added tax	1.9	2.2	2.0	2.0	2.1	2.1	2.2	2.2
Taxes on domestic incomes	1.7	2.1	2.1	2.3	2.7	2.8	3.0	3.1
Taxes on domestic production	2.7	2.7	2.7	2.4	2.7	2.8	2.8	2.9
Value-added tax	1.4	1.5	1.5	1.4	1.6	1.7	1.7	1.8
Refunds	-0.2	-0.3	-0.3	-0.4	-0.4	-0.4	-0.4	-0.4
Excises	1.3	1.3	1.2	1.0	1.1	1.1	1.1	1.1
Unidentified revenue measures	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.3
Nontax revenue	0.6	0.8	0.9	0.5	0.9	0.9	1.0	0.9
				(In percent of total revenue)				
Total revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Tax revenue	94.1	93.4	91.9	95.1	92.2	92.3	92.5	92.9
Taxes on international trade	53.5	52.1	50.0	52.1	46.4	46.8	45.8	45.2
Export taxes	--	--	--	--	--	0.2	0.2	0.2
Import taxes	53.5	52.1	50.0	52.1	46.4	46.6	45.6	45.0
Petroleum products	23.5	20.3	19.5	18.4	17.7	17.6	16.9	16.3
Non-oil products	30.0	31.8	30.5	33.7	28.6	29.1	28.7	28.7
Custom duties	9.7	10.1	10.4	13.0	9.4	9.3	9.3	9.3
Excises	2.2	2.6	2.3	2.2	1.8	2.5	2.5	2.5
Value-added tax	18.0	19.0	17.7	18.4	17.4	17.2	16.9	16.9
Taxes on domestic incomes	15.6	17.9	18.0	20.7	22.7	23.1	23.2	23.3
Taxes on domestic production	25.0	23.4	24.0	22.3	23.2	22.4	22.1	21.9
Value-added tax	12.8	12.4	13.3	12.9	13.9	13.8	13.6	13.4
Refunds	-1.7	-2.4	-3.0	-3.2	-3.1	-3.1	-3.0	-3.0
Excises	12.2	11.0	10.7	9.4	9.3	8.6	8.5	8.4
Unidentified revenue measures	--	--	--	--	--	--	1.4	2.6
Nontax revenue	5.9	6.6	8.1	4.9	7.8	7.7	7.5	7.1

Sources: Ugandan authorities; and Fund staff estimates and projections.

1/ Fiscal year begins in July.
2/ Unidentified revenue measures is cumulative. It includes the revenue due to unidentified measures introduced in previous years plus the new unidentified measures introduced in the relevant year.

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Table 6. Uganda: Functional Classification of Domestic Budgetary Expenditures, 1997/98-2004/05 1/

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
			Outturn			Prog.	Proj.	
				(In billions of Uganda Shillings)				
Total expenditure 2/	817	1,023	1,237	1,496	1,892	2,038	2,200	2,335
Social and economic sectors	320	429	542	669	866	947	1,031	1,088
Education	212	275	325	373	456	505	546	567
Health	54	68	80	110	163	196	222	251
Roads	40	63	101	128	157	150	160	167
Agriculture	9	10	18	22	42	47	50	48
Water	4	13	18	36	49	49	53	55
Others sectors 3/	111	108	158	189	271	319	341	361
Security	121	203	191	208	237	262	277	307
Public administration	204	212	251	302	367	360	360	372
Interest payments	62	72	95	128	151	145	169	183
Totals								
Wage	261	338	380	442	548	625	640	659
Nonwage recurrent	413	469	517	581	735	762	818	884
Domestic development	82	145	245	345	458	501	551	584
Memorandum items:								
Commissions under MTEF 4/	36	10	49	77	91	61	58	60
State House	18	19	27	39	44	43	41	42
Foreign Affairs/Missions	14	13	19	16	22	27	25	25
				(As a percentage of GDP at market prices)				
Total expenditure	10.9	12.6	14.0	15.0	17.8	17.6	17.1	16.5
Social and economic sectors	4.3	5.3	6.1	6.7	8.2	8.2	8.0	7.7
Education	2.8	3.4	3.7	3.7	4.3	4.4	4.3	4.0
Health	0.7	0.8	0.9	1.1	1.5	1.7	1.7	1.8
Roads	0.5	0.8	1.1	1.3	1.5	1.3	1.2	1.2
Agriculture	0.1	0.1	0.2	0.2	0.4	0.4	0.4	0.3
Water	0.1	0.2	0.2	0.4	0.5	0.4	0.4	0.4
Others sectors 3/	1.5	1.3	1.8	1.9	2.6	2.8	2.7	2.6
Security	1.6	2.5	2.2	2.1	2.2	2.3	2.2	2.2
Public administration	2.7	2.6	2.8	3.0	3.5	3.1	2.8	2.6
Interest payments	0.8	0.9	1.1	1.3	1.4	1.2	1.3	1.3
Totals								
Wage	3.5	4.2	4.3	4.4	5.2	5.4	5.0	4.7
Nonwage recurrent	5.5	5.8	5.8	5.8	6.9	6.6	6.4	6.3
Domestic development	1.1	1.8	2.8	3.5	4.3	4.3	4.3	4.1
				(As percentage of total domestic expenditure)				
Total expenditure	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Social and economic sectors	39.1	41.9	43.8	44.7	45.8	46.5	46.9	46.6
Education	26.0	26.9	26.3	24.9	24.1	24.8	24.8	24.3
Health	6.6	6.7	6.5	7.4	8.6	9.6	10.1	10.7
Roads	4.9	6.2	8.1	8.5	8.3	7.4	7.3	7.1
Agriculture	1.1	1.0	1.5	1.5	2.2	2.3	2.3	2.1
Water	0.5	1.2	1.5	2.4	2.6	2.4	2.4	2.4
Others sectors 3/	13.5	10.5	12.7	12.6	14.3	15.7	15.5	15.5
Security	14.8	19.8	15.4	13.9	12.5	12.8	12.6	13.1
Public administration	24.9	20.7	20.3	20.2	19.4	17.7	16.4	15.9
Interest payments	7.6	7.0	7.7	8.5	8.0	7.1	7.7	7.8
Totals								
Wage	31.9	33.0	30.7	29.6	29.0	30.7	29.1	28.2
Nonwage recurrent	50.5	45.8	41.8	38.9	38.8	37.4	37.2	37.9
Domestic development	10.0	14.1	19.8	23.0	24.2	24.6	25.1	25.0
Memorandum items:								
Commissions under MTEF 4/	4.4	1.0	3.9	5.1	4.8	3.0	2.6	2.6
State House	2.2	1.9	2.2	2.6	2.3	2.1	1.9	1.8
Foreign Affairs/Missions	1.7	1.2	1.5	1.1	1.2	1.3	1.1	1.1

Sources: Ugandan authorities; and Fund staff estimates and projections.

1/ Fiscal year begins in July.

2/ Excludes payments of domestic arrears and is based on government releases.

3/ Other sectors include Law and Order, Accountability, and Economic Functions.

4/ Medium Term Economic Framework. Commissions include: Education, Health, Judicial, Law Reform, Public Service, Paliamentary, Local Government Finance, Uganda Human Rights, and Electoral Commissions.

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Table 7. Uganda: Budgeted Domestic Budgetary Expenditures and Outturns, 1999/2000-2001/02 1/

	1999/00		2000/01		2001/02	
	Budget	Outturns	Budget	Outturns	Budget	Outturns
	(In billions of Uganda shillings)					
Total revenue	1122.1	1009.9	1140.9	1082.3	1299.7	1252.9
Total expenditure 2/	1,281.3	1236.7	1,517.3	1495.7	1,918.7	1891.5
Social and economic sectors	566.8	542.1	716.6	669.0	901.6	866.2
Education	341.5	325.0	402.0	373.0	458.3	455.6
Health	82.9	79.9	116.0	110.1	170.1	162.8
Roads	105.6	100.7	138.0	127.8	170.2	156.6
Agriculture	18.4	18.1	24.1	21.8	49.0	42.4
Water	18.4	18.4	36.4	36.4	54.0	49.0
Other sectors 3/	174.3	157.5	206.4	189.0	291.2	270.6
Security	193.9	191.0	209.8	208.5	229.2	236.9
Public Administration	245.0	251.4	264.9	301.7	325.3	367.1
Interest payments	89.6	94.7	107.1	127.6	155.1	150.7
Totals						
Wage	403.3	380.0	469.1	442.3	540.9	547.7
Social and economic sectors	203.9	183.3	242.4	219.5	288.9	300.3
Other sectors 3/	39.2	38.4	47.0	43.7	64.6	59.7
Nonwage recurrent	493.6	516.8	555.5	581.2	693.5	734.8
Social and economic sectors	179.4	182.0	216.6	200.9	270.6	257.3
Other sectors 3/	56.6	66.4	75.1	74.9	96.9	99.1
Domestic development	283.1	245.3	373.0	344.6	513.0	458.4
Social and economic sectors	183.5	176.8	257.6	248.7	342.2	308.7
Other sectors 3/	78.5	52.7	84.2	70.4	129.7	111.8
Memorandum items:						
Commissions under MTEF 4/	44.3	48.8	55.5	76.7	64.8	90.5
State House	26.4	26.6	29.0	38.7	39.0	44.1
Foreign Affairs/Missions	13.2	18.7	13.2	15.8	19.2	22.0
	(Difference between budget and outturns)					
Total revenue		-112.2		-58.6		-46.8
Total expenditure 2/		-44.6		-21.6		-27.1
Social and economic sectors		-24.6		-47.6		-35.4
Education		-16.5		-29.1		-2.7
Health		-3.1		-5.9		-7.3
Roads		-4.9		-10.2		-13.7
Agriculture		-0.2		-2.3		-6.7
Water		0.0		0.0		-5.1
Other sectors 3/		-16.8		-17.4		-20.6
Security		-2.9		-1.3		7.7
Public administration		6.3		36.8		41.8
Interest payments		5.1		20.5		-4.4
Total						
Wage		-23.3		-26.8		6.8
Social and economic sectors		-20.5		-22.9		11.4
Other sectors 3/		-0.8		-3.3		-4.9
Non-wage recurrent		23.2		25.8		41.2
Social and economic sectors		2.7		-15.7		-13.3
Other sectors 3/		9.8		-0.2		2.2
Domestic development		-37.9		-28.4		-54.6
Social and economic sectors		-6.7		-8.9		-33.5
Other sectors 3/		-25.8		-13.9		-17.9
Memorandum items:						
Commissions under MTEF 4/		4.5		21.2		25.8
State House		0.2		9.7		5.2
Foreign Affairs/ Missions		5.4		2.5		2.7

Sources: Ugandan authorities; and Fund staff estimates.

1/ Fiscal year begins in July.

2/ Excludes payments of domestic arrears and is based on government releases.

3/ Other sectors include Law and Order, Accountability, and Economic Functions.

4/ Medium Term Economic Framework Commissions include: Education, Health, Judicial, Law Reform, Public Service, Paliamentary, Local Government Finance, Uganda Human Rights, and Electoral Commissions.

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Table 8. Uganda: Selected Banking Sector Information, December 2000-March 2002

	2002	2001				2002
	Dec.	Mar.	June	Sep.	Dec.	Mar.
	(In billions of Uganda shillings)					
Adjusted assets	1,778	1,797	1,937	1,924	1,979	2,110
Liquid assets	1,106	1,123	1,255	1,245	1,292	1,380
Tier I	148	157	179	182	180	208
Tier II	27	25	23	24	22	24
Total capital	175	183	202	206	203	232
Risk weighted assets (RWA)	851	860	879	868	879	906
Nonperforming assets (NPA)	52	49	43	37	34	27
Loans and advances	525	516	528	527	521	533
Foreign exchange advances	114	122	117	136	140	155
Foreign exchange deposits	433	468	476	453	406	441
Deposits	1,315	1,371	1,450	1,447	1,475	1,588
	(In percent)					
Return on average assets	4.8	7.0	5.8	5.4	4.5	4.1
Core capital/RWA	17.4	18.3	20.3	20.9	20.5	22.9
Total capital/RWA	20.5	21.3	23.0	23.7	23.1	25.5
NPAs/Total advances	9.8	9.5	8.2	6.9	6.5	5.1
Loan loss provision/NPA	61.7	58.1	68.2	68.5	70.0	76.8
Liquid assets/Total deposits	84.2	81.9	86.5	86.0	87.6	86.9
Advances/Deposits	39.9	37.6	36.4	36.4	35.3	33.5
Foreign exchange exposure/Core capital	13.5	7.3	20.2	22.5	4.5	5.9
Foreign exchange advances/Foreign exchange deposits	26.3	26.1	24.6	30.1	34.5	35.3

Source: Ugandan authorities.

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Table 9. Uganda: Medium-Term Selected Financial and Economic Indicators, 2001/02-2006/07 1/

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
	(Annual percentage change)					
National income and prices						
GDP at constant prices	5.7	6.5	6.9	6.3	6.1	6.0
GDP deflator	0.7	2.5	3.7	3.4	3.7	4.0
Consumer prices						
End of period	-0.6	6.1	3.5	3.5	3.5	3.5
Underlying	1.4	4.5	3.5	3.5	3.5	3.5
Annual average	-1.8	1.0	3.5	3.5	3.5	3.5
Underlying	3.4	3.5	3.5	3.5	3.5	3.5
Terms of trade	1.5	8.3	2.5	-0.5	1.6	4.1
Export receipts	3.2	15.0	10.5	12.6	14.3	11.3
	(In percent of GDP at market prices, unless otherwise indicated)					
Investment and savings						
Gross domestic investment	19.9	22.1	22.2	22.5	21.6	22.0
Public	6.7	6.6	6.7	6.6	6.6	6.3
Private	13.2	15.5	15.5	15.9	15.0	15.7
Gross domestic savings (excluding grants)	5.0	6.2	6.8	7.8	8.6	9.8
Public (excluding grants)	-5.9	-3.8	-3.5	-3.0	-2.7	-2.0
Private	10.9	10.0	10.4	10.8	11.3	11.8
Gross national savings (including grants)	11.6	12.3	12.5	13.1	13.5	14.3
External sector						
Current account balance						
(including official grants)	-8.3	-9.8	-9.8	-9.4	-8.1	-7.7
(excluding official grants)	-14.9	-15.9	-15.4	-14.7	-13.0	-12.2
Net donor inflows 2/	11.7	10.4	9.9	9.2	8.4	7.7
Grants (including HIPC assistance)	7.9	7.5	7.1	6.7	6.1	5.6
Net disbursements	4.5	3.6	3.4	3.1	2.9	2.7
Interest payments	-0.6	-0.7	-0.6	-0.6	-0.6	-0.5
Foreign direct investment	3.0	3.6	3.8	3.9	3.9	4.1
Gross reserves (in months of imports of goods and nonfactor services)	6.0	6.1	6.0	5.9	5.8	5.9
Exports of goods and services	10.7	11.9	12.4	13.2	14.0	14.4
	(In percent of total exports of goods and services)					
Leading exports						
Coffee	12.9	14.2	15.0	17.9	21.1	22.1
Fish	13.4	16.4	15.8	14.2	13.3	12.8
Services	29.8	27.7	26.8	25.5	23.9	23.0
	(In percent of GDP at market prices)					
Fiscal indicators						
Government revenue	11.8	12.3	12.8	13.2	13.6	14.0
Grants	7.5	7.1	6.8	6.4	5.8	5.3
Total government expenditure	24.4	22.8	23.0	22.8	22.8	22.4
Overall balance, excluding grants	-12.6	-10.4	-10.2	-9.6	-9.2	-8.4
Overall balance , including grants	-5.1	-3.3	-3.5	-3.2	-3.4	-3.0
Primary balance, excluding grants	-5.8	-4.3	-4.2	-3.8	-3.7	-3.1
Primary balance, including grants	-3.7	-2.0	-2.1	-1.8	-2.0	-1.5
External debt indicators 3/						
NPV of debt-to-exports ratio 4/	199.6	209.3	207.3	198.5	188.6	178.8
Debt-service-to-exports ratio 5/	10.2	9.1	10.1	9.5	9.0	8.2

Sources: Ugandan authorities; and Fund staff estimates and projections.

1/ Fiscal year begins in July.
2/ Defined as official transfers, net official disbursements, and HIPC assistance, less interest due on public sector debt.
3/ After HIPC assistance and additional debt relief from Paris Club creditors. Assumes full delivery of debt relief.
4/ In percent of the average of three consecutive years of exports and nonfactor services, ending in the current year.
5/ Reflects exchange rates as of end-June 2001.

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Table 10. Uganda: Projected Payments to the Fund as of June 30, 2002 1/
(In millions of SDRs, unless otherwise indicated)

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	Beyond	Total
Obligations on outstanding disbursements												
1. Principal												
GRA repurchases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	...	...
PRGF repayments	32.1	37.8	36.4	32.8	27.1	18.1	10.4	6.1	2.7	0.0	0.0	203.4
2. Charges and interest 2/												
Periodic charges	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	...	...
PRGF interest	1.0	0.8	0.6	0.4	0.3	0.1	0.1	0.0	0.0	0.0	0.0	3.3
SDR net charges	0.5	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	...	...
Total obligations	33.6	39.3	37.7	34.0	28.1	19.0	11.2	6.9	3.5	0.8	0.0	206.7
(percent of quota)	18.6	21.8	20.9	18.8	15.6	10.5	6.2	3.8	1.9	0.4	0.0	114.5
Obligations from prospective disbursements												
1. Principal												
PRGF Repayments	0.0	0.0	0.0	0.0	0.0	0.2	0.9	1.7	2.4	2.7	5.6	13.5
2. Charges and Interest 2/												
PRGF Interest	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.5
Total obligations	0.0	0.0	0.0	0.1	0.1	0.2	1.0	1.8	2.4	2.7	5.6	14.0
(percent of quota)	0.0	0.0	0.0	0.0	0.0	0.1	0.5	1.0	1.3	1.5	3.1	7.7
Cumulative obligations (outstanding and prospective)												
1. Principal												
GRA repurchases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	...	...
PRGF repayments	32.1	37.8	36.4	32.8	27.1	18.2	11.3	7.8	5.1	2.7	5.6	216.9
2. Charges and Interest 2/												
Periodic charges	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	...	...
PRGF interest	1.0	0.8	0.6	0.5	0.3	0.2	0.1	0.1	0.0	0.0	0.0	3.8
SDR net charges	0.5	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	...	...
Total obligations	33.6	39.4	37.8	34.1	28.2	19.2	12.2	8.7	5.9	3.5	5.6	220.7
(percent of quota)	18.6	21.8	20.9	18.9	15.6	10.6	6.7	4.8	3.2	1.9	3.1	122.2
HIPC assistance	15.5	17.5	15.0	8.8	5.6	1.6	0.3	0.0	0.0	0.0	0.0	64.4
Total obligations, after HIPC assistance	18.1	21.9	22.8	25.2	22.6	17.6	11.9	8.7	5.9	3.5	5.6	156.3
In percent of:												
Exports of goods and services	3.0	3.3	3.1	3.0	2.4	1.7	1.0	0.7	0.4	0.2	...	...
External public debt	0.7	0.8	0.8	0.9	0.8	0.6	0.4	0.3	0.2	0.1	...	...
Gross official reserves	2.7	3.0	3.0	3.3	2.9	2.1	1.3	0.8	0.5	0.3	...	...
GDP	0.4	0.4	0.4	0.4	0.3	0.3	0.2	0.1	0.1	0.0	...	...
Quota	10.0	12.1	12.6	14.0	12.5	9.8	6.6	4.8	3.2	1.9	...	...
Memorandum items:												
Outstanding Fund credit	174.9	141.1	108.7	77.9	50.8	32.5	21.3	13.4	8.4	5.7	...	...
In percent of:												
Exports of goods and services	29.3	21.4	14.7	9.2	5.4	3.2	1.9	1.1	0.6	0.4	...	...
External public debt	6.9	5.4	4.0	2.7	1.7	1.0	0.7	0.4	0.2	0.2	...	...
Gross official reserves	25.8	19.3	14.4	10.1	6.4	4.0	2.3	1.3	0.7	0.5	...	...
GDP	3.5	2.7	1.9	1.3	0.8	0.5	0.3	0.2	0.1	0.1	...	...
Quota	96.9	78.2	60.2	43.1	28.1	18.0	11.8	7.4	4.6	3.1	...	...

Sources: Ugandan authorities; and Fund staff estimates and projections.

1/ Fiscal year starts in July.
2/ Projections are based on current interest rates for the PRGF. The current SDR interest rate is assumed for net use of SDRs.

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Table 11. Uganda: Low Growth Scenario, Medium-Term Selected Financial and Economic Indicators, 2001/02-2006/07 1/

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
			(Annual percentage change)			
National income and prices						
GDP at constant prices	5.7	3.5	3.9	3.3	3.1	3.4
GDP deflator	0.7	2.5	3.4	3.1	3.4	3.7
Consumer prices						
End of period	-0.6	6.1	3.5	3.5	3.5	3.5
Underlying	1.4	4.5	3.5	3.5	3.5	3.5
Annual average	-1.8	1.0	3.5	3.5	3.5	3.5
Underlying	3.4	3.5	3.5	3.5	3.5	3.5
Terms of trade	1.5	5.6	-0.2	-3.1	-0.8	1.4
Export receipts	3.2	12.0	7.5	9.6	11.3	8.3
		(In percent of GDP at market prices, unless otherwise indicated)				
Investment and savings						
Gross domestic investment	19.9	16.6	16.4	16.2	16.0	16.0
Public	6.7	6.8	7.1	7.2	7.4	7.4
Private	13.2	9.8	9.3	9.0	8.6	8.6
Gross domestic savings (excluding grants)	5.0	0.9	1.0	1.5	2.0	2.3
Public (excluding grants)	-5.9	-4.4	-4.5	-4.3	-4.2	-3.7
Private	10.9	5.3	5.5	5.8	6.2	6.0
Gross national savings (including grants)	11.6	7.2	7.0	7.3	7.4	7.6
External sector						
Current account balance						
(including official grants)	-8.3	-9.4	-9.4	-8.9	-8.6	-8.4
(excluding official grants)	-14.9	-15.7	-15.4	-14.7	-14.0	-13.7
Net donor inflows 2/	11.7	11.1	10.9	10.5	9.8	9.3
Grants (including HIPC assistance)	7.9	7.7	7.5	7.3	6.9	6.5
Net disbursements	4.5	4.1	4.0	3.8	3.7	3.5
Interest payments	-0.6	-0.7	-0.7	-0.7	-0.7	-0.6
Foreign direct investment	3.0	2.5	2.0	2.0	2.0	2.0
Gross reserves (in months of imports of goods and nonfactor services)	6.2	6.2	5.9	5.4	4.8	4.2
Exports of goods and services	10.7	11.9	12.5	13.4	14.2	14.6
			(In percent of GDP at market prices)			
Fiscal indicators						
Government revenue	11.8	12.3	12.8	13.2	13.6	14.0
Grants	7.5	7.3	7.2	7.0	6.5	6.2
Total government expenditure	24.4	23.4	24.4	24.8	25.2	25.1
Overall balance, excluding grants	-12.6	-11.2	-11.6	-11.6	-11.6	-11.1
Overall balance , including grants	-5.1	-3.8	-4.4	-4.6	-5.0	-4.9
Primary balance, excluding grants	-5.8	-4.8	-5.2	-5.2	-5.3	-4.9
Primary balance, including grants	-3.7	-2.5	-3.0	-3.1	-3.4	-3.1
External debt indicators 3/						
NPV of debt-to-exports ratio 4/	199.6	213.0	216.4	214.0	210.1	205.6
Debt-service-to-exports ratio 5/	10.2	9.4	10.7	10.4	10.1	9.4

Sources: Ugandan authorities; and Fund staff estimates and projections.

1/ Fiscal year begins in July.
2/ Defined as official transfers, net official disbursements, and HIPC assistance, less interest due on public sector debt.
3/ After HIPC assistance and additional debt relief from Paris Club creditors. Assumes full delivery of debt relief.
4/ In percent of the average of three consecutive years of exports and nonfactor services, ending in the current year.
5/ Reflects exchange rates as of end-June 2001.

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Table 12. Uganda: Schedule of Purchases Under the Proposed PRGF Arrangement

Date	Amounts in millions of SDRs	In percent of quota 1/	Conditions
September 2002	1.5	0.83	Board approval of PRGF arrangement.
May 2003	2.0	1.11	Observance of end-December 2002 performance criteria and completion of first review.
October 2003	2.0	1.11	Observance of end-June 2003 performance criteria and completion of second review.
May 2004	2.0	1.11	Observance of end-December 2003 performance criteria and completion of third review.
October 2004	2.0	1.11	Observance of end-June 2004 performance criteria and completion of fourth review.
May 2005	2.0	1.11	Observance of end-December 2004 performance criteria and completion of fifth review.
October 2005	2.0	1.11	Observance of end-June 2005 performance criteria and completion of fifth review.
Total	13.5	7.5	

1/ Uganda's quote is SDR 180.5 million.

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Kampala, Uganda
August 27, 2002

Mr. Horst Köhler
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. Köhler:

1. We recently held discussions with Fund staff on an economic program that could be supported by a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF), beginning in fiscal year 2002/03 (July–June). Uganda successfully completed the previous PRGF-supported program, which expired on March 31, 2001, achieving strong economic growth and substantial gains in poverty reduction in the process.

2. The government of Uganda has formulated a comprehensive economic program for 2002/03, which is described in the attached Memorandum of Economic and Financial Policies (MEFP). The program aims to reduce the incidence of poverty in Uganda through sound fiscal, monetary, and exchange rate policies, which would contribute to real GDP growth of about 6½ percent and average underlying inflation of less than 3½ percent during the year. The budget submitted to parliament on June 13, 2002, lowers the overall fiscal deficit, excluding grants, to 10.4 percent of GDP, which is more than fully covered by expected net inflows of donor support. The structural program will focus on building up tax revenues, strengthening budget management, enhancing accountability of both central and local government, improving financial sector regulations, and fighting corruption.

3. During the period of the arrangement, the government will consult with the Fund on future economic policies and in order to assess progress under the program and reach understandings on any additional measures that may be needed to achieve its objectives. Uganda will conduct with the Fund two reviews of the first year of the program supported by the arrangement, to be completed no later than May 15, 2003 and October 15, 2003, respectively. The macroeconomic framework will be updated in the context of these reviews of the program. Moreover, while Uganda has outstanding financial obligations to the Fund arising from loans under the arrangement, it will continue to consult with the Fund.

4. On this basis, we are requesting a three-year arrangement under the PRGF in an amount equivalent to SDR 13.5 million, with a disbursement of SDR 1.5 million upon Board approval of this arrangement and two subsequent disbursements of SDR 2.0 million, one each upon completion of the first and second semi-annual program reviews and observance of performance criteria for end-December 2002 and end-June 2003.

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5. The government of Uganda authorizes the publication and distribution of this letter and all reports prepared by Fund staff regarding the program under the new PRGF, including reports prepared jointly with World Bank staff regarding Uganda's Debt Sustainability Analysis and Poverty Reduction Strategy Paper Progress Report.

Sincerely yours,

/ s /

Gerald M. Ssendaula
Minister of Finance, Planning, and Economic Development

Attachments: Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

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Memorandum of Economic and Financial Policies of the Government of Uganda for 2002–04

I. Background

1. Since the expiration in March 2001 of Uganda's last program with the International Monetary Fund under the Poverty Reduction and Growth Facility (PRGF), the Government of Uganda has continued to work closely with Fund staff in the design of its economic and financial policies, as well as on structural measures with significant macroeconomic and financial effects. In addition, the Fund has provided technical assistance in the areas of public finance, banking supervision, monetary and exchange rate policy, and economic and financial statistics. Together with World Bank staff, Fund staff also conducted a thorough study of the Ugandan financial system under the Financial Sector Assessment Program (FSAP).

2. This Memorandum presents a brief background of macroeconomic developments in fiscal year 2001/02 (July/June), outlines the medium-term objectives and policy framework through 2004/05, and sets out the economic and financial policies of the program for 2002/03 that could be supported under a new three-year PRGF arrangement. These policies are embedded in the Government's Poverty Eradication Action Plan (PEAP), which aims to reduce the incidence of poverty in Uganda to less than 10 percent of the population by 2017. The donor community has provided considerable support for implementation of the PEAP, including substantial budget support under the World Bank's Poverty Reduction Support Credit (PRSC).

A. Economic Developments in 2001/02

3. Against the background of the global economic slowdown and continued weakness in the world prices of Uganda's principal exports, the economy performed relatively well in 2001/02. Preliminary estimates indicate that real GDP grew by 5.7 percent, below the budget expectation of 6.4 percent. Favorable weather conditions contributed to solid growth in the economy's agricultural base. Education services continued to perform strongly, reflecting the government's commitment to expand opportunities for building human capital, initiated in the context of the move to Universal Primary Education (UPE) in 1997/98. Communications services continued to grow at a remarkable pace buoyed by the marked expansion of investment and competition in the telecommunication industry, following the deregulation of the sector. Construction activity picked up considerably in 2001/02, partly reflecting preliminary work on the large Bujagali hydro electricity project. However, growth in manufacturing activity dipped. Average headline consumer price inflation was negative 1.8 percent during 2001/02, as food crop prices plummeted by about 20 percent. The underlying inflation rate, which excludes food crops, was held to 3.4 percent on a period average basis. Owing primarily to the low producer prices for food and cash crops, nominal GDP grew by only 6.5 percent in 2001/02, compared with the budget projection of 11.4 percent.

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4. The overall fiscal deficit (excluding grants) for 2001/02 remained within the budgeted amounts, despite pressures arising from a modest revenue shortfall and some unanticipated spending. In relation to GDP, however, the deficit rose to 12.6 percent compared with the 12.2 percent of GDP envisaged in the budget, as nominal GDP turned out to be lower than projected. In particular, taxes on imports fell well short of their target, owing mainly to an unforeseen appreciation of the Uganda shilling during the first half of the year. On the positive side, revenue from the broad-based domestic taxes and petroleum excises surpassed expectations, contributing to a rise in total revenue collection relative to GDP to 11.8 percent. This marked a turnaround from the downward trend that had prevailed over the previous two years.

5. With regard to government spending, the expanded coverage of the Commitment Control System (CCS) to encompass the development budget helped to contain total spending within budgeted limits. Nevertheless, relative to GDP, total expenditures and net lending reached 24.4 percent of GDP, compared with the 23.5 percent of GDP envisaged in the budget. Spending on the strategic export promotion initiative announced in September 2001, an increase in allowances for members of parliament, and higher spending on military equipment, State House, missions abroad, and local government elections, were funded through cuts in spending outside the protected Poverty Action Fund (PAF). The spending on military equipment was mostly financed through cuts in other military expenditures; nevertheless, a small excess (on a cash flow basis) of 0.1 percent of GDP above the 2.0 percent of GDP cap on these expenditures, which was agreed with donors, was sustained in 2001/02, and is expected again in 2002/03. The government also incurred a fiscal cost of 0.2 percent of GDP in 2001/02, on account of a one-year discount provided to residential electricity users, to ease the impact of the sharp tariff increase implemented in June 2001. The discount will be eliminated by January 2003.

6. Reflecting the increased emphasis on pro-poor spending, budgetary releases under the PAF increased to 5.7 percent of GDP in 2001/02, compared with 4.2 percent in the previous year. Expenditures on programs designed to improve the quality of life of the poor (primary education, water and sanitation, and primary health) accounted for 83 percent of the PAF releases, of which primary education received almost half. Programs designed to improve the incomes of the poor more than doubled, with releases for the strategic export promotion initiative accounting for 47 percent of this increase. Releases for monitoring and accountability purposes represented 4 percent of the total. Much of the pro-poor public services and investments were delivered by local governments and was financed by transfers from the central government.

7. The 2001/02 fiscal deficit was largely covered by net donor support (11.7 percent of GDP; budget and project), with grants consisting of 7.5 percent of GDP of the total, including HIPC assistance. This contributed to a buildup of government deposits with the Bank of Uganda (BOU). The settlement of outstanding domestic arrears (equivalent to 1.1 percent of GDP), some of which were claims dating back to the civil war in the 1980s, added to the fiscal liquidity injection.

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8. Developments in the banking system in 2001/02 point to a strengthening of the sector and increasingly effective supervisory efforts by the BOU. As of March 2002, the ratio of nonperforming assets to total advances stood at 5.1 percent compared with 9.5 percent a year earlier, and the ratio of core capital to risk-weighted assets rose from 18.3 percent to 22.9 percent during the same period. The privatization of the Uganda Commercial Bank (UCB), one of Uganda's largest banks, which was completed in February 2002, marked another important achievement. Previously, while under BOU intervention, the UCB had been mostly restricted to holding government paper, and its private sector lending was sharply curtailed. Profitability of commercial banks has declined over the year, due to lower yields on treasury bills, which accounted for about 60 percent of their earnings. Finally, a new Financial Institutions Bill, which provides for mandatory prompt corrective action for problem banks and for penalties for noncompliance with prudential norms and regulations was approved by the cabinet and sent to parliament in May 2002.

9. Although broad money (M2) growth picked up substantially over the course of the year to 21.9 percent, the expansion in credit to the private sector was sluggish at just 4.8 percent, despite declines in lending rates. For much of the year, treasury bill yields fell steadily from 13.8 percent (on 91-day paper) in August 2001 to less than 3 percent in March 2002, amid a buildup of excess reserves in the banking system. In May 2002, the BOU initiated steps to mop up commercial banks' excess reserves with a view to enhancing the effectiveness of monetary policy, as the 91-day treasury bill yield edged up to just over 5 percent at end-June 2002. Money and quasi-money (M3), which includes foreign currency deposits, grew by 17.6 percent, reflecting a shift back into Uganda shilling deposits.

10. External sector performance in 2001/02 was adversely affected by the continued decline in commodity prices. In particular, the price of robusta coffee, Uganda's principal export, fell to a 40-year low. Total export receipts increased by 3.3 percent over their 2000/01 value, as a 23 percent decline in coffee exports revenue nearly offset a marked increase in receipts from noncoffee exports. This small overall gain marked the first rise in total export earnings in three years. In volume terms, both coffee and noncoffee exports expanded (by 6.7 percent and 11.5 percent, respectively), suggesting that Uganda has remained internationally competitive. After declining in the previous year, imports increased by 11.4 percent, owing partly to the removal of import duties on raw materials and initial stock building for the construction of the Bujagali project. The corresponding widening of the trade deficit was mitigated somewhat by a 40 percent rise in private transfers. Reflecting the above, the external current account deficit (excluding official grants) increased modestly to -14.9 percent of GDP. The capital account surplus increased considerably in 2001/02, as Uganda continued to benefit from generous support from its development partners. Net donor inflows increased to 11.7 percent of GDP from 11.1 percent in 2000/01. Consequently, net international reserves of the BOU increased by nearly US$175 million, with the import coverage standing at a healthy six months at end-June 2002. After appreciating against the U.S. dollar during the first half of the year, the Uganda shilling ended 2001/02 with a 4.2 percent nominal depreciation. On an annual average basis, the real effective exchange rate appreciated by 9.7 percent in 2001/02.

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11. Since May 2000, when Uganda reached its completion point under the enhanced HIPC Initiative, some debt sustainability indicators have deteriorated substantially. In particular, the ratio of the net present value (NPV) of Uganda's external debt to exports stood at 200 percent as of end-June 2002, assuming full delivery of HIPC assistance, well above the HIPC target of 150 percent. This deterioration resulted mainly from the sharp decline in coffee prices. With regard to the delivery of HIPC assistance, agreements have been concluded with all Paris Club members. Several Paris Club bilateral creditors have granted debt cancellations beyond their HIPC commitments. As regards to non-Paris Club creditors, Uganda signed agreements with two multilateral and two bilateral creditors in 2001/02. However, there have been some setbacks, as some creditors have resorted to the domestic legal system to force the government to honor its obligations in full. One commercial creditor was awarded a judgment of US$11 million, including compounded penalty interest.

12. During 2001/02, the government has implemented a number of important structural measures. In this regard, in the context of the World Bank's PRSC-supported program, Parliament passed the new Leadership Code in April 2002, requiring all high-level government officials to fully declare their assets, as well as the assets of family members. The privatization program has progressed, with the solicitation of bids for 20-year operating concessions for the generation and distribution of electricity companies. Contracts will be awarded to the winning bidders in 2002/03.

13. Much progress has also been achieved in the revision of national accounts statistics to reflect a more recent base year (1997/98). Statistical techniques based on survey data and, where available, current information on inputs and outputs have been used to improve estimates of value added and to construct a GDP by expenditure series. The revised data also cover a more comprehensive group of manufacturing enterprises. As a result, greater consistency has been achieved between the national accounts and the poverty statistics.

II. Medium-Term Objectives and Policy Framework

14. The main macroeconomic policy challenge facing Uganda over the medium term is to maintain high rates of economic growth, which are essential for achieving the poverty reduction objectives. However, unlike the previous decade, the catalyst for growth will likely come from improvements in sectoral and microeconomic fundamentals, as Uganda has already achieved a high degree of macroeconomic stability and implemented broad economic reforms. Accordingly, in the period ahead, government policies will focus on actions to spur private investment and savings. These include more efficient delivery of public services, expansion of public investment in essential social and economic infrastructure, enhanced financial intermediation, and improved enforcement of laws and regulations. The desired improvements in the productivity of public outlays and the removal of the remaining structural impediments to strong economic growth will require major institutional changes and better coordination and prioritization of public actions, as well as an efficient and motivated civil service. Furthermore, a study of the fiscal implications of the ongoing decentralization process, including an assessment of costs and the most efficient fiscal

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structure for supporting the decentralized delivery of public services, will be undertaken. In addition, determined efforts to raise exports and to expand the export base will be continued.

15. Accordingly, over the coming three-year period, economic policies will focus on the maintenance of macroeconomic stability; a strengthening of institutions that play a central role in monitoring compliance with existing rules and regulations; capacity building in key areas—such as sector planning, coordination, policy development, and monitoring capability; development of efficient and affordable mechanisms for the delivery of services, including agricultural research and extension services; and improving physical infrastructure (with emphasis on roads, schools, health facilities, and power). These policies will be key components of the government's revised PEAP. Fundamental to the government's development strategy will be an acceleration of, and in a number of cases, completion of ongoing structural reforms in the financial sector, public enterprises, civil service, tax administration, and external trade that will take account of the accelerated timetable for deepening integration in the East African Community (EAC). The government is also aware of the need to further improve Uganda's statistics.

16. The government is committed to good governance and upholding the rule of law, which are essential to enhancing the effectiveness of public outlays, the development of entrepreneurship, and the promotion of strong economic growth. It will take action, including the provision of increased resources, in a targeted manner, to enforce rigorously tax compliance and to curb the incidence of smuggling and fraud. The government will also vigorously enforce the new leadership code with a view to weeding out corruption in the public sector.

17. On the basis of the strategy and policies outlined above, the government expects to achieve a 6.6 percent per annum average real economic growth over the next three years. Growth would be boosted by the stimulative effects of the construction phase of the Bujagali hydro-electric project and government programs aimed at increasing productivity in the agriculture and export sectors. Sustained high economic growth over the longer term would require an increase in the ratio of gross investment to GDP from an average of about 20 percent over the last three years to about 22.3 percent of GDP, supported by an expansion of gross domestic savings of 3 percent of GDP. The increase in the investment rate is expected to come primarily from the private sector. Private investment would depend on the success of measures identified above to spur private sector activity. Monetary policy would aim at containing annual underlying inflation to 3.5 percent, on a period average basis.

18. Although Uganda would still depend heavily on donor support for the PEAP, progress is expected to be made toward achieving greater fiscal sustainability by moderately reducing the overall fiscal deficit, excluding grants, over the medium term. Government revenue is projected to increase steadily through 2004/05, while spending would be reduced somewhat, depending on available donor support. The external current account deficit is projected to narrow to 14.7 percent of GDP, as exports expand, supported by the government's strategic export promotion initiative and full implementation of the Program for the Modernization of Agriculture (PMA), a key element for enhancing rural productivity.

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Donor-aided programs to develop trade associations and open new markets for Ugandan products should also help to boost exports. Furthermore, integration into the East African Community (EAC) is expected to create new export markets for Uganda's food crops, while the U.S.'s Africa Growth and Opportunity Act (AGOA) and the EU's "Everything but Arms" programs offer access to additional export markets. The gradual reduction in the fiscal deficit would ease appreciation pressures on the Uganda shilling, and improvement in export production would help to narrow the trade gap. Foreign direct investment is expected to continue to be an important source of external financing and technology.

III. The Program for 2002/03

19. The macroeconomic framework for 2002/03 envisages a growth of real GDP of 6.5 percent, as the construction phase of the Bujagali project begins. Manufacturing is expected to pick up, as electricity constraints are eased with the completion of an additional turbine at the Kiira hydro-electric plant. The communications sector is poised to grow strongly, as are education services with the planned hiring of 10,000 new teachers. Monetary policy will aim at holding average underlying inflation at 3.5 percent, but a likely rebound in food crop prices could temporarily push headline inflation higher, to about 6.0 percent during the year.

A. Fiscal Policy

20. In addition to its central role in maintaining macroeconomic stability, fiscal policy will focus on increasing the effectiveness of government spending to assure strong economic growth and poverty reduction over the medium term. The government will therefore take steps to ensure that the PMA, the strategic exports promotion initiative, and the PEAP are adequately funded to meet medium-term poverty reduction objectives. To support the medium-term fiscal stance, the government will introduce revenue-enhancing and expenditure-restructuring measures aimed at consolidating general administration expenditure. The main elements of the strategy involve a contraction in the scope of public administration operations to core areas and determined efforts to boost revenue collection.

21. The government's program for 2002/03 will aim at increasing revenue to 12.3 percent of GDP while limiting total expenditures and net lending to 22.8 percent of GDP, including payments of outstanding domestic arrears. The resulting overall fiscal deficit, excluding grants, of 10.4 percent of GDP would be covered by net donor inflows of 10.4 percent of GDP of which 7.1 percent of GDP would be in the form of grants. As a result of this financial stance, the domestic deficit, including payments of domestic arrears, would be lowered to 4.9 percent of GDP in 2002/03, compared with 6.6 percent of GDP in 2001/02 and net government deposits with the BOU would rise by 1.2 percent of GDP.

22. The planned increase in revenue collection by 0.5 percent of GDP will be sought primarily through actions designed to enhance tax administration, including a strengthening of tax enforcement and compliance. In this respect, the government will undertake quarterly reviews of revenue performance by tax category. At the same time, several new tax measures

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will be implemented in early 2002/03, including an increase in excise on motor vehicles, gasoline, and fees and charges on the Traffic Act.

23. With regard to public expenditure, the government views the reduction of public administration expenditures as a major part of its strategy to refocus spending toward poverty-related and economic priority areas. To achieve this objective, the government is developing an action plan for streamlining general administrative services to be implemented starting 2002/03. Moreover, the phasing out of the discount on residential electricity consumption in January 2003 will enable the restructured Uganda Electricity Board and its subsidiary companies to meet all scheduled payments to the government in full.

24. The above revenue and expenditure measures would allow the government to provide adequate resources for funding the strategic export promotion initiative and to raise pro-poor spending under the PAF to 5.9 percent of GDP in 2002/03. The government has also taken other steps to ensure that budgetary allocations for essential poverty-related outlays are protected, including through the placement of a limit on the level of public administration expenditure, which will be monitored on a quarterly basis. The 2002/03 budget also provides funds for the implementation of the second phase of the civil service pay reform, which will involve an increase in the pay scales for professional workers. The salaries of lower grade workers will be raised by about 3 percent on average, broadly in line with the average increase in underlying inflation in 2001/02. The government will determine by December 2002 the full cost and phasing of implementing the entire pay reform strategy. In addition, it will develop a reform strategy for the pension system and complete an assessment of outstanding pension liabilities by June 2003.

25. The budget management system has been strengthened considerably in recent years, in part through the enactment of the 2001 Budget Act and the extension of the CCS to the development budget. Nevertheless, the buildup of arrears, especially those relating to court awards, pensions, and utilities under the recurrent budget and the frequent use of supplementary allocations remain problematic. To enhance the operation of the CCS and to reduce the buildup of arrears, the Ministry of Finance will ascertain the domestic budget arrears outstanding as at end-December 2002. The Ministry will also ensure that all provisions of the CCS are strictly adhered to, including the clearing of all expenditure over-commitments sustained in each quarter by the end of the subsequent quarter, the imposition of penalties for incorrect or misleading monthly returns, and that regular audits of the CCS will be carried out by the Internal Auditor/Auditor General's Office at each line ministry/department. To tighten control over the use of supplementary allocations, the Public Finance Accountability Bill (which revises the 1964 Public Finance Act), includes a provision requiring prior parliamentary approval of all supplementary allocations. Finally, to facilitate the gradual move toward full programmatic budgeting, the government intends to integrate externally funded development projects into the sectoral ceilings of the medium-term economic framework (MTEF) starting in fiscal year 2003/04. In this connection, the government is committed to adhering strictly to the overall MTEF ceilings.

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B. Local Government

26. The government is taking steps to ensure that the decentralization of social services delivery proceeds in an orderly and sustainable manner. To this end, programs are under way to establish the necessary accounting, fiscal reporting, legal, and administrative framework for successful decentralization. The problems relating to the tracking of local government activities, as well as the systematic accounting of funds extended to local authorities, would be addressed through timely submission of monthly and final accounts to the Ministries of Finance and Local Government. The Ministry of Finance has initiated a process of collecting local government financial statistics and will produce aggregate data for the period 1999/2000–2000/01 by September 2002. It will also prepare quarterly summaries of the monthly accounts within two months of the end of each quarter. An initial assessment of the tendering systems of local governments will be undertaken with World Bank assistance. In addition, the United Nations Capital Development Fund will work with the Local Government Finance Commission to build up local government revenue generating capability.

C. Monetary Policy and Financial Sector Issues

27. Monetary policy will aim at holding annual average underlying inflation at 3.5 percent. Efficient management of monetary policy will require a mopping up of the existing stocks of excess reserves presently held by commercial banks and the sterilization of the liquidity injected by government expenditure on local goods and services financed mainly with donor budgetary support. The monetary program for 2002/03 is therefore predicated on limiting excess reserve deposits of commercial banks in the BOU to no more than 15 percent of required reserves from end-September 2002. Thereafter, the BOU will take appropriate measures to maintain base money on the desired path. The BOU will closely monitor a broad spectrum of monetary indicators and will take appropriate measures in response to any signs of incipient inflationary pressures. Broad money (M2) is projected to grow by 11 percent during 2002/03. On account of projected shifts to foreign currency-denominated deposits, money and quasi-money (M3) is projected to grow by 11.4 percent. Commercial bank credit to the private sector is projected to pick up to 10 percent during the year, partly reflecting large lines of credit established by some corporate clients with local banks, and the ongoing deepening of financial intermediation.

28. In light of the large injections of liquidity, mainly generated by donor-supported government spending, the BOU has adopted new operating procedures that will help to achieve the inflation objective, reduce interest rate volatility, and minimize risks of a real appreciation of the Uganda shilling. The basic principle of this strategy is to conduct regular and measured sterilization operations with treasury bills and foreign exchange sales, so as to distinguish them from short-term liquidity management. Foreign exchange interventions will be limited under the program to those required to counteract disorderly market behavior subject to the program overall ceiling. For 2002/03 as a whole, total foreign exchange sales by the BOU are targeted at US$200 million.

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29. Financial sector policies aim at consolidating the recent gains in banking supervision, regulation, and the general health of the banking system, ensuring that public confidence and access to financial services continue to improve, and further strengthening the regulatory and supervisory framework. The new Financial Institutions Statute (FIS), presently awaiting enactment by parliament, would address identified problems in the current code. Meanwhile, the BOU has begun to put in place the regulatory framework necessary for the implementation of the new statute, when enacted.

30. The BOU has decided to address decisively and promptly the long-standing problem of two weak banks. To this end, the BOU recently completed full-scope examinations of the two banks. Based on the findings of these examinations, the BOU will take appropriate supervisory action and communicate it to the Fund by August 31, 2002. Furthermore, in view of its importance for long-term financing, the Uganda Development Bank (UDB) will be privatized by June 30, 2003, so as to strengthen and rationalize its operations. Pending the privatization, neither the government nor the BOU will provide or guarantee any further resources for on-lending by the UDB.

31. The phased increase over the past two years of the minimum paid up capital has helped strengthen the capital base of the banking system. However, there are considerable doubts regarding the ability of six of the smaller banks to meet the deadline of January 1, 2003, for the increase in their unimpaired minimum paid-up capital to the required U Sh 4 billion. The BOU will, therefore, (i) require all banks to submit by September 30, 2002, a Capital Compliance Plan detailing their proposal to comply with the requirement; (ii) develop a contingency plan for an orderly exit of weak banks failing to meet the requirement; (iii) encourage weak banks, where appropriate, to vigorously pursue mergers and consolidations as a way to meet the requirement; and (iv) continue to monitor closely all the six small banks to ensure sound policies and safeguard the depositors' interests in the intervening period.

32. The government is aware that money laundering could undermine the integrity of Uganda's financial system and adversely affect macroeconomic developments. Therefore, all possible steps will be taken to prevent money laundering. In this regard, the authorities will build on the recent efforts of the Uganda Anti-Money Laundering (AML) Committee, enact urgently an AML legislation, and establish the appropriate infrastructure for its enforcement. Meanwhile, the BOU will issue regulations reinforcing the "know your customer" rule and requiring banks to report suspicious transactions.

33. The BOU is taking steps to ensure that the prudential guidelines for calculating the limits on foreign exchange net open position are aligned with internationally accepted methodology (the Shorthand Method) so as to measure and monitor appropriately foreign exchange rate risks. In addition, the BOU has initiated a revision of the BOU's Statute of 1993 to bring it in line with the Constitution with respect to the independence of the BOU and the provisions of other laws.

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34. The government is embarking on a reform of the National Social Security Fund (NSSF) with a view to ensure good governance and investment management control. As a first step toward that end, the government will submit to parliament a bill to repeal the NSSF statute by March 31, 2003 to pave the way for the regulation of the NSSF by the BOU. Future steps would include prompt and proper disclosure of NSSF accounts and institution of measures to ensure that best practices in investment of the funds are adhered to. Over the longer term, the government aims to establish the Capital Markets Authority as the comprehensive regulator of Uganda's pension industry. These are important steps toward the development of long-term financial instruments in Uganda.

D. Industrial Policy and Investment Promotion

35. The government is taking steps aimed at expanding private sector investment activity including in agro-processing with a view to increasing value added from Uganda's considerable resource base. In promoting these endeavors, the government intends to play a facilitative role. Government policy is to move to a generalized system of incentives that are nondiscriminatory as between activities and enterprises and that are in compliance with Uganda's commitments to the World Trade Organization. In line with this approach, the government intends to grant no new ad hoc privileges/incentives during the program period, and will consult with the Fund before introducing any new industrial policy measures that could affect the outcome of the financial program. The government also wants to move toward a more harmonized system of incentives for the EAC. To this end, the government is consulting with other members of the EAC with a view to securing the Fund's early technical assistance for reviewing the structure of incentives in the three member countries.

E. Governance and Corruption

36. Two important components of the government's efforts to improve governance are the major efforts to curtail corruption in the Uganda Revenue Authority (URA) and the new Leadership Code Bill, which was passed by parliament in April 2002. In January 2002, the URA applied in full to all of its staff the stringent income and wealth-reporting requirement, which is also part of the new Leadership Code Bill. The assets, liabilities, and income declared by URA staff, including their spouses and children, will be verified by end-September 2002. In addition, the head of the URA has announced a policy of zero tolerance of corruption and asked URA staff and the general public to provide specific information regarding employees engaging in corrupt practices. A Judicial Enquiry Commission has been set up to investigate all allegations of corrupt behavior by URA staff and to recommend appropriate remedial action including employment termination/criminal prosecution. The inquiry is scheduled to be concluded by end-September 2002 and all staff found to be corrupt will be terminated by December 2002. Following the retrenchment of corrupt staff identified by the Commission of Enquiry, the remuneration of the URA staff would be augmented.

37. The definition of leaders under the new Leadership Code Bill has been extended to include about 7000 holders of public office: senior civil servants, members of parliament, local government officials, heads of secondary schools, and senior officials in public bodies

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and the central bank. Under the new bill, not just leaders, but spouses, children, and dependants are also required to declare their income, assets, and liabilities. Failure to file or report accurately is punishable by fine or dismissal. False information can also lead to confiscation of assets and/or imprisonment for up to three years. All information provided is considered public and anyone can question the accuracy of a leader's statement, and the Inspector General of Government (IGG) is required to investigate the allegations, unless they are deemed to be insignificant, and make the results of the investigation public. The new budget provides a significant increase in resources to the IGG to enable the office to carry out its expanded activities. The IGG will verify at least 10 percent of declarations per year.

F. External Sector, Competitiveness, and Trade Policies

38. Although export earnings grew in 2001/02, the sharp decline in receipts over the past few years, following the precipitous decline in coffee prices, highlights Uganda's vulnerability to external shocks. To counter this situation, the government has developed a strategic export promotion initiative, which not only seeks to bolster a recovery in coffee exports, but also builds upon the success of several noncoffee export products in recent years. The strategy proposes a range of government supply-side interventions to promote exports in seven agricultural subsectors, plus that of information and communication technology services. Successful implementation of the strategy will contribute to an expansion and diversification of the export base, increase the rate of economic growth, and assist in furthering Uganda's poverty alleviation objective. The government consulted its development partners and other stakeholders on the design and implementation of the strategy, in the context of a conference on competitiveness held in February 2002. Engagement of donors has already attracted additional financing for the strategy, which is reflected in the 2002/03 budget. Moreover, donor-supported private sector initiatives are fulfilling a much-needed role in developing new markets for, and increasing the value added of, Ugandan exports.

39. These programs offer strong promise for a substantial recovery in the export sector. Based on planting programs in recent years and forecasts of improving coffee prices, coffee export receipts are projected to stage a rebound. Noncoffee export receipts are projected to grow by 12 percent a year over the medium term driven mainly by increased export volumes. For this reason, the external current account deficit, excluding grants, is projected to narrow to about 11.5 percent of GDP in five years. Direct foreign investment is projected to remain strong over this period, and gross international reserves of the BOU would remain ample at about six months of import cover.

40. The government reaffirms its commitment to a market-determined exchange rate policy. Apart from sales of foreign exchange to sterilize liquidity injection through the budget, the BOU will intervene in the foreign exchange market only to smooth out erratic fluctuations in the exchange rate.

41. The government remains committed to further trade liberalization in the context of the frameworks of the Common Market for Eastern and Southern Africa (COMESA) and the

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EAC. Negotiations leading to an EAC Customs Union are under way and a trade protocol is expected to be concluded by end-2002. Pending agreement on the protocol, imports from two prospective EAC members are already receiving an 80-percent tariff discount. It is expected that, when agreed, the EAC common external tariff (CET) structure would also be a three-rate structure similar to that in Uganda. However, currently Uganda has the lowest maximum tariff rate among the prospective members of the EAC; hence, the CET agreed to under the EAC framework could possibly lead to an increase in the maximum tariff rate for Uganda.

G. External Debt Sustainability

42. Export diversification is an important element of the government plan that should improve its debt sustainability position. The government also intends to continue following sound debt management principles, both by restricting new borrowing to concessional credits, while simultaneously exploring with development partners the possibility of increasing the grant element in external assistance, and by trimming its external borrowing needs over the medium term from what was envisaged only one year ago. Based on an updated debt sustainability analysis (DSA), conducted by the government with World Bank/Fund staff, the approach outlined in this Memorandum should generate steady improvements in Uganda's debt sustainability situation. In particular, while the ratio of the NPV of Uganda's external debt to exports has risen well above the HIPC target, other debt and debt-service indicators remain within HIPC threshold.

43. Uganda's efforts to reach agreement with non-Paris Club bilateral and commercial creditors for providing debt relief under the HIPC Initiative have met with only partial success. Many creditor developing countries, including some HIPCs, have expressed their inability to provide debt relief on their claims. Some creditors have also resorted to suing the government in local courts of law to gain full repayment of outstanding obligations. Several recent judgments by local courts to pay outstanding arrears and penalty to creditors have greatly complicated debt and budget management. Payment by the government would be in violation of the "proportionate burden-sharing principle" among all creditors under the enhanced HIPC Initiative, while nonpayment would result in contempt of the courts. The government has reiterated its request to the World Bank and the Fund for assistance in reaching speedy agreement with its creditors.

G. Program Monitoring

44. The program will be monitored on the basis of quantitative and structural performance criteria and benchmarks. The structural performance criteria and benchmarks are listed in Table 1; the quantitative targets are set out in Table 2. The targets for December 2002 and June 2003 constitute performance criteria under the program. Two reviews are envisaged under the program to be concluded by May and September 2003, respectively.

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Table 1. Uganda: Structural Performance Criteria and Benchmarks Under the 2002/03 Program

Action	Implementation Date	Type of Performance Clause
Fiscal		
Submit to cabinet a plan to reduce government expenditures, drawing from the Presidential Committee's report on Effective Public Administration Budgeting, indicating (a) initial measures to be taken immediately, (b) measures that require prior notification of affected parties, to be taken in 2003/04, and (c) measures that may require a constitutional amendment.	December 31, 2002	Performance criterion
Production of a business plan for the Uganda Revenue Authority that will spell out its strategy for improving tax collection and associated costs.	September 30, 2002	Benchmark
Verification of domestic budget arrears outstanding as at end-June 2002	March 31, 2003	Benchmark
Fiscal decentralization		
Produce aggregated local government financial statistics for 2000/01 fiscal year.	September 30, 2002	Benchmark
Financial sector		
Submit to Parliament a bill to repeal the National Social Security Fund (NSSF) Statute to pave the way for regulation of the NSSF by the Bank of Uganda (BOU).	March 31, 2003	Performance criterion
Development by all banks of a Capital Compliance Plan detailing proposals for complying with January 2003 capital requirement for minimum paid-up capital.	September 30, 2002	Benchmark
Privatize Uganda Development Bank (UDB).	June 30, 2003	Performance criterion
Assign the privatization of UDB to the Privatization Unit and engage a privatization advisor to handle the privatization.	December 31, 2002	Benchmark

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Table 2. Uganda: Quantitative Performance Criteria and Benchmarks Under the Program for 2002/03 1/ 2/

	Sep. 30, 2002 3/ Prog.	Dec. 31, 2002 4/ Prog.	Mar. 31, 2003 3/ Prog.	June 30, 2003 4/ Prog.
	(In billions of Uganda shillings; end of period)			
Cumulative change from end-June 2002				
Ceiling on the increase in base money liabilities of the Bank of Uganda	-4.6	53.9	46.6	49.5
Ceiling on the increase in net claims on the central government by the banking system	172.8	-94.0	31.9	-17.4
Ceiling on the issuance of promissory notes by the government 5/	0.0	0.0	0.0	0.0
Minimum expenditures under the Poverty Action Fund(including the Universal Primary Education component of development expenditures) 6/	141.9	299.5	464.1	647.3
Accumulation of new domestic budgetary arrears of the central government 5/	0.0	0.0	0.0	0.0
Ceiling on public administration expenditure 6/	57.7	125.4	188.1	250.8
	(In millions of U.S. dollars; end of period)			
Ceiling on the stock of external payments arrears 5/	0.0	0.0	0.0	0.0
Ceiling on new nonconcessional external borrowing with maturities greater than one year contracted or guaranteed by the government or the Bank of Uganda 5/	0.0	0.0	0.0	0.0
Minimum increase in net international reserves of the Bank of Uganda	-59.7	115.3	69.3	67.0

1/ Fiscal year begins on July 1, 2002.
2/ The performance criteria and benchmark targets under the program, and their adjustors, are defined in the Technical Memorandum of Understanding (TMU).
3/ Benchmarks.
4/ Performance criteria.
5/ Continuous performance criterion.
6/ Indicative target throughout the program.

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UGANDA—TECHNICAL MEMORANDUM OF UNDERSTANDING
(August 27, 2002)

I. INTRODUCTION

1. This memorandum defines the quantitative benchmarks and performance criteria described in the memorandum of economic and financial policies (MEFP) for the 2002/03 financial program that would be supported by the IMF Poverty Reduction and Growth Facility (PRGF), and sets forth the reporting requirements under the arrangement.

A. Base Money

2. **Base money** is defined as the sum of currency issued by Bank of Uganda (BOU) and the commercial banks' deposits in the BOU. The commercial bank deposits include the statutory required reserves and excess reserves held at the BOU but exclude the deposits of closed banks at BOU and Development Finance Funds (DFF) contributed by commercial banks held at BOU. Under this definition, the end-June 2002 base money was estimated at U Sh 626 billion, based on data available through May 2002. The base money limits will be cumulative changes from end-June 2002 and will be monitored from the monetary authority balance sheet, provided to the IMF by the BOU.

B. Net Claims on the Central Government by the Banking System

3. **Net claims on the central government** (NCG) by the banking system is defined, as the difference between the outstanding amount of bank credits to the central government and the central government's deposits with the banking system, excluding deposits in project accounts. Credits comprise bank loans and advances to the government and holdings of government securities and promissory notes. The component of credit to government in the form of securities and promissory notes will be calculated based on data from balance sheets of the monetary authority and commercial banks.[1] The limits on the change in net claims on the central government by the banking system will be cumulative from end-June 2002.

C. Net International Reserves of the Bank of Uganda

4. **Net international reserves (NIR)** of the BOU are defined for program monitoring purpose as reserve assets of the BOU net of short-term external liabilities of the BOU. Reserve assets are defined as external assets readily available to, and controlled by, the BOU and exclude pledged or otherwise encumbered external assets, including, but not limited to, assets used as collateral or guarantees for third party liabilities. Short-term external liabilities are defined as liabilities to nonresidents, of maturities less than one year, contracted by the BOU and include outstanding IMF purchases and loans.

[1] The monetary authority values the securities and promissory notes at issue price, while commercial banks value the securities and promissory notes at face value.

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5. For program monitoring purposes, reserve assets and short-term liabilities (excluding liabilities to the IMF) at the end of each test period will be calculated by converting reserve assets measured in Uganda shillings as reported by the BOU using the end-month Uganda shilling per U.S. dollar exchange rate. The U.S. dollar value of outstanding purchases and loans from the IMF will be calculated by converting the outstanding SDR amount reported by the Treasurer's Department of the IMF using the U.S. dollar per SDR exchange rate at the end-of each quarter.

D. Expenditures Under the Poverty Action Fund

6. The expenditures under the Poverty Action Fund (PAF) include both wage and nonwage current expenditures under the PAF, and domestic development expenditures under the PAF. The minimum expenditures under the PAF are defined as 95 percent of the budgeted expenditures under the PAF, which cumulatively are: U Sh 141.9 billion for end-September 2002, U Sh 299.5 billion for end-December 2002, U Sh 464.1 billion for end-March 2003, and U Sh 647.3 billion for end-June 2003.

E. New Domestic Budgetary Arrears of the Central Government

7. The nonaccumulation of new domestic payment arrears is a continuous performance criterion under the program. New domestic payments arrears are defined as the sum of: (i) any bill that has been received by a spending ministry from a supplier of goods and services delivered (and verified) and for which payment has not been made within 30 days; (ii) unpaid and due personal claims, including wages and salaries; and (iii) unpaid debt-service due on government debt. For the purpose of the program monitoring, the Auditor General's/Internal Auditor Office's of the Ministry of Finance, Planning, and Economic Development (MFPED) audits of the stock of arrears at end-December 2002 and at end-June 2003 shall be used to determine the new arrears created in the first six months and during the entire 2002/03 fiscal year, respectively. The result of these audits should be available not later than 45 days following the close of the covered period. Results of the Auditor General's final audit of government accounts for end-June 2002 should be available by March 2003, and will be the basis for verification of domestic budget arrears outstanding as of end-June 2002. These audits should include all arrears regardless of whether or not the area of expenditure is covered by the Commitment Control System (CCS).

F. Ceiling on Public Administration Expenditures

8. The quarterly expenditure limits for the public administration sector are: U Sh 57.7 billion for the first quarter to end-September 2002, U Sh 125.4 billion for the second quarter to end-December, 2002, U Sh 188.1 billion for the third quarter to end-March 2003, and U Sh 250.8 billion for the fourth quarter end-June 2003. For the purpose of program monitoring, the public administration sector consists of the following votes: Office of the Prime Minister (004) (excluding development), Foreign Affairs (006), Missions Abroad (0A0), MFPED (008) (excluding URA, Contingency, Accountability), URA (008), State House (002), Public Service (005), Public Service Commission (027), Local Government

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(025) (excluding development), Mass Mobilization (034), Office of the President (001) (excluding ISO/ESO and E&I), Specified Officers-Salaries (300), Parliamentary Commission (315), Local Government Finance Commission (033), Uganda Human Rights Commission (347), Electoral Commission (349). Any supplementary allocation to votes in the public administration sector that would exceed the program ceilings will be accommodated by cuts to votes belonging to other categories within this same sector.

G. Promissory Notes

9. A promissory note is a written promise by the government to pay a debt, where government is defined as the central government[2], local governments, and autonomous government agencies. It is an unconditional promise to pay on demand or at a fixed or determined future time a particular sum of money to or to the order of a specified person or to the bearer. The government will not use promissory notes or any form of a promise to pay for goods and services at a future date, and all domestic arrears payments will be settled in cash or by the transfer of immediately available funds.

H. Adjusters

10. The NIR target is based on assumptions regarding import support, assistance provided under the Heavily Indebted Poor Countries (HIPC) Initiative, and external debt-service payments. The NCG target, in addition to being based on the two aforementioned assumptions, is also based on assumptions regarding domestic nonbank financing of central government fiscal operations. On a cumulative basis, from July 1, 2002, the Uganda shilling equivalent of import support plus HIPC assistance will amount to U Sh 73.9 billion at end-September 2002; U Sh 526.4 billion at end-December 2002; U Sh 629.0 billion at end-March 2003; and U Sh 816.0 billion at end-June 2003. Debt service due before assistance under the Highly Indebted Poor Countries (HIPC) Initiative, excluding debt service owed to creditors that have not yet reached agreement on the delivery of HIPC assistance is programmed at U Sh 54.4 billion at end-September 2002; U Sh 92.3 billion at end-December 2002; U Sh 157.6 billion at end-March 2003; and U Sh 205.3 billion at end-June 2003.

11. The ceiling on the cumulative increase in NCG will be adjusted downward (upward), and the floor on the cumulative increase in NIR of the BOU will be adjusted upward (downward) by the amount by which import support, grants and loans, plus HIPC assistance, exceeds (falls short of) the projected amounts. The ceiling on the increases in NCG will be adjusted downward (upward), and the floor on the increase in NIR will be adjusted upward (downward) by the amount by which debt service payments inclusive of debt service financed with HIPC assistance falls short of (exceeds) the projections of debt service due

[2] Central government consists of the state house, cabinet ministers, all ministries, parliament, the judiciary, and committees.

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before assistance under the Highly Indebted Poor Countries (HIPC) Initiative, excluding debt service owed to creditors that have not yet reached agreement on the delivery of HIPC assistance.

12. The ceiling on the increase in NCG will be adjusted downward (upward) by any excess (shortfall) in nonbank financing[3] less payment of domestic arrears accumulated prior to introduction of the CCS (up to a maximum amount of U Sh 50.2 billion) relative to the programmed cumulative amounts of negative U Sh 85.5 billion at end-September, 2002; negative U Sh 122.0 billion at end-December, 2002; negative U Sh 130.5 billion at end-March, 2003; and negative U Sh 40.0 billion at end-June, 2003. Furthermore, NCG will be adjusted downward by the amount by which expenditures under the Poverty Action Fund (PAF) fall short of 95 percent of the cumulative budgeted amounts of U Sh 149.3 billion at end-September 2002; U Sh 315.3 billion at end-December 2002; U Sh 488.6 billion at end-March 2003; and U Sh 681.5 billion at end-June 2003.

13. If excess reserves of the commercial banks increase on account of a shortfall in the cumulative quarterly flows of private sector credit relative to programmed amounts of U Sh 3.4 billion by end-September, 2002; U Sh 23.5 billion end-December, 2002; U Sh 26.7 billion end-March, 2003; and U Sh 66.5 billion end-June 2003, and 12-month underlying inflation is below 4.5 percent, the base money ceiling will be adjusted upward up to U Sh 9 billion. The base money ceiling will not be adjusted upward if the underlying 12-month inflation exceeds 4.5 percent.

I. Nonconcessional External Borrowing Contracted or Guaranteed by the Central Government or the Bank of Uganda and Arrears

14. The program includes a ceiling on new nonconcessional borrowing with maturities greater than one year contracted or guaranteed by the government or the BOU. Nonconcessional borrowing is defined as loans with a grant element of less than 35 percent, calculated using average commercial interest rates references (CIRRs) published by the OECD. In assessing the level of concessionality, the 10-year average CIRRs should be used to discount loans with maturities of at least 15 years, while the 6-month average CIRRs should be used for loans with shorter maturities. To both the 10-year and 6-month averages, the following margins for differing payment periods should be added: 0.75 percent for repayment periods of less than 15 years; 1 percent for 15-19 years; 1.15 percent for 20-25 years; and 1.25 percent for 30 years or more. The ceiling on nonconcessional external borrowing is set at zero. The coverage of borrowing includes financial leases and other instruments giving rise to external liabilities, contingent or otherwise, on nonconcessional terms. Excluded from the limits are changes in indebtedness resulting from refinancing credits and rescheduling operations, and credits extended by the IMF. For the purposes of the

[3] Comprising check float and the change in the stock of government securities and government promissory notes held by the nonbank public.

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program, arrangements to pay over time obligations arising from judicial awards to external creditors that have not complied with the HIPC Initiative do not constitute nonconcessional external borrowing.

15. The definition of debt, for the purposes of the limit, is set out in point 9, of the Guidelines on Performance Criteria with Respect to External Debt (Executive Board's Decision No. 12274-(00/85), August 24, 2000). It not only applies to the debt as defined in Point 9 of the Executive Board decision, but also to commitments contracted or guaranteed for which value has not been received. The definition of debt set forth in No. 9 of the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements reads as follows: (a) For the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property. (b) Under the definition of debt set out in point 9(a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

16. The ceiling of the accumulation of new external payments arrears is zero. This limit, which is to be observed on a continuous basis, applies to the change in the stock of overdue payments on debt contracted or guaranteed by the government or the BOU from their level at end-June 2002. It comprises those external arrears reported by the Trade and External Debt Department of the BOU that cannot be rescheduled.

J. Monitoring and Reporting Requirements

17. The authorities will inform the IMF staff in writing at least 10 (ten) business days (excluding legal holidays in Uganda or in the United States) prior to making any changes in

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economic and financial policies that could affect the outcome of the financial program. Such policies include but are not limited to customs and tax laws (including tax rates, exemptions, allowances, and thresholds), wage policy, and financial support to public and private enterprises. The authorities will similarly inform the IMF staff of any nonconcessional external debt contracted or guaranteed by the government or the BOU.

18. Information such as on the issuance of treasury bills, the intervention in the foreign exchange market, daily average exchange rates, and the interest rate on government securities will be transmitted to the IMF's resident representative weekly, within five working days of the end of each week.

19. The government will provide the IMF staff with a summary of the fiscal accounts on a quarterly basis with a seven-week lag from the end of the reporting quarter. Revenues will be recorded on a cash basis as reported by the URA and the MFPED. Expenditures shall be recorded when checks are issued except for domestic and external debt-service payments, cash transfers to districts, and externally funded development expenditures. Expenditures on domestic interest will be recorded on an accrual basis and external debt service will be recorded on a commitment basis (i.e., when payment is due). Cash transfers to districts will be recorded as expenditures of the central government when the transfer is effected by the BOU. Expenditures on externally funded development programs will be recorded as the sum of estimated disbursements of project loans and grants by donors, less the change in the stock of government project accounts held at commercial banks in Uganda. Information on required and approved supplementary allocations in each quarter should be provided to the IMF within 15 days the end of each quarter.

20. Final accounts of the local government authorities for fiscal years 1999/00 and 2000/01 will be consolidated by end-September 2002. The summary Status of Submission of District Monthly Accounts Returns will be provided to the IMF Resident Representative by the 10th day of each month. A report explaining any noncompliance with the monthly reporting requirement by districts will be provided by the 10th day of the month following the end of each quarter to the IMF. Any noncompliance by one month and 15 days following the end of a month will result in a reminder letter being sent from the Treasury Inspectorate Department to the District Chairperson. Any noncompliance for an additional month will result in a memorandum being sent from the Commissioner of the Treasury Inspectorate Department to the Budget Director indicating that the Monitoring and Accountability Grants to the noncompliant districts should be discontinued until compliance is restored. A memorandum indicating this action will be sent to each noncompliant district.

21. The quarterly summary reports prepared under the CCS will be provided to the IMF staff within 40 days after the end of each quarter.

22. As supplementary information, the government will provide the IMF staff on a monthly basis, with a seven-week lag from the end of the reporting month, a statement of: (i) outstanding stock of checks issued by the Uganda Computer Services of the MFPED, disaggregated into checks issued for commitments arising during July 1, 2002 through

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June 30, 2003, payment of arrears accumulated prior to July 1, 1999, and checks issued to settle intra-ministerial payment obligations; (ii) cash balances held in project accounts at commercial banks; (iii) total value (measured at issue price) of outstanding government securities; (iv) total value (measured at issue price) of outstanding government promissory notes; (v) the stock of government securities (measured at issue price) held by commercial banks; (vi) the stock of government promissory notes (measured at issue price) .

23. The consumer price index will be transmitted monthly to the IMF with no more than a two-week lag from the end of the reporting month. The balance sheet of the BOU, the consolidated accounts of the commercial banks, and the monetary survey will be transmitted to the IMF on a monthly basis with a lag of no more than seven weeks from the end of the reporting month.

24. Standard off-site bank supervision indicators for deposit money banks will be transmitted to the IMF quarterly and on-site reports transmitted as needed based on the findings of the off-site reports.

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Uganda: Relations with the Fund
(As of June 30, 2002)

I. Membership Status: Joined 09/27/1963; Article VIII

II. General Resources Account:	SDR Million	% Quota
Quota	180.50	100.0
Fund Holdings of Currency	180.51	100.0

III. SDR Department:	SDR Million	% Allocation
Net cumulative allocation	29.40	100.0
Holdings	0.65	2.20

IV. Outstanding Purchases and Loans:	SDR Million	% Quota
ESAF/PRGF arrangements	203.45	112.71

V. Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ESAF/PRGF	11/10/1997	03/31/2001	100.43	100.43
ESAF	09/06/1994	11/09/1997	120.51	120.51
ESAF	04/17/1989	06/30/1994	219.12	219.12

VI. Projected Obligations to Fund:
Under the Repurchase Expectations Assumptions

	Overdue	Forthcoming				
	01/31/2001	2002	2003	2004	2005	2006
Principal		16.00	34.10	37.50	35.60	30.60
Charges/interest		0.80	1.50	1.40	1.20	1.00
Total		16.80	35.60	38.90	36.80	31.60

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VII. Implementation of HIPC Initiative:

	Original framework	Enhanced framework	Total
Commitment of HIPC assistance			
Decision point date	4/23/1997	2/7/2000	
Assistance committed (1999 NPV terms) [1]			
Total assistance (US$ million)	347.00	656.00	
Of which: Fund assistance (SDR million)	51.51	68.10	
Completion point date	April 1998	May 2000	
Delivery of Fund assistance (SDR million)			
Amount disbursed	51.51	70.16	121.67
Interim assistance	...	8.28.20	8.20
Completion point [2]	51.51	61.96	113.47
Amount applied against member's obligations (cumulative)	30.34	26.81	60.15

VIII. Safeguards Assessments

The Bank of Uganda (BoU) is subject to a safeguards assessment with respect to the requested PRGF arrangement. The safeguards assessment of the BoU is under way and is expected to be completed prior to the first review of the PRGF arrangement

IX. Exchange Rate Arrangement

From October 1990 to March 1992, the Uganda shilling was pegged to a basket of currencies. Between April 1992 and October 1993, the official exchange rate was the average market-determined bureau rate, while a secondary rate was determined through the auctioning of donor import support funds. On November 1, 1993, the BOU stopped the auction of foreign exchange and created an interbank market for foreign exchange, through which the official exchange rate is determined. As of June 28, 2002 the official exchange rate was U Sh 1797.2 per U.S. dollar.

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[1] NPV terms at the completion point under the original framework; and NPV terms at the decision point under the enhanced framework.

[2] Under the enhanced HIPC Initiative, the nominal amount of assistance disbursed will include an additional amount corresponding to interest on amounts committed but not disbursed during the interim period, calculated using the average return (during the interim period) on the investment of resources held by, or for, the benefit of the PRGF-HIPC Trust.

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X. Article IV Consultation

The Executive Board concluded the last Article IV consultation on March 26, 2001, concurrently with the completion of the last review under the third annual PRGF-supported program. Uganda is on the standard 12-month consultation cycle for Article IV consultations.

XI. Technical Assistance

Uganda has received extensive technical assistance from the Fund in recent years.

MAE has provided technical assistance through its panel of experts and various missions. An advisor was assigned to the Governor of the Bank of Uganda on research priorities between July 1991 and April 1996. Missions visited Kampala in September 1991 and May 1992 to assist in the modernization of the BOU and its monetary policy. In May 1993, two consultants provided short-term assistance to the BOU on reserve money programming. In June 1993, a mission assisted in establishing the regulatory, institutional, and operational arrangements for a unified interbank exchange system, and two consultations provided follow-up assistance in August and October 1993. In June 1995, an MAE advisory mission visited Kampala to provide advice to the BOU on a strategy for the development of money and government securities markets, and on practical steps to take to improve monetary management through these markets. As a follow-up, a BCS mission in July 1996 provided technical assistance on the MAE-developed book-entry system model for public debt management and the maintenance of accounts of ownership of government securities. In January 1997, MAE/LEG provided technical assistance to the BOU in removing restrictions on capital movements and moving to a fully liberalized exchange system. In December 1997, MAE provided technical assistance on improving monetary management through the development of secondary markets for government securities and central bank open market operations, and in November 1998 it provided assistance on improving the security of the automated book-entry system. A long-term expert has been assisting the authorities on banking supervision issues since July 2001. At the request of the BOU, in July 2001, MAE provided technical assistance on the implementation of monetary policy and the coordination of liquidity management and exchange rate intervention. The TA was followed by an advisory mission from MAE to Uganda in January 2002, to assist the BOU in making the July 2001 TA mission recommendations operational.

FAD has provided technical assistance through resident advisors and several missions. FAD missions visited Uganda in May 1992 to assist in the rationalization of the petroleum tax system, and in January 1993 to review the tax and tariff system. Another mission visited Kampala in March 1994 to help in the design and implementation of a value-added tax (VAT). In November 1994, an FAD/LEG mission visited Kampala to assist in drafting VAT legislation. In November 1995, an FAD mission visited Kampala to provide technical assistance in improving customs administration. In July 1996, another mission provided technical assistance in the areas of income and mineral taxation. A member of the FAD panel of experts visited Kampala for about four weeks each alternate month during 1995/96 (July-June) to assist the authorities in preparing for the introduction of the VAT. In October

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1996, an FAD team visited Uganda to provide technical assistance to the Internal Revenue Department and in July–August 1997 to provide technical assistance on expenditure management and control. In November–December 1997, FAD fielded two technical assistance missions to Uganda: one on improving VAT compliance and another on issues in decentralization. An FAD mission visited Kampala in April 1998 to advise the authorities on public service pension reform issues, and another mission visited Kampala in September to assist the authorities in improving customs administration procedures. A resident advisor in the area of local government budgeting began a six-month assignment in August 1998, which was subsequently extended to October 1999. An FAD resident advisor on budgeting and commitment control commenced a six-month assignment in November 1998, which was extended until June 2002. An FAD advisor was stationed in Uganda from August 1998–August 2001, assisting the authorities in improving public expenditure management at the local government level. In December 1998, a mission visited Kampala to assess the status of the implementation of tax administration reforms and assist in setting up the Large-Taxpayer Department (LTD) in the Uganda Revenue Authority. In January 1999, a long-term FAD expert began assisting the authorities in developing and implementing the work plan of the LTD. In October 2000, an FAD mission visited Kampala to provide technical assistance in tax policy and administration. The mission's main objective was to examine options for improving revenue performance. In February 2001, an FAD mission visited Kampala to provide technical assistance in local government finance.

Uganda has also received technical assistance through missions from STA. A mission in June 1996 assisted the authorities in implementing an improved system for balance of payments statistics. An STA mission visited Kampala during February 26–March 12, 1997 to provide technical assistance in money and banking statistics to the BOU. The main objectives of the mission were to review data compilation procedures, assess the suitability of the reporting system under development, and establish arrangements for unified reporting of monetary statistics. A multisector statistics mission visited Kampala in December 1998 to conduct a comprehensive assessment of Uganda's macroeconomic statistics, including their compilation and dissemination, and to provide recommendations for improvements. Follow-up STA missions in national accounts and money and banking statistics visited Kampala in March–April 2000 to examine the status of implementation of the previous recommendations. An STA TA mission on Government Financial Statistics (GFS) visited Uganda in December 2001 to assist authorities in improving fiscal reporting by establishing regular reporting systems that are aligned with the GFS Manual 2001, as well as assuring consistency within monetary sector data for the government. A balance of payment statistics mission visited Uganda during February–March 2002, to review the progress on implementing the recommendations of the multisector mission of 1998 and of the national accounts mission of 2000, with respect to the measurement of goods imports as well as review and examine balance of payments statistics.

INS conducted a financial programming seminar in Kampala during July 1994. In February–March 1996, LEG provided a mission to explore a possible reform of the country's judicial system, aimed at establishing a specialized commercial court for expeditious and

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cost-effective adjudication of commercial disputes. In September 1996, February 1997, and September 1997, LEG provided technical assistance on income tax legislation.

XII. Future Technical Assistance Priorities

The priorities for Fund technical assistance in the next few years will be in the areas of tax administration, preparation and monitoring of district budgets, control and monitoring of central government expenditure commitments, monetary and exchange rate management, bank supervision, national accounts statistics, reporting standards for government finance statistics, and monetary and balance of payments statistical reporting.

XIII. Resident Representative

The Fund has maintained a resident representative in Uganda since July 1982.

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Uganda: Relations with the World Bank Group
(As of July 24, 2002)

1. The World Bank Group is Uganda's largest creditor. In November 2000, the Bank's Board approved a Country Assistance Strategy (CAS) for Uganda covering 2001/02–2003/04 (July–June), including an increase in the level of highly concessional IDA flows in response to the good economic performance and in support of the authorities' poverty reduction efforts. The 2001 Poverty Reduction Strategy Paper (PRSP) progress report was presented to the IDA Board on May 31, 2001, along with the first annual IDA Poverty Reduction Support Credit (PRSC) of US$150 million, which was approved. The second PRSC of US$150 million was presented to the Board together with the 2002 PRSP Progress Report on July 23, 2002. The PRSC provides external finance to the budget in support of the authorities' commitment and implementation of a far reaching reform agenda based on their PRSP. Uganda is a Comprehensive Development Framework (CDF) pilot country. The government has played a leadership role in the development of a participatory, holistic socio-economic development vision and an implementable poverty eradication strategy for Uganda. In the interest of greater proximity to the client, the World Bank for its part has been increasingly decentralizing operations and decision making to its Kampala office.

2. In order to reinvigorate rural development, the World Bank provides support to improve productivity and market access through the government's ten-year roads program, power sector reforms, technology improvements in agriculture through research and extension, and assistance for implementing some aspects of the decentralization program. Support for human development focuses on improved access to and quality of education, health care, and water and sanitation. In addition, the Bank is playing a central role in supporting government efforts to improve governance, including in the areas of combating corruption and broad-based civil service reform. Finally, the Bank acts as a focal point for increased aid coordination among donors and between the Government of Uganda and donors by chairing the regular Consultative Group (CG) meetings. The last CG meeting for Uganda was held in Kampala in May 2001, the third in-country CG meeting since December 1998. This highly participatory meeting, with broad representation from the government and donors, was flanked by a series of sector-specific/thematic meetings in areas ranging from poverty eradication and roads to partnerships and governance. Civil society representatives (from nongovernmental organizations, the private sector, the media, and academia) participated extensively in the meetings.

3. Other projects in the lending pipeline will continue to support improved infrastructure facilities, further reconstruction and economic development of Northern Uganda, and capacity building for improved services delivery. The focus of the analytic work program will include the following key areas: public expenditures, poverty, public services delivery, accountability/governance, decentralization, private sector development and investments, and sustainable rural development.

4. As of June 30, 2002 a total of 95 credits and 9 loans, amounting to some US$3,602 million (US$3,558 million from IDA and US$43 million from IBRD), had been approved for

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Uganda. Total disbursements amounted to nearly US$2,823.6 million. As of July 24, 2002 the Uganda portfolio comprises 25 projects (not including a US$115 million Bujagali Hydropower project Partial Risk Guarantee) with commitments totaling US$1,165 million. Six new projects were approved in FY02 (Roads Development II, Power IV, Bujagali Hydropower, Decentralized Service Delivery, Environment Management Capacity II, and Rural Electrification totaling around US$320 million). Three new projects (PRSC2, Northern Uganda Social Action Fund and a Protected Area Management & Sustainable Use project totaling US$277 million in terms of new commitments), as well as a US$4.5 million supplemental credit for the Lake Victoria Environmental Management project have been approved thus far in FY03. Six Projects in FY01 and four projects in FY02 have been closed. The undisbursed balance (not including recent approvals) was about US$866 million or some 74 percent of total commitments.

5. The structural program supported by the World Bank's PRSC is highly complementary to the structural program supported by the Fund's PRGF. Areas of particularly close coordination between Bank and Fund staff include fiscal decentralization, civil service reform, budget management, and governance. The Bank/Fund staff jointly produced an annual assessment of the authorities' 2002 PRSP progress report; additionally, the staff of the Fund and the Bank recently carried out jointly an updated debt sustainability analysis for Uganda which was reviewed by the Bank's Board on July 23, 2002.

6. Questions may be referred to Preeti S. Ahuja, Sr. Operations Officer for Uganda (Tel. 473-1657).

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CAS Annex B8 - Uganda

Operations Portfolio (IBRD/IDA and Grants)

As Of Date 07/24/2002

Closed Projects	61
IBRD/IDA *	
Total Disbursed (Active)	277.45
of which has been repaid	0.00
Total Disbursed (Closed)	2,511.57
of which has been repaid	317.41
Total Disbursed (Active + Closed)	2,789.02
of which has been repaid	317.41
Total Undisbursed (Active)	601.04
Total Undisbursed (Closed)	0.00
Total Undisbursed (Active + Closed)	601.84

Active Projects

		Last PSR Supervision Rating			Original Amount in US$ Millions			
Project ID	Project Name	Development Objectives	Implementation Progress	Fiscal Year	IDA	GRANT	Cancel.	Undisb.
P065436	2ND PHASE OF THE RD. DEVELOPMENT PROGRAM	S	S	2002	64.52			67.46
P059127	AGRIC.RES & TRNG. II	S	S	1999	26.00			17.70
P002971	DISTRICT HEALTH	S	S	1995	45.00			0.07
P057007	EL NINO EMERG RD REP	S	S	1998	27.60		18.98	5.78
P073089	EMCBP II	S	S	2001	22.00			20.08
P072482	HIV/AIDS Control Project	S	S	2001	47.50			45.05
P002941	ICB-PAMSU	S	S	1999	12.37			0.57
P046870	LAKE VICTORIA ENV.	S	#	1997		12.1		1.97
P002992	LOCAL GOV DEVE.PROGRAM	S	S	2000	80.90			48.91
P046836	Lake Victoria Env.	S	S	1997	15.60			5.94
P074078	Makerere Pilot Decentrl Service Delivery	S	S	2002	5.00			5.30
P059223	NAKIVUBO CHANNEL REH	S	S	1999	22.38			12.39
P040551	NUTRIT.CHILD DEV	S	S	1998	34.00			7.89
P044695	National Agric. Advisory Services Proj.	S	S	2001	45.00			46.65
P065437	PAMSU	#	#	2003	27.00			28.33
P035634	PRIV. SECTOR COMPETI	S	S	1996	12.30		2.18	1.18
P050439	PRIVATIZATION & UTILITY SECTOR REFORM	S	S	2001	48.50			44.92
P049543	ROAD SECT/INST.SUPP	S	S	1998	30.00			18.98
P002970	ROADS DEVT PROGRAM	S	S	1999	90.98			70.07
P070627	Regional Trade Fac. - Uganda	S	S	2001	20.00			15.09
P002963	SEXUAL.TRANS.IN	S	S	1994	50.00			0.49
P002957	SMALL TOWNS WATER	S	S	1994	42.30			1.67
P044679	Second Economic and Fin. Mgmt. Project	S	S	2000	34.04			25.90
P070222	UG Energy/Rural Trans.	S	#	2002		12.47		12.65
P002984	UG FOURTH POWER PROJECT	S	S	2002	62.00			62.17
P069996	UG: Energy for Rural Transformation	S	S	2002	49.15			50.47
Overall result				Result	915.14	24.57	19.16	616.46

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CAS Annex B8 (IFC) for Uganda

Uganda
Statement of IFC's
Held and Disbursed Portfolio
As of 4/30/2002
(In US Dollars Millions)

		Held				Disbursed			
FY Approval	Company	Loan	Equity	Quasi	Partic	Loan	Equity	Quasi	Partic
1994	AEF Skyblue	0.51	0	0	0	0.51	0	0	0
1998	AEF White Nile	0.22	0	0	0	0.22	0	0	0
1999	AEF Wstern Hgh	0.5	0	0	0	0	0	0	0
1994/00	CelTel Uganda	2.5	0.7	0	0	2.5	0.7	0	0
0/84/92	DFCU	0	0.6	0	0	0	0.6	0	0
1993	Jubilee	0	0.1	0	0	0	0.1	0	0
1996	Kasese Cobalt	8	3.6	0	0	8	3.6	0	0
1998	Tilda Rice	1.54	0	0	0	1.54	0	0	0
1983	Uganda Sugar	4.02	0	0	0	4.02	0	0	0
1996	AEF Agro Mgmt	0.6	0.4	0	0	0.55	0.4	0	0
1992	AEF Clovergem	0.84	0	0	0	0.84	0	0	0
1997	AEF Conrad Plaza	0.88	0	0	0	0.88	0	0	0
1998	AEF Exec. Invmnt	0.79	0	0	0	0.79	0	0	0
1999	AEF Gomba	1.4	0	0	0	1.4	0	0	0
2001	AEF Kabojja	0.33	0	0	0	0.33	0	0	0
1997	AEF Kiwa II	0	0	0	0	0	0	0	0
2000	AEF Ladoto	0.8	0	0	0	0.8	0	0	0
2000	AEF LongFreight	0.8	0	0	0	0	0	0	0
2002	AEF Makss	1.35	0	0	0	0	0	0	0
1998	AEF Mosa Court	0.4	0	0	0	0.4	0	0	0
1993	AEF Nile Roses	0.16	0	0	0	0.16	0	0	0
1995	AEF Rainbow	0.79	0	0	0	0.79	0	0	0
1993	AEF Rwenzori	0.17	0	0	0	0.17	0	0	0
	Total Portfolio:	26.6	5.4	0	0	23.9	5.4	0	0

Approvals Pending Commitment

		Loan	Equity	Quasi	Partic
2002	Bujagali	60000	0	0	40000
	Total Pending Commitment:	60000	0	0	40000

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Uganda: Statistical Issues

Real sector

The March–April 2000 STA mission concluded that Uganda's national accounts were of poor quality, owing to shortages of experienced compilation staff and equipment and a lack of reliable source data for several key economic activities. These data shortages are particularly acute in the areas of construction, food crop and livestock production, distributive trades, and the informal sector generally. Estimates of GDP are available broken down both by economic activity and by major expenditure category, but the discrepancies between the estimates from these two approaches are large in some years. The lack of resources has caused a lag in the publication and dissemination of some key indicators, such as the index of industrial production.

The consumer price index is of sound quality and is reported promptly for publication in *International Financial Statistics (IFS)*. Neither producer nor wholesale price indices are produced. Reliable and consistent data are not available on employment, wages, or trade volumes.

A STA sponsored long-term national accounts statistics advisor was assigned to the Uganda Bureau of Statistics in April 2001 with responsibilities to provide technical assistance in developing basic economic statistics for national accounts estimates and in advancing the use of international standards for national accounts compilation.

Government finance

In 2001, Uganda resumed reporting of government finance statistics (GFS) for publication in the *Government Finance Statistics Yearbook* (*GFSY*) and in *IFS* in 2002. The AFR mission (December 2001) discussed several data classification issues with the MOF, and proposed a summary framework for the reporting of GFS according to the *GFS Manual 2001* framework. Additional technical assistance will be needed to refine the classification of source data into the new GFS framework.

In light of the ongoing decentralization process, the nonavailability of timely data on local government operations remains the most significant deficiency in Uganda's GFS.

Monetary accounts

An STA multisector statistics mission to Uganda (December 2–15, 1998) determined that Uganda's monetary statistics, which were compiled from a bank reporting system, are broadly adequate for policy purposes. However, the quality of data is compromised by various methodological problems, such as an arbitrary application of the residency criterion, an inadequate disaggregation of the resident sector data, a large discrepancy in the reported interbank positions, and misclassifications of some accounting data related to monetary aggregates. To address these issues, the mission recommended that the Bank of Uganda instruct commercial banks to classify accounts according to their clients' properly determined residency and use a more detailed scheme for disaggregating the resident sector data. The

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mission also recommended a symmetrical treatment of government lending in the central bank's and commercial banks' data in order to narrow discrepancies in the reported interbank positions. Reclassification of the accounting data was also recommended in order to facilitate proper measurement of key monetary aggregates, in particular domestic money supply, claims on central government, claims on the private sector, and foreign liabilities. The follow-up STA mission that visited Uganda during March 29–April 12, 2000 concluded that the Bank of Uganda had implemented most of these recommendations.

Balance of payments

The December 1998 mission recommended that preshipment inspection of imports be maintained, and that the automated system for customs data (ASYCUDA) be fully implemented at the customs posts where it has been introduced and extended to major crossings on the eastern border. When banks are more fully computerized and commercial bank personnel have been adequately trained in reporting, the monthly bank-reporting form should be revised once more to fully conform to *BPM5*. Surveys should be introduced to supplement customs- and bank-reported data and to derive more accurate estimates of services and financial transactions. The 2002 mission also notes that the bank reporting system is still seriously inadequate. Given that Uganda dropped controls on financial account transactions in 1997 (for current account transactions, in 1994), major improvements are necessary to deal with weaknesses in the system.

Balance of payments data on an annual basis are published in both *IFS* and the *Balance of Payments Statistics Yearbook*, but only for the period through 1999. The compilation and reporting of reliable balance of payments data on a quarterly basis should also be undertaken.

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Uganda: Core Statistical Indicators
(As of August 19, 2002)

	Exchange Rates	International Reserves	Central Bank Balance Sheet	Reserve/ Base Money	Broad Money	Interest Rates 1/	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/ GNP	External Debt
Date of latest observation	3/31/02	1/31/02	4/30/02	4/30/02	4/30/02	6/30/02	June 2002	June 2002	Dec. 2000	Dec. 2000	1999/00	6/30/00
Date received	4/3/02	3/13/02	7/12/02	7/12/02	7/12/02	7/12/02	July 2002	July 2002	Feb. 2001	Feb. 2001	Dec. 2000	Dec. 2000
Frequency of data 2/	M	M	M	M	M	M	M	M	M	M	A	M
Frequency of reporting 2/	M	M	M	M	M	M	M	Q	Q	Q	A	O
Source of data 3/	A	A	A	A	A	A	A	A	A	A	A	A
Mode of reporting 4/	C	C	C	C	C	C	C	C	C	C	C	C
Confidentiality	C	C	C	C	C	C	C	C	C	C	C	C
Frequency of publication 2/	D	M	Q	M	M	W	M	Q	Q	M	A	...

1/ Treasury bill rates.
2/ Codes for frequency of data, frequency of reporting, and frequency of publication are the following: D=daily; W=weekly; M=monthly; Q=quarterly; A=annual; or O=other.
3/ Code for source of data is the following: A=direct reporting by central bank, Ministry of Finance, or other official agency.
4/ Codes for mode of reporting are the following: C=for unrestricted use; and D=embargoed for a specified period and thereafter for unrestricted use.

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Uganda: Social Output and Outcome Indicators, 2000-2004

	2000	2001	2002	2003	2004
			PEAP target		
Health					
Outpatient Department Utilisation (OPD) per capita	0.40	0.43	0.43	0.45	0.47
Percentage of approved positions filled by a trained health worker	40%	47%	40%	43%	46%
DPT3 immunization rates among children less than 1 year old	41%	47%	46%	50%	54%
Deliveries in health units	25%	23%	25%	38%	31%
HIV prevalence	6.80%	6.10%	6.10%	5.80%	5.40%
Education					
Pupil-teacher ratio	63:01:00	54.1	54:01:00	50:01:00	45:01:00
Pupil-textbook ratio 1/	6:01	4:01	4:01	...	3:01
Pupil-classroom ratio	118	98:1	104:1	92:1	82:1
P7 net enrolment rate 2/			16%	20%	20%
Rural water					
Safe water coverage	52%	53%	...	...	60%
New water systems	3,000	2,900	2,900	3,700	3,700
New public, school, and institutional sanitation systems	450	1,205	1,205	900	900
Urban water					
Safe water coverage	60%	62%	...	...	65%
New water connections	3,100	6,300	6,300	7,000	7,000
Of which : poor households	900	1,800	1,800	2,100	2,100
New sewerage connections	75	75	70	100	100

Source: Uganda Poverty Reduction Strategy Paper—Progress Report 2002.

1/ Textbooks are to be replaced during this period, so these ratios can be misleading. The current ratio is based on the stock of old textbooks at the schools, whereas the target set for the future concerns the stock of new textbooks in the schools.
2/ Estimates of net enrollment rates wil be provided following the results of the 2002 Population Census.

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Statement by the IMF Staff Representative
September 13, 2002

Additional information has become available since the issuance of the staff report on the request for a three-year arrangement under the PRGF by Uganda (EBS/02/163). The information does not change the thrust of the staff appraisal.

Recent macroeconomic developments

1. The 12-month rates for headline and underlying (excluding food crops) inflation increased in August to negative 0.5 percent and 0.7 percent, respectively, from negative 2.5 percent and 0.1 percent in June.

2. Revised figures indicate that merchandise export earnings for 2001/02 (July–June) were lower than previously estimated, rising by 0.5 percent from the previous year, compared with the earlier estimate of 3.3 percent. The weaker performance mainly reflected lower-than-expected receipts from noncoffee exports.

Financial sector

3. In line with the recommendations of the recently completed full-scale bank audits, the Bank of Uganda closed the TransAfrica Bank on September 2, 2002 and set a deadline of October 15, 2002 for the recapitalization of the Cairo Bank. A new management team was installed at Cairo Bank.

Under delivery of HIPC debt relief

4. In addition to court decisions in favor of several commercial creditors and Iraq totaling US$36-40 million, attorneys representing Libya announced their intention to sue the government (for over US$100 million) for outstanding debt obligations. Fund staff received verbal assurances from the Burundi authorities that they would suspend their court action against the government of Uganda (about US$15 million), but no written confirmation of the actions taken by the government of Burundi has been received.

Conflict in northern Uganda

5. The Ugandan People's Defense Forces (UPDF) stepped up its campaign in northern Uganda against the 15-year rebellion by the Lord's Resistance Army (LRA), recently deploying 15,000–20,000 troops in the area. Insecurity has been the main cause for lack of progress in reducing poverty in the region, and violence has heightened with near daily reports of LRA raids on refugee camps and civilian targets, as well as confrontations with the UPDF.

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Peace agreement signed with the Democratic Republic of Congo (DRC)

6. On September 6, 2002, the presidents of Uganda and the DRC signed a peace agreement formally ending the war between their countries. Under the agreement the remaining (estimated) 2,000 Ugandan troops presently in the DRC will be withdrawn by December 31, 2002.

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FOR IMMEDIATE RELEASE
September 13, 2002
Corrected: 9/17/02

International Monetary Fund
Washington, D.C. 20431 USA

IMF Approves Three-Year, US$17.8 Million PRGF Arrangement for Uganda

The Executive Board of the International Monetary Fund (IMF) today approved a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) for SDR 13.5 million (about US$17.8 million) for Uganda. The Board determined that Uganda's poverty reduction strategy set out in a Poverty Reduction Strategy Paper (PRSP) progress report provides a sound basis for Fund concessional financial assistance. As a result, Uganda will be able to draw SDR 1.5 million (about US$1.9 million) under the arrangement immediately.

Following the Executive Board discussion, Mr. Sugisaki, Deputy Managing Director and Acting Chair, stated:

"The Ugandan authorities are to be commended for the continued implementation of sound macroeconomic policies and structural reforms, which have helped to sustain high economic growth rates with low inflation. This strong economic performance, combined with determined implementation of a comprehensive poverty reduction strategy, contributed to a substantial decline in the incidence of poverty in Uganda over the past decade.

"The new three-year PRGF-supported program, which is based upon the authorities' Poverty Eradication Action Plan, aims at reducing poverty further by increasing the rate of economic growth and maintaining macroeconomic stability, through prudent fiscal, monetary, and exchange rate policies as well as continued structural reforms in the areas of budget management, tax administration, fiscal decentralization, governance and the continuing fight against corruption, and financial development.

"To ensure sufficient resources for key social and economic priorities, fiscal policy aims to increase revenues—through measures in both tax policy and tax administration—and to curb nonessential expenditure. Measures to improve reporting, monitoring, and accountability at all levels of government are important to enhance the effectiveness of government spending, including notably that supported by donor assistance. The program also includes steps to further improve the operation of monetary and exchange rate management.

"The authorities' initiative to expand and diversify the export base will strengthen Uganda's external position. While the economy will still remain dependent on donor support in the foreseeable future, the program is expected to result in an improvement of Uganda's fiscal and

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external debt sustainability over the medium term. The strength of Uganda's continuing policy effort underscores the importance of timely and comprehensive support by creditors, particularly by non-Paris Club creditors, in providing debt relief under the HIPC Initiative process," Mr. Sugisaki stated.

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ANNEX
Recent Economic Developments

The Ugandan economy performed relatively well in 2001/02, despite unfavorable external conditions. Real GDP growth in 2001/02 held steady at 5.7 percent. On account of a significant decline in food crop prices, headline inflation fell to negative levels while average underlying inflation declined to 3.7 percent.

The budget deficit increased to 12.6 percent of GDP in 2001/02, excluding grants, and was largely financed by net donor inflows, which increased to 11.7 percent of GDP and supported higher expenditures on programs designed to reduce poverty. Large sterilization operations, needed to absorb liquidity injections from donor-supported government spending, complicated monetary and exchange rate policies. On a year-end basis, the Uganda shilling appreciated by ½ percent in real effective terms, and Uganda's external position displayed signs of strengthening.

Program Summary

The program for 2002/03–2004/05, supported by a new PRGF arrangement, aims at increasing real GDP growth to about 6½ percent a year on average, while holding annual inflation at about 3½ percent.

The fiscal program aims to assure adequate funding of important programs to support economic growth and poverty reduction by increasing government revenues, through measures in both tax policy and tax administration, and curbing nonessential expenditures. Over the foreseeable future, Uganda will continue to rely heavily on donor assistance.

Monetary and exchange rate policies will focus on maintaining stability in light of sizeable sterilization operations. The authorities will rely on market based monetary instruments and will adhere to a flexible exchange rate policy.

The program seeks to further strengthen the health of the financial sector through strict enforcement of banking regulations, and development of long-term instruments and institutions for financial intermediation. The government will also seek parliamentary approval of the new Financial Institutions Statute.

Uganda's external position is projected to improve under the program, which encompasses the authorities' initiative to expand and diversify the export base.

The Poverty Reduction Process

Under the Poverty Eradication Action Plan (PEAP), published in 1997 and revised in 2000, the authorities have pursued a comprehensive strategy to reduce poverty, supported by substantial donor assistance. The incidence of poverty fell to 35 percent in 2000 from 56 percent in 1992.

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Local governments play an important role in the donor-supported poverty reduction strategy. The program will emphasize reporting, monitoring, and accountability of local governments operations to ensure greater effectiveness in the delivery of public services.

Uganda joined the Fund on September 27, 1963. Its quota is SDR 180.50 million (about US$239 million), and its outstanding use of IMF resources currently totals SDR 203.45 million (about US$267 million).

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Uganda: Selected Economic and Financial Indicators, 1999/2000–2004/2005 1/

	1999/00	2000/01	2001/02 Budg.	2001/02 Est.	2002/03 Prog.	2003/04 Prog.	2004/05 Prog.
	(Annual percentage change, unless otherwise indicated)						
National income and prices							
GDP at constant prices	5.0	5.6	6.4	5.7	6.5	6.9	6.3
GDP deflator	4.1	6.6	4.6	0.7	2.5	3.7	3.4
GDP at market prices							
(in billions of Uganda shillings)	8,849	9,962	11,455	10,611	11,585	12,852	14,120
Consumer prices							
End of period	1.9	6.4	5.0	-2.5	6.1	3.5	3.5
Underlying	2.9	8.5	5.0	0.1	4.5	3.5	3.5
Annual average	5.8	4.5	5.0	-2.0	1.0	3.5	3.5
Underlying	5.0	5.0	5.0	3.5	3.5	3.5	3.5
External sector (in U.S. dollars)							
Exports, f.o.b.	-17.3	-2.7	-4.1	3.3	18.4	11.8	14.6
Imports, c.i.f.	-5.9	-0.5	4.4	11.4	11.4	5.6	6.6
Terms of trade (deterioration -)	-18.0	-13.0	-1.9	1.5	8.3	2.5	-0.5
Average exchange rate							
(Uganda shillings per U.S. dollar)	1,511	1,763	...	1,755	...	...	...
	(In percent of GDP at market prices)						
External sector							
Current account balance							
(including official grants)	-7.9	-7.3	-6.1	-8.3	-9.8	-9.8	-9.4
(excluding official grants)	-13.2	-14.4	-12.4	-14.9	-15.9	-15.4	-14.7
External debt (including Fund)	61.2	62.1	62.5	65.2	66.1	65.5	63.6
Government budget							
Revenue	11.4	10.9	11.3	11.8	12.3	12.8	13.2
Grants	5.8	8.4	7.6	7.5	7.1	6.8	6.4
Total expenditure and net lending	27.0	21.5	23.5	24.4	22.8	23.0	22.8
Government balance (excluding grants)	-15.6	-10.6	-12.2	-12.6	-10.4	-10.2	-9.6
Government balance (including grants)	-9.8	-2.2	-4.6	-5.1	-3.3	-3.5	-3.2
Net foreign financing	3.4	3.3	7.1	5.0	3.4	3.3	2.9
Domestic bank financing	6.1	0.5	-2.6	0.2	-0.2	0.1	0.3
Domestic nonbank financing	0.4	-0.4	0.0	0.1	0.1	0.1	0.1
Net donor inflows	8.2	11.1	14.2	11.7	10.4	9.9	9.2
	(In millions of U.S. dollars, unless otherwise indicated)						
Overall balance of payments	-92	-56	103	73	-2	-18	-18
Foreign exchange reserves	719	739	938	879	946	982	1,010
Gross foreign exchange reserves (in months							
of imports of goods and nonfactor services)	5.9	5.6	5.3	6.0	6.1	6.0	5.9

Sources: Ugandan authorities; and IMF staff estimates and projections.

1/ Fiscal year begins in July.

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