INTERNATIONAL MONETARY FUND

# Staff Country Reports

© 2004 International Monetary Fund

February 2004
IMF Country Report No. 04/34

# Uganda: Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of Performance Criteria—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Uganda

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

- the staff report for the second review under the three-year arrangement under the Poverty Reduction and Growth Facility and request for waiver of performance criteria, prepared by a staff team of the IMF, following discussions that ended on **October 14, 2003,** 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 December 3, 2003**. 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 Press Release summarizing the views **of the Executive Board as expressed during its December 17, 2003 discussion** of the staff report that completed the review and request.

- a statement by the Executive Director for Uganda.

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*

*May also be included in Staff Report

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.**

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org • Internet: http://www.imf.org

Price: $15.00 a copy

**International Monetary Fund**
**Washington, D.C.**

©International Monetary Fund. Not for Redistribution

INTERNATIONAL MONETARY FUND

UGANDA

# Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of Performance Criteria

Prepared by the African Department
(In collaboration with other departments)

Approved by A. Basu and M. Fetherston

December 3, 2003

- A three-year PRGF arrangement, in the amount of SDR 13.5 million (7.5 percent of quota), was approved by the Board on September 13, 2002 (IMF Country Report No. 02/213). Discussions on the second review of the program were held in Kampala during October 1–14, 2003. The attached letter from the Minister of Finance, Planning, and Economic Development and memorandum of economic and financial policies (MEFP, Appendix I, Attachment I) review the performance under the program through the end of fiscal-year 2002/03 (July–June) and update the policy agenda for the remainder of 2003/04. The third review is proposed to be linked to performance criteria for end-December 2003.
- The Ugandan representatives included the Minister of Finance, Planning, and Economic Development, the Governor of the Bank of Uganda, and other senior government officials. The staff team consisted of Mr. Caramazza (head), Mr. Dunn, Mr. Peiris (all AFR), Ms. Gonzalez (FAD), Mr. Mitchell (PDR), and Mr. Gulati (Assistant, AFR). The team was assisted by Mr. Mahler, the Fund's Senior Resident Representative in Uganda. The staff also met with President Museveni, members of parliament on the Budget Committee, and representatives of the donor and business communities.
- In September 2003, the cabinet submitted proposed changes to the 1995 Constitution to the Constitutional Review Commission. Among the proposals are the lifting of the ban on multiparty politics and elimination of the two-term limit on the presidency.
- In northern and northeastern Uganda, fighting between government forces and the Lord's Resistance Army (LRA) continues. The number of internally displaced persons arising from this conflict is estimated to have reached 1.2 million.

©International Monetary Fund. Not for Redistribution

Table of Contents

Page

Executive Summary....4

I. Performance Under the Program and Recent Economic Developments....5

II. Policy Discussions....9
A. Macroeconomic Outlook for 2003/04....9
B. Fiscal Policies....10
C. Monetary Program and Financial Sector Policies....14
D. External Sector Policies and Debt Sustainability....15
E. Governance and Other Structural Measures....17

III. Medium-Term Framework....17

IV. Program Monitoring....19

V. Risks to the Program....19

VI. Staff Appraisal....21

Boxes

1. The Government Budget for 2003/04....11
2. The Public Finance and Accountability Act 2003....13
3. The PEAP Targets and MDGs: Progress and Challenges....20

Figures

1. Real Sector Indicators....27
2. Fiscal Indicators....28
3. Monetary Aggregates and Interest Rates....29
4. Interbank Foreign Exchange Market Indicators, and Real and Nominal Effective Exchange Rates....30
5. External Sector Indicators....31

Tables

1. Selected Economic and Financial Indicators, 2000/01–2007/08....32
2. Fiscal Operations of the Central Government, 2001/02–2004/05....33
3. Monetary Survey, 2001/02–2004/05....34
4. Selected Banking Sector Information, December 2000–September 2003....35
5. Balance of Payments, 2001/02–2007/08....36
6. Debt and Debt-Service Indicators, 2000/01–2007/08....37
7. Status of HIPC Initiative Agreements by Creditor....38
8. Schedule of Disbursements Under the PRGF Arrangement....39

©International Monetary Fund. Not for Redistribution

Appendices

I. Letter of Intent ....................40
Attachment I. Memorandum of Economic and Financial Policies ....................42
Attachment II. Technical Memorandum of Understanding....................54
II. Relations with the Fund ....................63
III. Relations with the World Bank Group....................67
IV. Social Output and Outcome Indicators, 2000–05 ....................72

©International Monetary Fund. Not for Redistribution

## EXECUTIVE SUMMARY

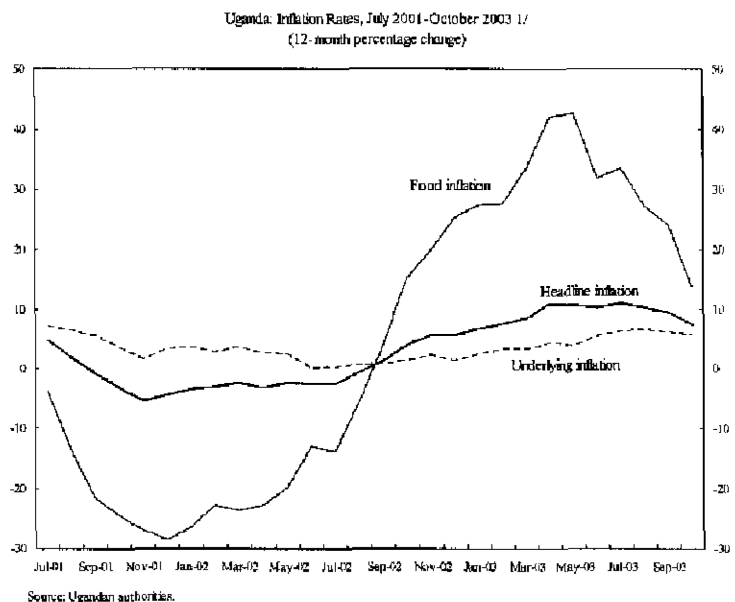
- Real GDP growth was about 5 percent in 2002/03 (July–June), as adverse weather conditions limited growth in agricultural production. Sharp increases in the prices of food crops contributed to a rise in headline inflation over the same period to just over 10 percent, while the underlying inflation rate was more modest at 5½ percent. In recent months, headline inflation has fallen to just over 7 percent, while underlying inflation has remained stable.
- Since the completion of the first review, performance under the PRGF-supported program has been mixed. Nearly all quantitative performance criteria were observed for end-June 2003 and most structural measures were implemented, albeit with some delays. The authorities are requesting waivers for nonobservance of three performance criteria based on corrective actions taken.
- A significant fiscal adjustment was achieved in 2002/03, as overall spending discipline was maintained. The allocation of government resources, however, differed substantially from budget intentions, owing to higher spending on defense, public administration, and interest on domestic debt. Spending not protected under the Poverty Action Fund (PAF) was sharply curtailed, while PAF expenditures were executed largely as planned.
- The monetary program succeeded in mopping up substantial amounts of liquidity in 2002/03. In the process, domestic interest rates increased substantially. The health of the financial system generally has continued to improve, but some financial institutions are highly exposed to individual borrowers.
- After several years of marked improvements, the incidence of poverty increased in recent years (from 34 percent of the population in 1999/2000 to 38 percent in 2002/03). Income inequality also has increased. These results will need to be scrutinized in the context of the forthcoming revision to the Ugandan Poverty Eradication Action Plan.
- Real GDP growth is expected to pick up in 2003/04 (to 6 percent), assuming better weather conditions, and inflation is projected to return to the low levels of the past decade. A further fiscal adjustment is programmed in 2003/04, reflecting both increased government revenues and lower spending, particularly on donor-supported projects. Spending on programs protected under the PAF would grow in line with projected GDP. The monetary program for 2003/04 has been modified to allow for greater sales of foreign exchange by the Bank of Uganda. Still, gross international reserves are projected to remain at over six months of imports of goods and services.
- External sector policies are aimed at increasing Uganda's international competitiveness and diversifying the export base. Uganda is moving ahead with regional integration in the context of the East African Community (EAC).

©International Monetary Fund. Not for Redistribution

## I. Performance Under the Program and Recent Economic Developments

1. **Since the completion of the first review, performance under the Poverty Reduction and Growth Facility (PRGF) arrangement has been mixed (Appendix I, Attachment I, Tables 1 and 2).** All quantitative performance criteria and benchmarks were met, with the exception of the zero limit on new domestic arrears. Moreover, several structural benchmarks in the areas of local government financial statistics, the Fund's safeguards assessment, and tax administration were observed, although some delays were incurred in developing the computerization plan for the Uganda Revenue Authority (URA). There have been, however, some slippages. The end-June 2003 performance criterion on the privatization of the Uganda Development Bank Limited (UDBL) was not observed, and a unit for monitoring URA staff was not established in the office of the Inspector General of Government (IGG) owing to a lack of resources. With regard to the performance criterion to develop a time-bound plan to clear domestic arrears, staff concurs with the authorities' view that elements of such a plan were contained in the medium-term expenditure framework (MTEF) submitted to parliament with the 2003/04 budget proposal, which allocated funds to pay down outstanding arrears, as well as in the regulations of the commitment control system (CCS) and the Budget and MTEF Circular for 2004/05-2006/07. Work is ongoing, however, in the assessment of the outstanding stock of unsettled arrears, and explicit time-bound plans for clearing arrears, particularly for arrears on pensions, have yet to be finalized, indicating that the performance criterion has not been observed. Based on corrective actions discussed in their memorandum of economic and financial policies (MEFP) (Appendix I, Attachment I), the Ugandan authorities have requested waivers for the missed performance criteria.

2. **The economy has continued to perform satisfactorily (Table 1 and Figure 1).** Real GDP grew by 4.9 percent in fiscal-year 2002/03 (July–June), or ½ of 1 percentage point less than projected in the program. Adverse weather conditions weakened agricultural production, and growth in manufacturing dipped, while strong private demand spurred a construction boom and communications services—the most dynamic sector of the economy since its restructuring in 1997/98—surged ahead. Gross domestic investment and savings both picked up in 2002/03 by over 1 percentage point of GDP, to 22.8 percent and 9.8 percent of GDP, respectively, led by the private sector. After declining in 2001/02, consumer prices had risen by 10.2 percent by end-2002/03, mainly on account of soaring food crop prices, but also owing to the depreciation of the Uganda shilling and the rise in



Source: Ugandan authorities.

©International Monetary Fund. Not for Redistribution

fuel prices during the second half of the year. Underlying inflation, which excludes food crop prices, had reached 5.5 percent by end-June 2003. In recent months, the inflation picture has improved: headline inflation fell to 7.3 percent in October, while underlying inflation was stable at 5.6 percent (see figure above).

3. **A substantial fiscal adjustment was achieved in 2002/03 (Table 2 and Figure 2).** The overall fiscal deficit, before grants, narrowed by 1.4 percentage points to 11.4 percent of GDP. With government revenues steady at 12.3 percent of GDP, the reduction in the deficit can be attributed to expenditure restraint, of which 0.4 percent of GDP came from current spending and 0.6 percent of GDP from reduced payments on outstanding domestic arrears. Donor assistance more than covered the fiscal deficit, despite reduced net donor inflows (of 0.6 percent of GDP), allowing for a decline in the government's net domestic financing.

4. **Although discipline was maintained on overall government spending, the distribution of expenditures deviated substantially from budget intentions.** In particular, sizable supplementary expenditures on defense and public administration, together with higher-than-budgeted domestic interest payments, necessitated sharp cuts in nonstatutory spending not protected under the Poverty Action Fund (PAF) and complicated public expenditure management.[1] Largely as a result of these late spending cuts, overcommitments under the commitment control system (CCS) increased, generating a stock of CCS arrears of 0.1 percent of GDP as of end-June 2003. The estimated stock of public sector pension arrears also increased significantly in 2002/03 (to U Sh 265 billion, or 2.3 percent of GDP), in part because of a revaluation of pension obligations that are indexed to public sector wages.

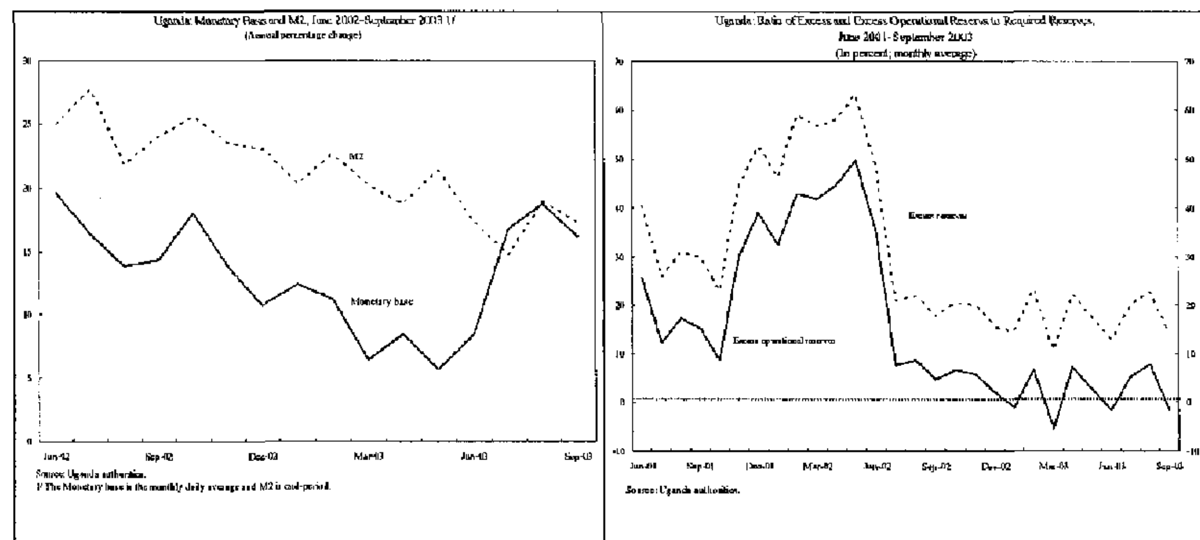
5. **High levels of government spending have resulted in recent years in large injections of liquidity, which have been mopped up through issues of treasury bills and foreign exchange sales by the Bank of Uganda (BOU).** At end-June 2003, the outstanding stock of treasury bills stood at nearly 9 percent of GDP, compared with 1½ percent of GDP five years earlier; this increase led to a high level of domestic interest obligations (1.0 percent of GDP in 2002/03) and heightened financial vulnerability associated with the need to roll over this debt, which has a maximum maturity of one year. BOU sales of foreign exchange also were considerable, rising to US$240 million (4 percent of GDP) in 2002/03.

6. **Monetary growth—both base money and broad money—edged down significantly during 2002/03 (Table 3 and Figure 3), but by less than projected** (see figure below). Although the quarterly ceilings on base money were observed, this was achieved by squeezing liquidity at the end of the period, while average base money growth remained above target. In July and August 2003, base money expanded rapidly, as the

[1] In contrast, PAF spending was essentially executed as planned.

©International Monetary Fund. Not for Redistribution

monetary authorities allowed liquidity to increase in response to low operational excess reserves at commercial banks (see figure below).[2] The rate of monetary expansion has subsequently moderated.




7. **Credit to the private sector rebounded strongly in 2002/03 from exceptionally low levels in the previous year**, led by the return of the Uganda Commercial Bank (UCB) to lending activities and strong demand for credit.[3] Policy interest rates and treasury bill yields rose substantially during 2002/03, resulting in a modest increase in real interest rates. Treasury bill yields have eased somewhat in recent months, in part because of the increased participation of offshore players in the treasury bill market. Lending rates, in contrast, remained rather flat over the past year (see Figure 3).

8. **While the overall health of the banking sector has improved in recent years (Table 4), owing in large part to strengthened banking supervision, the exposure of some banks to a few large borrowers increased substantially in 2002/03.** A number of banks have reported loans to individual borrowers in excess of the regulatory limit (25 percent of core capital), and some have very high credit concentrations. Under current legislation, exemptions from the single borrower's limit are allowed at the discretion of the BOU. In March 2003, the BOU informed the banks that such exemptions would henceforth be approved only on an exceptional basis. The nonperforming loan (NPL) ratio for the banking system as a whole, though low by regional standards, jumped from 3.4 percent in

[2] Operational excess reserves, which exclude the vault cash component of reserves, provide an indication of liquidity tightness.

[3] Lending restrictions on the UCB were lifted following its privatization and subsequent merger with a healthy international bank, Stanbic Bank, which was completed in September 2002.

©International Monetary Fund. Not for Redistribution

March 2003 to 8.0 percent in June, mainly on account of a default by a single large borrower.[4] In November 2003, parliament approved the new Financial Institutions Bill (FIB), which will bring banking regulations to international standards, and amongst other things, removes the BOU's discretion to waive the single borrower's limit.[5] Also, the Microfinance Deposit-Taking Institutions Act came into force in July 2003, providing the regulation and supervision of the microfinance industry necessary to ensure that small-scale banking is conducted in a manner conducive to the stability and growth of the sector.

9. **The Uganda shilling depreciated by nearly 10 percent in real effective terms in 2002/03 (Figure 4).** The weakening of the U.S. dollar against other major currencies contributed to the real depreciation of the shilling during this period. Following a sharp depreciation vis-à-vis the U.S. dollar during January—March 2003, owing to regional tensions and uncertainty about donor funding, the shilling has remained fairly constant since April 2003, as those difficulties have eased.

10. **The external sector showed signs of strengthening in 2002/03 (Table 5 and Figure 5).** For the first time in several years, Uganda's terms of trade improved, led by a 32 percent increase in coffee prices. Export earnings rose by 7.1 percent, even though the impact of adverse weather conditions on some key agricultural commodities (coffee, cotton, and tea) reduced export volume; meanwhile, the depreciation of the Uganda shilling dampened imports, particularly of services. As a result, the external current account deficit, excluding official transfers, narrowed by ½ percentage point to 13 percent of GDP in 2002/03. Net donor inflows (including HIPC Initiative assistance) and net private capital inflows more than covered this deficit, allowing gross international reserves to remain above six months of imports. Gross foreign direct investment remained stable at about 4 percent of GDP.

11. **Preparations are proceeding toward the formation of a customs union in the East African Community (EAC) in 2004.** A three-band structure for the common external tariff (CET) has been agreed, with rates of zero for raw materials and capital goods, 10 percent for intermediate goods and parts, and 25 percent for finished goods. Agreement has also been reached on a duty-free and quota-free arrangement under which trade between Uganda and Tanzania and the exports of these two countries to Kenya will be fully liberalized. However, to address differences in the level of industrial development, Uganda and Tanzania will be allowed to apply an internal tariff (of 10 percent) on selected products from Kenya on an interim basis.[6] Most of the elements relating to the common description,

---

[4] The banks involved have since fully provisioned for these nonperforming loans and are restructuring the loan contracts.

[5] The FIB, however, would allow a maximum of 49 percent shareholding by related individuals or corporations in commercial banks, which is well above the international standard.

[6] Uganda submitted a list of 523 products from Kenya that will enjoy the interim tariff protection; such protection will be reduced gradually by 2 percent a year over a five-year period, until its elimination.

©International Monetary Fund. Not for Redistribution

classification, and valuation of tradable goods, including the rules of origin, have been agreed. Draft laws, rules, and procedures relating to the dispute settlement mechanism, export promotion schemes, and competition policy and law have been prepared but need to be finalized. Agreement on the legal, institutional, and administrative structure of the customs union has yet to be reached.

12. **Poverty reduction experienced a setback in recent years.** According to the soon-to-be released 2002/03 household survey, the incidence of poverty rose to 38 percent of the population in 2002/03—after having declined from 56 percent in 1992 to 34 percent in 1999/2000.[7] Inequality also increased, with the Gini coefficient rising from 0.395 in 1999/2000 to 0.428 in 2002/03. The incidence of poverty increased more in the rural areas, in the eastern region, and in households headed by crop farmers, and while the causes of this deterioration have not yet been carefully analyzed, it would appear that the slowdown in agricultural production and the deterioration in the terms of trade associated with the sharp fall in coffee prices, as well as the decline in the relative price of food crops, played a role.[8] Demographic factors, in particular high population growth and continued insecurity in parts of the country, have also likely contributed to the rise in poverty.[9] International experience suggests that the rise in inequality also may have played a role by lowering the elasticity of poverty reduction with respect to growth.

## II. Policy Discussions

13. ***Policy discussions focused primarily on modifications to the quantitative* program for 2003/04 to reflect the approved budget and improve performance under the structural program.** Preliminary discussions were also held on the medium-term policy framework, with a view to the forthcoming revision of the Poverty Eradication Action Plan (PEAP).

### A. Macroeconomic Outlook for 2003/04

14. **The outlook for growth and inflation in 2003/04 remains essentially unchanged from that envisaged in the program** (IMF Country Report No. 03/213). Real GDP growth is expected to strengthen by 1 percentage point to 6 percent, mainly reflecting a strong increase in agricultural production, while inflation is projected to decline to about 3 percent by the end of the year, supported by financial discipline and subdued food crop prices. Fiscal adjustment remains a central element of the macroeconomic policy framework. The budget

[7] These statistics are based on measures of household consumption of privately produced goods. They exclude consumption of publicly produced goods and services, such as health services, which are an important dimension of welfare.

[8] The World Bank, together with the Ugandan authorities and other development partners, will be undertaking a detailed assessment of the 2002/03 household survey and the causes of the increases in poverty.

[9] At 3.4 percent a year, population growth in Uganda is among the highest in Africa.

©International Monetary Fund. Not for Redistribution

deficit, before grants, is projected to narrow by 0.7 percentage point to 10.7 percent of GDP in 2003/04, with tax measures and improvements in tax administration expected to increase government revenue by 0.6 percentage points of GDP. The deficit would be financed almost entirely by donor support, mostly in the form of grants. Projected donor support has been revised upward (by 0.6 percent of GDP) to reflect the full disbursement, in the form of a grant, of US$150 million under a Poverty Reduction Support Credit (PRSC) from the World Bank, and net domestic financing has been correspondingly reduced. The external current account deficit, excluding official transfers, is projected to increase to 13.6 percent of GDP, but net donor support, together with private capital inflows, is expected to be sufficient to allow for an overall balance of payments surplus and maintenance of gross international reserves at 6.3 months of imports.

### B. Fiscal Policies

15. **Success under the PRGF-supported program hinges on the continued implementation of sound fiscal policy.** Fiscal adjustment, which is needed not only for improving sustainability and reducing vulnerability, but also for minimizing the crowding out of private sector investment, depends on a strong revenue mobilization effort through both tax policy measures and concrete steps to strengthen tax administration. Increasing the effectiveness of government spending, which is critical for making progress in the fight against poverty, requires substantial improvements in public expenditure management at both the national and local levels, including the elimination of arrears. Moreover, greater transparency in the budget process would go far toward relieving donors' concerns and facilitating the delivery of budget support, which, in turn, would help eliminate a potential source of economic vulnerability. Curbing supplementary expenditures is a necessary step toward ensuring that outcomes better reflect budget intentions. In addition, it would be essential to curtail less productive spending, particularly in the area of public administration. The fiscal policies outlined in the MEFP address these issues for the current year.

16. **The prospects are good for meeting the revenue target in 2003/04,** which incorporates the impact of several policy measures (Box 1). Notwithstanding the negative impact of a slightly stronger than anticipated Uganda shilling on the valuation of imported goods, the URA successfully met its revenue targets in the period through September. In addition, the URA is making progress in implementing its business plan and has established a quantifiable set of objectives for strengthening tax administration during the current year. In particular, the URA will prepare databases to enhance tax audit and collection and will begin to implement its computerization plan for domestic taxes and customs. Revenue prospects are also enhanced by progress in the fight against corruption in the URA. The objective of

©International Monetary Fund. Not for Redistribution

increasing the resources dedicated to anti-corruption efforts will be met, in lieu of the establishment of a unit in the IGG to monitor URA staff, by increasing substantially the number of internal auditors at the URA.[10]

### BOX 1. UGANDA: THE GOVERNMENT BUDGET FOR 2003/04

**The 2003/04 budget approved by parliament is broadly consistent with the program supported by the PRGF.** In particular, the budget introduces several measures to enhance fiscal sustainability, while providing adequate resources for programs to reduce poverty:

- **The budget includes revenue-raising tax measures**, that are only partly offset by measures that would reduce revenues. The staff estimates that these measures should provide a net yield of nearly U Sh 33 billion (0.3 percent of GDP).

- **The budget includes some initial cost-saving measures proposed by the Presidential Commission on Streamlining Public Administration**. The budget ceiling for public administration outlays envisages modest savings of U Sh 2.3 billion in 2003/04. Other measures proposed by the commission and approved by the cabinet await the development of an action plan by the Ministry of Public Service, while others await the recommendations of the Constitutional Review Commision. These include (i) harmonizing the salaries and establishment structures of commissions and semiautonomous bodies with those of the civil service; (ii) standardizing discretionary recurrent expenditure across government; (iii) merging regulatory bodies to form multisector agencies; and (iv) identifying cuts in expenditure with a small positive impact on public service delivery.

Tax Policy Measures in the 2003/04 Budget
(in billions of Uganda shillings)

| Measure | Yield 1/ |
|---|---|
| Revenue-increasing tax measures | 34.5 |
| Twenty percent excise tax on beer made with local products | 1.4 |
| Traffic Act; increase in fees and charges of U Sh 90 per cc | 10.3 |
| Increase in excise on gasoline of U Sh 50 and diesel of U Sh 30 per liter | 14.0 |
| Three percent increase in excise on cellular air time | 5.1 |
| Limit VAT exemption to hotels outside Kampala and Entebbe | 3.7 |
| Revenue-decreasing tax measures 2/ | -1.6 |
| Two percent reduction in the excise on soft drinks | -1.6 |
| Total | 32.9 |

Source: Ugandan authorities; and IMF staff estimates

1/ Staff estimates.
2/ A number of other exemptions has also been included in the budget, which are projected to have a negligible impact on revenue.

**The budget, however, proposed measures that could significantly erode Uganda's domestic revenue capacity over the medium term.** In particular, the Finance Bill 2003/04 lays out the basis for the introduction of income tax holidays in export-processing-zones (EPZs) by exempting from tax all income derived by any person from manufacturing or processing of goods for export or in the provision of services for export in an area designated by the Minister of Finance. Exemptions would be for a period of ten years. While this measure has been temporarily withdrawn from parliamentary discussion, it may be resubmitted at a later date. The staff has urged the authorities to avoid such an event, and, instead, to undertake a review of investment incentives in light of the recommendations recently provided by joint World Bank/Fund technical assistance.

[10] The number of auditors in the URA's internal staff monitoring unit will be increased from the present 8 to 12.

©International Monetary Fund. Not for Redistribution

17. **The pro-poor composition of government spending will be protected.** First, the government has begun to implement measures to streamline public administration expenditure. While the savings from these measures will be fairly modest (U Sh 2.3 billion) in the current year, they represent a reversal of the strong growth in public administration expenditures in recent years. As a share of total government expenditures, spending on public administration is expected to be reduced to 11.8 percent in 2003/04 from 13.3 percent in 2002/03. Second, supplementary expenditures are expected to be curtailed in 2003/04, as the new Public Finance and Accountability Act (PFAA) has strengthened considerably the integrity of the budget process (Box 2), and no significant requests for supplementary defense expenditures are foreseen.

18. **The authorities are implementing a plan to clear all nonpension domestic arrears.** For the arrears outside the CCS (which stock is estimated at 0.9 percent of GDP),[11] the authorities have budgeted amounts of up to U Sh 45 billion per year, which should allow the stock to be fully cleared within the next 3 years.[12] For the arrears generated under the CCS (amounting to 0.1 percent of GDP), the authorities are expected to pay all CCS arrears incurred in 2002/03 in the current fiscal year, and the remaining stock will have the first call on resources in the 2004/05 budget. The PFAA is expected to help stop the accumulation of domestic arrears by providing a legal framework that could be invoked to sanction accounting officers who fail to comply with official procedures, such as those set out under the commitment control system (CCS). Inspections of compliance with the CCS are being stepped up. To develop diagnostic tools to ensure compliance with the CCS and to assist with strategic planning in the area of fiscal decentralization, the authorities will seek technical assistance from the Fund.

19. **The authorities are taking several important steps to improve public expenditure management at both the national and local levels.** In particular, the rolling out of the Integrated Financial Management System (IFMS), beginning with a pilot program for six line ministries and four local governments in 2003/04, would greatly enhance the accounting, reporting, and monitoring of government operations. All ministries and local governments have also begun to employ a new chart of accounts consistent with the GFS 2001 to ensure uniformity of information.

---

[11] This figure is expected to be revised down once the ongoing verification (due December 2004) is completed, as it will consider settlements of arrears not included in previous estimates. Completing the verification is a structural benchmark under the program.

[12] The budgeted amounts, however, do not cover the pension arrears, for which a separate plan is being developed.

©International Monetary Fund. Not for Redistribution

**Box 2. Uganda: The Public Finance and Accountability Act 2003**

The Public Finance and Accountability Act (PFAA), approved in May 2003, provides the legal framework to enhance the control and management of public resources and strengthen fiscal transparency and accountability.[1] Specifically, the PFAA introduces new standards for public sector financial management, in line with international best practice.

**In the area of budget planning, resource control, and accounting practices, the PFAA does the following:**

- **Requires the Ministry of Finance to develop and implement a macroeconomic and fiscal framework**, and to inform parliament about the current state of the economy, fiscal policies, and forecasts of revenue, expenditure, borrowing, debt servicing, and contingent liabilities. This provision gives legal effect to what has been the practice for several years and is consistent with Article 155(5) of the Constitution.

- **Requires parliamentary approval on supplementary expenditure** before resources can be withdrawn from the consolidated fund or spent for nonstatutory expenditure.

- **Increases control over public borrowing,** as only the Minister of Finance can be authorized by parliament to accept loans, issue guarantees, or take other actions that directly or indirectly result in a government liability.

- **Increases control over all grant receipts,** which can only be accepted by the Ministry of Finance and received centrally, forming part of the consolidated fund.

- ***Clarifies the role of the Head of Accounts*** *in setting accounting standards, being responsible for the* compilation and management of government accounts, providing custody and safety for public resources, and provide an overall framework for control of public resources and expenditure.

**In the area of Transparency and accountability, the PFAA does the following:**

- **Makes accounting officers personally accountable before parliament** for the public resources entrusted to them, adequately controlling commitments, and ensuring that effective systems of internal audit are in place. In addition, accounting officers are responsible for providing information to the public regarding the overall budget strategy, the nature and objective of each program, the assessment of output and performance against objectives, a summary of financial results, plans for the following year, and provisional plans for the following two years.

- **Includes provisions for offenses and penalties with respect to any losses and mismanagement of public resources.** Accounting officers are to be personally liable for mismanagement of public funds under the law.

- **Strengthens the powers of the Auditor General to audit all government accounts** and access all information as considered necessary, including those accounts considered to be "classified expenditures". The Minister of Finance is allowed, however, to issue regulations subjecting classified expenditure to confidentiality, including on the handling of and reporting by, the Auditor General on such cases, their and consideration by parliament.

[1] The PFAA updates the legal framework laid out in the 1995 Constitution and the Public Finance Act of 1964.

©International Monetary Fund. Not for Redistribution

## C. Monetary Program and Financial Sector Policies

20. **The monetary program has been amended in two respects to introduce more upward flexibility in the exchange rate and rigidity in base money target.** One, to ease the upward pressure on interest rates, the mix of treasury bill issues and foreign exchange sales in sterilization operations has been shifted toward greater foreign exchange sales. Thus, the floor for the net increase in international reserves has been reduced. While this shift would, all else unchanged, result in some upward pressure on the exchange rate, it should be modest and not problematic in light of the real effective depreciation of the Uganda shilling in the past year. Two, to avoid sharp movements in base money in order to meet program targets, the quarterly ceilings on base money have been revised to apply to the average of the daily stocks in the last month of each quarter, rather than the end-of-period stock.[13] The BOU aims to limit base money growth to 10.6 percent during 2003/04, an outcome that is expected to lead to a moderation of broad money growth while allowing for a healthy expansion of credit to the private sector. This should help reduce inflation to the low single digits.

21. **The authorities are working on several measures to strengthen the financial system and deepen financial intermediation.** In addition to the new Microfinance Deposit-Taking Institutions Act and the Financial Institutions Bill, the authorities plan to submit an anti-money-laundering bill to parliament in the near future. The authorities also intend to issue a multiyear treasury bond, which would become the benchmarking instrument for private sector lending and represent the first step in extending the maturity structure of government debt. A restructuring of the National Social Security Fund (NSSF) was initiated with the replacement of its management in March 2002, and the authorities have begun to study a far-reaching reform of the pension system that would introduce contributions-based pension schemes and competition among pension funds. In this context, it is expected that a bill to repeal the existing NSSF statute would be submitted to parliament by end-June 2004, together with a proposal for broad pension reform. This bill would pave the way for the BOU to serve as an interim supervisory authority for the NSSF until the Capital Markets Authority has built up sufficient capacity.

22. **The authorities explained that full privatization of the UDBL did not appear feasible, owing to strong political opposition.** The government, nonetheless, remains committed to divest UDBL while retaining the original objective of providing long-term funding for development purposes to various sectors of the country's economy. In this respect, the authorities indicated their willingness to restructure the UDBL through sound financial management to ensure its sustainability. Two options are under consideration by the authorities. One, the government will sell a strategic equity stake with management control so that the UDBL becomes a viable institution for term lending on a strictly commercial

[13] Hence, the 2003/04 program has been rebased on the average stock of money during June 2003.

©International Monetary Fund. Not for Redistribution

basis. Two, the UDBL would be merged with the Development Finance Department (DFD) of the BOU to create a new guarantee and refinance agency. Either of these options would avoid the directed lending and governance problems that had led to UDBL's insolvency. The authorities will decide on the divestiture option by end-March 2004. Pending divestiture, UDBL will not engage in any new lending. Also, neither the government nor the BOU will provide or guarantee further resources for on-lending by the UDBL (performance criterion for the third review).

### D. External Sector Policies and Debt Sustainability

23. **The staff emphasized the importance of pressing ahead with programs that are critical to raising productivity and international competitiveness.** The Plan for the Modernization of Agriculture (PMA) and elements of the Strategic Exports Program (SEP), which seek to increase agricultural productivity, failed to receive timely funding in 2002/03, and their implementation in the current year is likely to be sealed back relative to original plans. In particular, the extension services component of the PMA is expected to reach a lower-than-envisaged number of farmer groups in 2003/04. Nontraditional exports, such as flowers and vanilla, continue to demonstrate strong growth in volumes, which has resulted in lower air freight costs per unit. Some progress has also been made in opening new markets for Ugandan exports, such as coffee to Australia and fish to the United States.[14] In addition, regional integration has the potential to expand the market for Ugandan food crops and to create a large market that would be more attractive to foreign investors.

24. **While Uganda's principal external debt sustainability indicator has deteriorated, the outlook for improvement in the debt situation is good (Table 6).** Assuming the full delivery of HIPC Initiative, the ratio of the net present value (NPV) of external debt to exports rose to 235 percent as of end-June 2003, from 185 percent the previous year.[15] However, this mainly reflects the adverse effect of a change in the parameters used to calculate the NPV of the stock of debt: depreciation of the U.S. dollar against other major currencies and extraordinarily low interest rates.[16] In contrast, new borrowing has been contained, especially with the recent PRSC disbursement in the form of a grant. The ratio of debt service to exports fell to 7.8 percent in 2002/03 and is expected to remain well below the indicative HIPC Initiative target range of 15–20 percent over the foreseeable future. With exports projected to grow by 9 percent a year over the medium term, the NPV of debt-to-

---

[14] The World Bank has commissioned a study on the effectiveness of government subsidies provided to Ugandan textile manufacturers in accessing the U.S. market under the African Growth and Opportunity Act (AGOA).

[15] Approximately 77 percent or US$337 million of the US$442 million increase in NPV terms is attributed, roughly evenly, to the decline in discount rates between June 2001 and June 2003 and the appreciation of the SDR against the U.S. dollar (85 percent of Uganda's debt is denominated in SDRs).

[16] Based on the previous year's parameters, the NPV of external debt-to-exports ratio stood at about 195 percent as of end-June 2003.

©International Monetary Fund. Not for Redistribution

exports ratio would decline steadily to 192 percent by 2007/08.[17] The authorities have committed to borrowing on IDA comparable terms and plan to strengthen the debt management framework within the Ministry of Finance to further build on prospects for achieving debt sustainability. The latter includes stronger oversight of sectoral expenditure plans in accordance with spending priorities by a special Development Committee, involving the debt management office in evaluating the terms and conditions of all loan proposals, and improving the flow of information for data reconciliation and for the coordination of debt management, by linking relevant offices within the ministry to the computerized debt management system.

25. **Uganda is making progress in obtaining commitments on the delivery of HIPC Initiative assistance from its creditors (Table 7).** During the past year, it received debt relief under the HIPC Initiative of US$8.4 million and US$1.6 million in 1999 NPV terms from the Organization of Petroleum Exporting Countries (OPEC) Fund and the Republic of Korea, respectively, and US$4.9 million in cancelled debt from the government of India.[18] In recent discussions, the government of Libya agreed to submit legislation to its parliament providing for debt relief. The Ugandan government is also appealing court awards to creditors, including an award of US$6.4 million for repayment of an official debt to the Iraq Fund for External Development.

26. **Signing of the protocol for the EAC customs union is scheduled for November 30, 2003, and implementation is expected in July 2004.** In June 2003, the heads of state of the three EAC member countries agreed on a three-band structure for the common external tariff of zero, 10, and 25 percent.[19] This is more restrictive than Uganda's current tariff structure of zero, 7, and 15 percent and the structure that Uganda had favored during the negotiations. Since the proposed classification and categorization of import products under the three-band rates, as well as on the application of "supplementary" duties on selected products has not been decided, it is not yet possible to determine the extent to which Uganda's trade regime would become more restrictive or the impact on revenue.[20] Uganda

[17] The risks to debt sustainability will be examined more broadly in an updated DSA, which the authorities plan to conduct, in consultation with Bank and Fund staff, in the process of revising the PEAP and should be completed in early 2004.

[18] The debt cancellation reflects government-to-government claims of US$4.9 million (including US$1.7 million in interest arrears and penalties) but excludes about US$50 million in claims from the Export Credit Guarantee Corporation (ECGC) of India. Whilst accepting the offer of the Indian government, the Ugandan authorities have responded that the debt relief does not cover the remaining US$50 million in claims from the ECGC of India and have inquired into the prospects of receiving debt relief on comparable terms with the Paris Club and HIPC debt relief as anticipated under the HIPC Initiative. In 1992, all India's claims on Uganda were consolidated into a US$53.8 million loan to the ECGC for the purpose of a debt rescheduling.

[19] It is expected that the 25 percent top rate would be reduced to 20 percent over a five-year period.

[20] Uganda currently has the most liberal tariff structure in the region. The Fund's trade restrictiveness index rating of "2" (on a 10-point scale, with "10" being the most restrictive) indicates that Uganda maintain an "open" trade regime. However, some restrictions remain, notably an excise tax varying from 10 percent to

(continued)

©International Monetary Fund. Not for Redistribution

also belongs to the Common Market for Eastern and Southern Africa (COMESA), which also aims to establish a customs union in 2004. A fundamental issue yet to be addressed is the compatibility of the proposed tariff structures in the two unions.

### E. Governance and Other Structural Measures

27. **In the area of governance, the government has taken significant steps to enforce and increase the effectiveness of the Leadership Code.** Several public officials, including a presidential advisor, have been dismissed for not submitting their asset declarations to the IGG. Moreover, the IGG has undertaken to make the asset declarations of government officials available to the public.[21] The Fund has supported the anticorruption effort at the URA, an institution where corruption has been cited as a major constraint on doing business in Uganda.

28. **Further progress has been achieved in the privatization program, which is scheduled to be completed by end-2005.** Only 28 companies remain to be privatized, out of 137 in existence at the beginning of the privatization program ten years ago. Agreement has been reached on the concession of the Uganda Electricity Distribution Company (UEDC) and discussions are proceeding on the awarding of a joint concession for the operation of the Ugandan and Kenyan railways. Awarding the railway concession would go a long way to improving the transportation network, which is a major barrier to investment.

## III. Medium-Term Framework

29. **The medium-term macroeconomic framework projects that real GDP will grow by about 6 percent a year, on average, through 2007/08, with inflation remaining below 5 percent**. Net donor inflows are projected to decline by nearly 5 percentage points to 6½ percent of GDP in 2007/08,[22] underlining the need for fiscal consolidation. The overall fiscal deficit is projected to be reduced—by nearly 1 percentage point of GDP a year, which would ease the crowding-out effect of the government's domestic borrowing.[23] Gross investment would rise gradually, aided by increased domestic savings, with a shift toward greater private investment. Financial intermediation is expected to increase steadily relative

---

130 percent applied to imports of many consumer goods and a 2 percent import commission. In comparison, the Fund's trade restrictiveness index ratings for Kenya and Tanzania are "6" and "5," respectively.

[21] In October 2003, declarations of the President and the cabinet were published in a leading newspaper.

[22] Based on past experience, the authorities apply 15 percent and 50 percent discount factors on projected PAF and non-PAF budget support, respectively, for budgeting purposes.

[23] While the projected fiscal consolidation will allow substantial scope for expanding the provision of government services to meet economic growth and poverty reduction objectives, there is a tension between the fiscal adjustment required to achieve medium-term fiscal and external sustainability and the need for more spending to achieve the MDGs. The tension would be mitigated by increased revenue mobilization and improved efficiency of public spending (see paragraph 33 and Box 3).

©International Monetary Fund. Not for Redistribution

to GDP, as the banking system and other financial institutions continue to develop. The external current account deficit, before grants, would narrow modestly over the next five years, while the import coverage of gross international reserves would decline to 4½ months of imports by 2007/08, largely reflecting projected lower disbursements of budget support by donors.[24] The authorities intend to maintain a flexible exchange rate policy.

30. **The authorities' strategy for achieving sustained economic growth and poverty reduction rests on the pursuit of prudent macroeconomic policies and reforms aimed at removing supply-side constraints on growth and structural transformation.** To increase private investment, it will be necessary to vigorously implement a broad structural program that directly addresses the impediments to doing business in Uganda. This has been the authorities' approach under the Medium-Term Competitiveness Strategy (MTCS) launched in 2000; the MTCS has included the restructuring and privatization of the telecommunications and electricity companies and greatly improved utility services. More recently, private sector representatives have cited the following as the highest priorities for a more favorable business environment: improving transportation networks, fighting corruption, especially at the URA, and mobilizing greater domestic financial resources for investment. For their part, the authorities have begun to actively promote investment incentives, such as export processing zones (EPZs) with generous tax holidays, as a means of spurring investment.

31. **The staff cautioned against the use of tax holidays and specific subsidies to individual investors, which, in addition to having potentially high fiscal costs, typically have a negative impact on resource allocation and can lead to unproductive rent-seeking activities.** The staff urged the authorities to follow the recommendations of the World Bank/Fund technical assistance missions on rationalizing and harmonizing investment codes and incentives among the member countries of the EAC, and, in particular, to introduce a Code of Conduct that endorses best practices[25] and places limits on the incentives that can be offered, stressing that these should be related to the amount of investment instead of the level of profits. The staff encouraged the authorities to renew the emphasis on easing the broader impediments to investment by, for example, improving the rail system and other infrastructure, implementing reforms and regulations and building supervisory capacity for a sound expansion of financial intermediation, and strengthening efforts to fight corruption.

32. **Achieving the authorities' plan for reducing the fiscal deficit would require mobilizing revenue substantially and restraining the growth of government spending over an extended period.** The staff encouraged the authorities to articulate their guiding principles for tax policy and administration in the forthcoming revision to the PEAP. As

[24] Higher-than-projected disbursements of budget support would result in a greater accumulation of international reserves.

[25] These include assurances to the freedom to invest, national treatment, nondiscrimination, repatriation, limited expropriation, and transparency.

©International Monetary Fund. Not for Redistribution

envisaged in the authorities' medium-term expenditure framework (MTEF), the restraint on spending and the real resource constraints facing the authorities may require a deceleration in the pace of implementation of some programs to reduce poverty; in particular, on the hiring of teachers and health care workers that was specified in the last revision of the PEAP. It is expected that the forthcoming PEAP revision would lead to a realignment of poverty programs and targets with the MTEF. Other spending demands, such as on defense (depending on the priorities identified in the defense review) and civil service wage and pension reforms, will put additional pressures on resource allocation, necessitating curbs in other spending items and a marked improvement in the effectiveness of government spending.

33. **Progress toward achieving the Millennium Development Goals (MDGs) has been mixed, and, at current trends, there is a high likelihood that some of the targets will not be met (Box 3). An increase in resources, better policies, and improved effectiveness of institutions could reduce this likelihood.** The biggest challenges are attaining the requisite high rate of economic growth and addressing the capacity constraints on programs to reduce poverty at the micro level, including the lack of trained labor.[26] The cost estimates for reaching the MDGs vary widely but are all substantial, implying a significant increase in MDG-related expenditure.[27] A large increase in government expenditure poses risks to fiscal sustainability and macroeconomic stability that need to be addressed in the PEAP revision, together with measures to improve the efficiency of public spending.

## IV. Program Monitoring

34. Implementation of the program will be monitored with the help of quantitative and structural performance criteria and benchmarks (see MEFP, Tables 1 and 2). The structural measures focus on tax administration, public expenditure management, financial sector reform and supervision, and debt management. These measures and targets are complemented by structural measures monitored by the World Bank under the PRSC (Appendix III). The next (third) review of the three-year arrangement is expected to be completed in June 2004.

## V. Risks to the Program

35. The performance of the economy, with the predominance of agriculture and the reliance on basic commodity exports, is highly vulnerable to weather and commodity price shocks. Over the medium term, the main risks appear to be insufficient private investment to sustain high economic growth rates, inadequate domestic revenue mobilization efforts to maintain a path of gradual fiscal consolidation, and a failure to enhance the effectiveness of

[26] Previous research has suggested that an annual real GDP growth of 6 percent is required to meet the MDGs. This will have to be reviewed in light of the recent household survey data and the upward revision of the population growth estimates.

[27] However, increased efficiency in service delivery could ease the need to increase expenditure.

©International Monetary Fund. Not for Redistribution

government spending, particularly for donor-supported social programs delivered at the local level. Insufficient progress in improving governance could impede the creation of an enabling environment for private sector-led growth. While the program is taking steps to mitigate these risks, poor implementation could be costly.

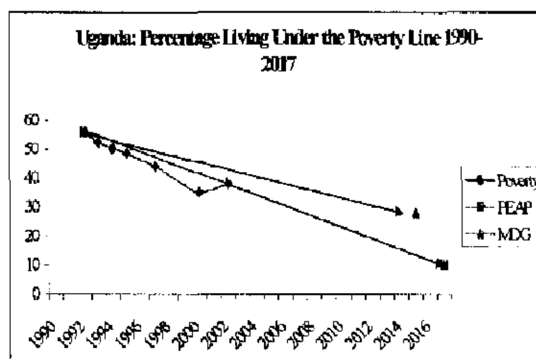
## Box 3. Uganda: The PEAP Targets and MDGs—Progress and Challenges

**The Poverty Eradication Action Plan (PEAP) targets and Millennium Development Goals (MDGs) are broadly similar** in focus. There are, however, significant differences in the quantitative targets: PEAP targets (especially those related to the social sector-poverty, universal primary education (UPE), HIV/AIDS and water) are generally more ambitious than the MDG targets while the MDG targets for gender equality in education, infant mortality, and maternal mortality are more ambitious.

**Progress toward achieving the MDGs has been mixed.** Over the past decade, Uganda has made substantial progress toward the goals of reducing income poverty, achieving UPE, and gender parity in primary education, reducing the incidence of HIV/AIDS, and increasing access to safe water. However, a significant gap remains in ensuring gender parity in secondary education, combating infant, under 5 and maternal mortality, reducing malaria and improving environmental sanitation. The current status of Uganda's MDG indicators, as shown in the Table below suggests that at current trends, there is a high likelihood that at least six out of the ten goals will not be met. An increase in resources, better policies, and improved effectiveness of institutions could reduce this likelihood and even result in an overshooting of the MDG targets in areas such as income poverty, hunger, and HIV/AIDS.

Uganda: MDG Status

| MDG Area | Target Possible at Current Trend | Target Possible with Better Policies, and Institutions and Additional Funding |
|---|---|---|
| Income poverty | yes | yes/better than MDG |
| Hunger | yes | yes/better than MDG |
| Primary enrollment | yes | yes |
| Primary completion | no | yes |
| Gender equality | no | yes |
| Under-5 mortality | no | no |
| Maternal mortality | no | no |
| HIV/AIDS | yes | yes/better than MDG |
| Water | no | yes |
| Environment/other | no | yes |




**To attain the MDGs the authorities must overcome a number of challenges.** The biggest challenge in meeting the MDG targets would be to maintain a growth rate of at least 6 percent. In this respect, improvements in competitiveness, investor confidence, education, health, financial deepening and infrastructure, supported by institutional reform, will be crucial in attaining Uganda's growth and poverty objectives.

**The fiscal and macroeconomic risks of attempting to reach the MDGs will also need to be managed carefully.** In the first instance, achieving these targets will require additional resources. For example, it is estimated that spending for health, UPE and HIV/AIDS would need to be about 50 percent higher than current levels in order to achieve those MDGs. The UNDP *Human Development Report* (2003) estimates that if the costs of achieving all MDGs were included, the additional resource requirements would be significantly higher–spending on HIV/AIDS would need to increase by 83 percent, education by 109 percent and health by 212 percent. The challenge is to strike the right balance between the high expenditure levels needed to fully meet all of the MDGs and maintaining macroeconomic stability, while taking into account the country's capacity constraints at the sectoral and microeconomic level. A too ambitious expenditure increase could threaten fiscal sustainability, undermine international competitiveness and export diversification, and raise the cost of finance for the private sector. Improvements in budgetary allocations, increased efficiency of public service delivery, and enhanced revenue mobilization (including grants) could reduce the pressure on the fiscal deficit and mitigate the macroeconomic risks while ensuring that Uganda can stay on a steady path toward attaining the MDGs.

©International Monetary Fund. Not for Redistribution

## VI. Staff Appraisal

36. **The authorities are to be commended for their steadfast implementation of macroeconomic policies that maintained overall stability through 2002/03, a period of strong internal budget pressures and global uncertainties**. A significant fiscal adjustment was achieved despite supplementary spending on defense and public administration and higher-than-budgeted interest costs. A further reduction in the fiscal deficit is projected for the current year, which should help to alleviate the upward pressure on the real exchange rate and real interest rates. The staff expects that careful implementation of the PFAA will play a prominent role to help maintain the quality of public spending and reduce the accumulation of arrears.

37. **Further reduction of the budget deficit over the medium term will be necessary to free up resources to raise private investment and accelerate growth**. To meet this objective, while providing scope for an expansion of public spending on programs to reduce poverty, will require considerably higher domestic revenue. While strengthening tax administration, including fighting corruption in the URA, is essential to boost domestic revenue, tax policy measures will also be required to raise significantly the ratio of taxes to GDP. It will be essential, therefore, both to ensure that the gains from strengthened tax administration are realized and to eschew measures that would lower tax revenue, including the use of tax holidays to attract investors. In this regard, the staff strongly encourages the authorities to adopt a Code of Conduct on Investment Incentives along with its EAC partners to avoid undermining its domestic revenue mobilization efforts.

38. **Increasing the effectiveness of government spending, at both the national and local levels, is also essential for meeting targets for poverty reduction, particularly in the areas of education, health care, water and sanitation, and basic infrastructure, in light of competing demands for public resources**. The staff thus welcomes the greater emphasis placed by the authorities on improving public expenditure management through a more transparent execution of the budget. It will also be necessary to curb nonpriority spending, particularly in the area of public administration. In this respect, the measures introduced in the last budget constitute a first step. However, much more needs to be done to curtail the growth of the public administration sector, including by rationalizing the functions and cost structures of autonomous agencies and commissions. The inclusion of donor-supported projects under the sector spending ceilings in the budget, beginning in 2004/05, will enhance transparency and should lead to further improvements in resource allocation.

39. **The monetary authorities have made good progress in managing liquidity and keeping inflation under control**. In addition to mopping up liquidity arising from government spending through regular sterilization operations, the BOU successfully reduced an overhang of excess reserves held by the banking system in 2002/03. Shifting the mix of sterilization operations in favor of increased sales of foreign exchange will ease the upward pressure on interest rates. The targets for monetary growth in 2003/04 are sufficiently restrictive to keep inflation subdued.

©International Monetary Fund. Not for Redistribution

40. **A sound expansion of financial intermediation is needed to support an increase in economic growth**. The authorities are addressing this issue through vigilant banking supervision and a strengthened regulatory framework, including a new Financial Institutions Bill that would raise banking regulations to international standards. In addition, a new microfinance institutions law, the Microfinance Deposit-Taking Institutions Act, was recently implemented, and working groups have been convened to devise a proposal for the reform of the pension system, which could mobilize substantial resources for investment. The authorities should act expeditiously to restructure the UDBL and create the appropriate governance, management, and oversight structures that would ensure that lending decisions are made on a sound financial basis.

41. **While an improvement in Uganda's terms of trade and the recent real depreciation of the currency have been helpful, achieving increased international competitiveness will depend on fiscal restraint and productivity gains**. In this respect, the staff encourages the authorities to step up implementation of existing programs to broadly increase productivity, such as the Plan for the Modernization of Agriculture and investments in infrastructure, which has been weak.

42. **The staff is concerned that the higher tariffs proposed under the CET structure of the EAC customs union could reduce the competitiveness of Ugandan firms and undermine the efficiency gains of Uganda's trade and macroeconomic policy reforms.** While there are likely to be some significant economic gains from regional integration, such as improved regional transportation and communication networks, the overall impact on Uganda of the proposed customs union are still unclear. In particular, the trade diversion effects could outweigh the trade creation effects. The staff urges the authorities to pursue further trade liberalization in the context of the EAC, in particular, to reduce the top tariff rate.

43. **Since reaching the completion point under the enhanced framework of the HIPC Initiative in May 2000, Uganda's external debt sustainability position has deteriorated**. Expanding and diversifying the export base is one element of a strategy to improve debt sustainability. However, Uganda's achievements in this area have thus far been limited. On the positive side, donor assistance has been more concessional, with a greater share of disbursements in the form of grants. In addition, the staff encourages the authorities to seek to secure the delivery of debt relief under the HIPC Initiative from all its creditors.

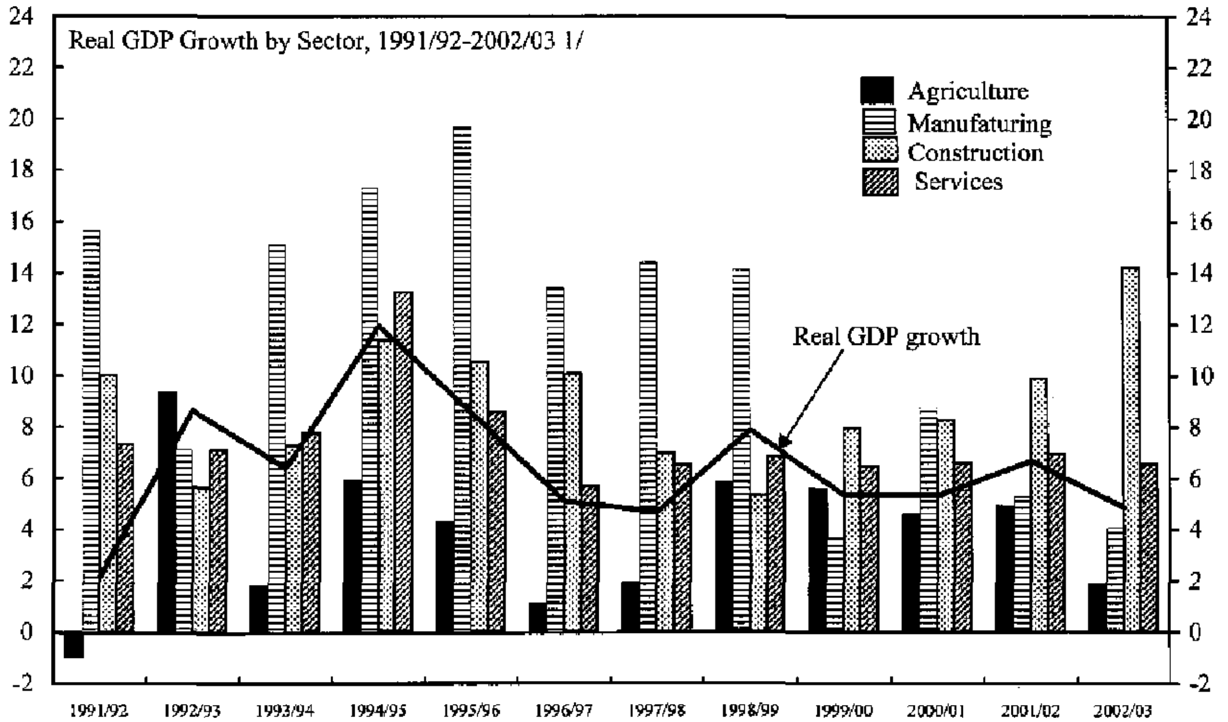
44. **Uganda is at an important crossroads in the implementation of its strategy to reduce poverty**. New data indicate that after several years of marked improvements, the incidence of poverty increased in recent years, despite a well-articulated PEAP. The staff encourages the authorities to critically assess the policy agenda for increasing growth and reducing poverty in the light of the recent household survey, and incorporate specific policy actions in the forthcoming revision of the PEAP, including measures to address the high fertility rate.

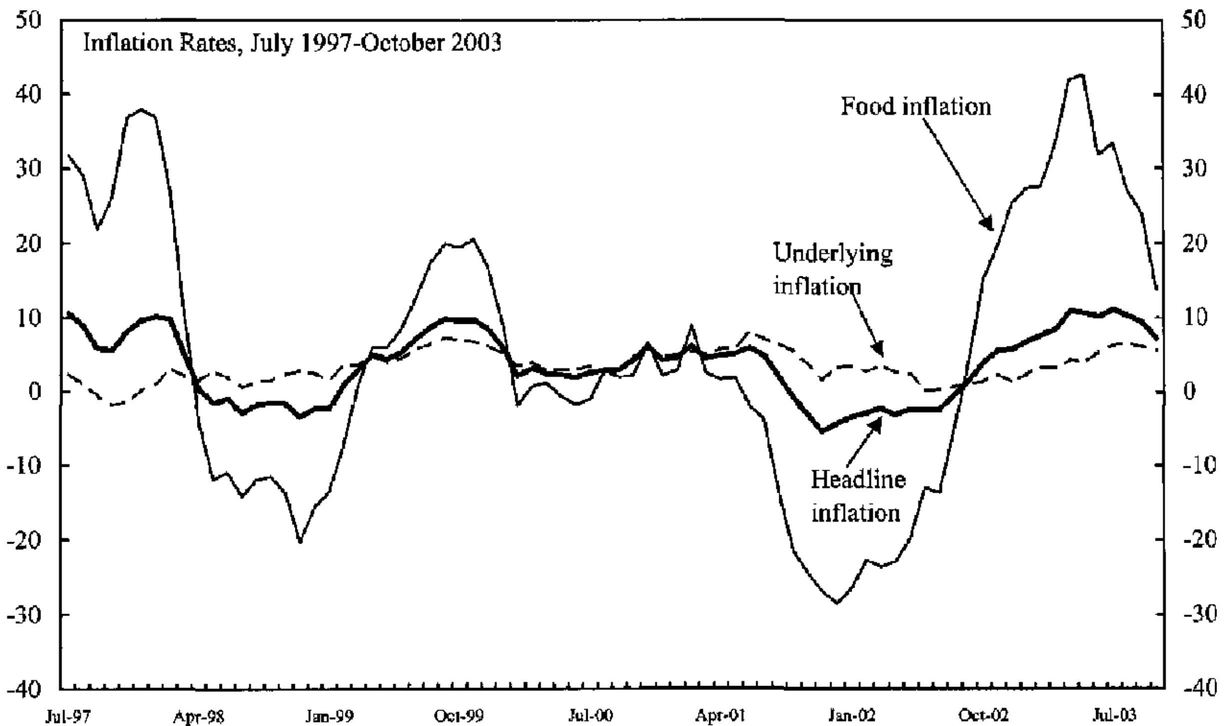
©International Monetary Fund. Not for Redistribution

45. In view of Uganda's overall satisfactory performance in implementing the program and the actions taken to address slippages, including the proposed measures to clear domestic arrears and restructure the UDBL, as well as the government's policy intentions for the remainder of 2003/04, the staff recommends that the request for waivers for three missed performance criteria be granted and the second review under the PRGF arrangement be completed.

©International Monetary Fund. Not for Redistribution

Figure 1. Uganda: Real Sector Indicators 1/
(Annual percentage changes)



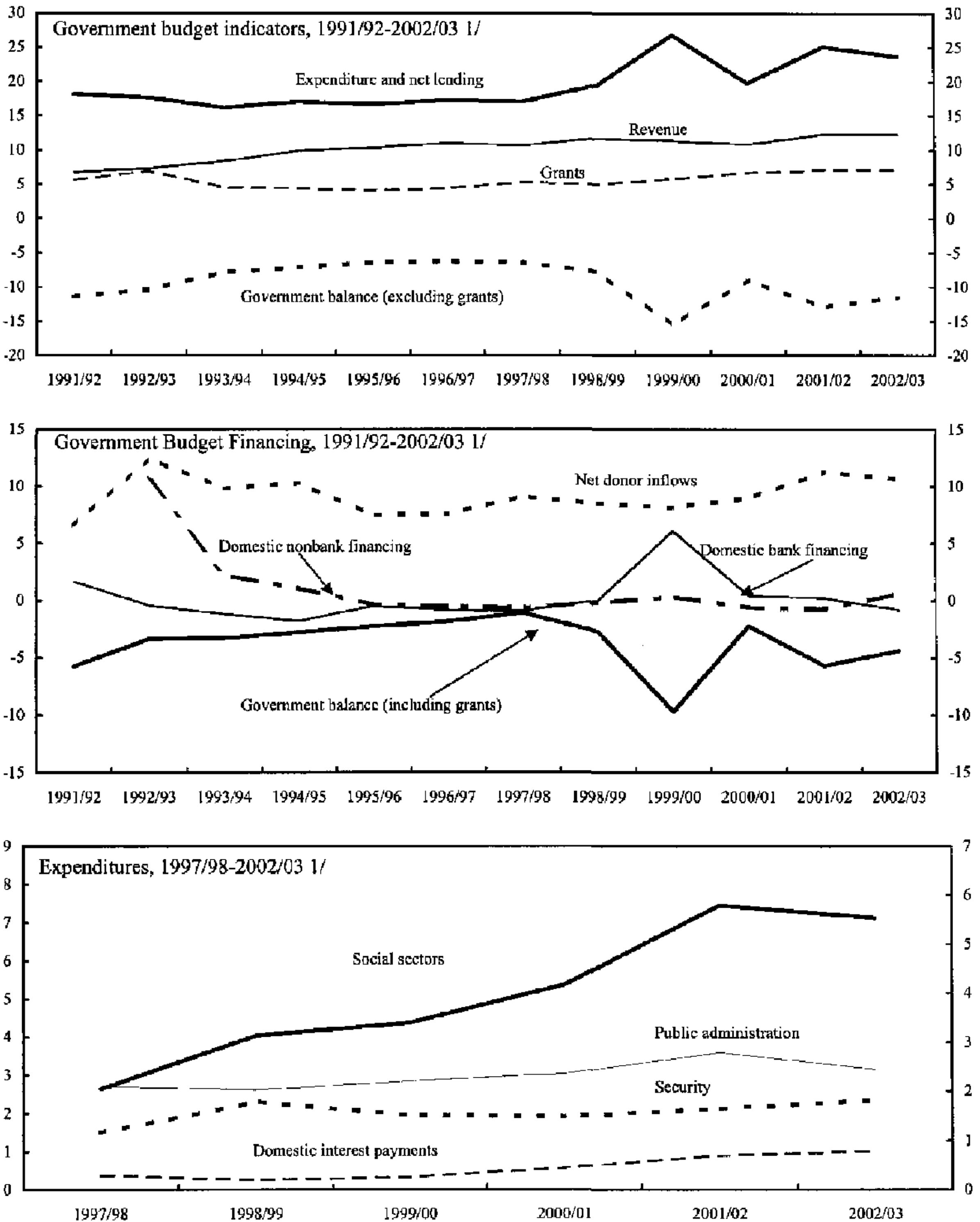




Sources: Ugandan authorities; and IMF staff estimates.

1/ Fiscal year begins on July 1.

©International Monetary Fund. Not for Redistribution

Figure 2. Uganda: Fiscal Indicators 1/
(As a share of GDP at market price, in percent)

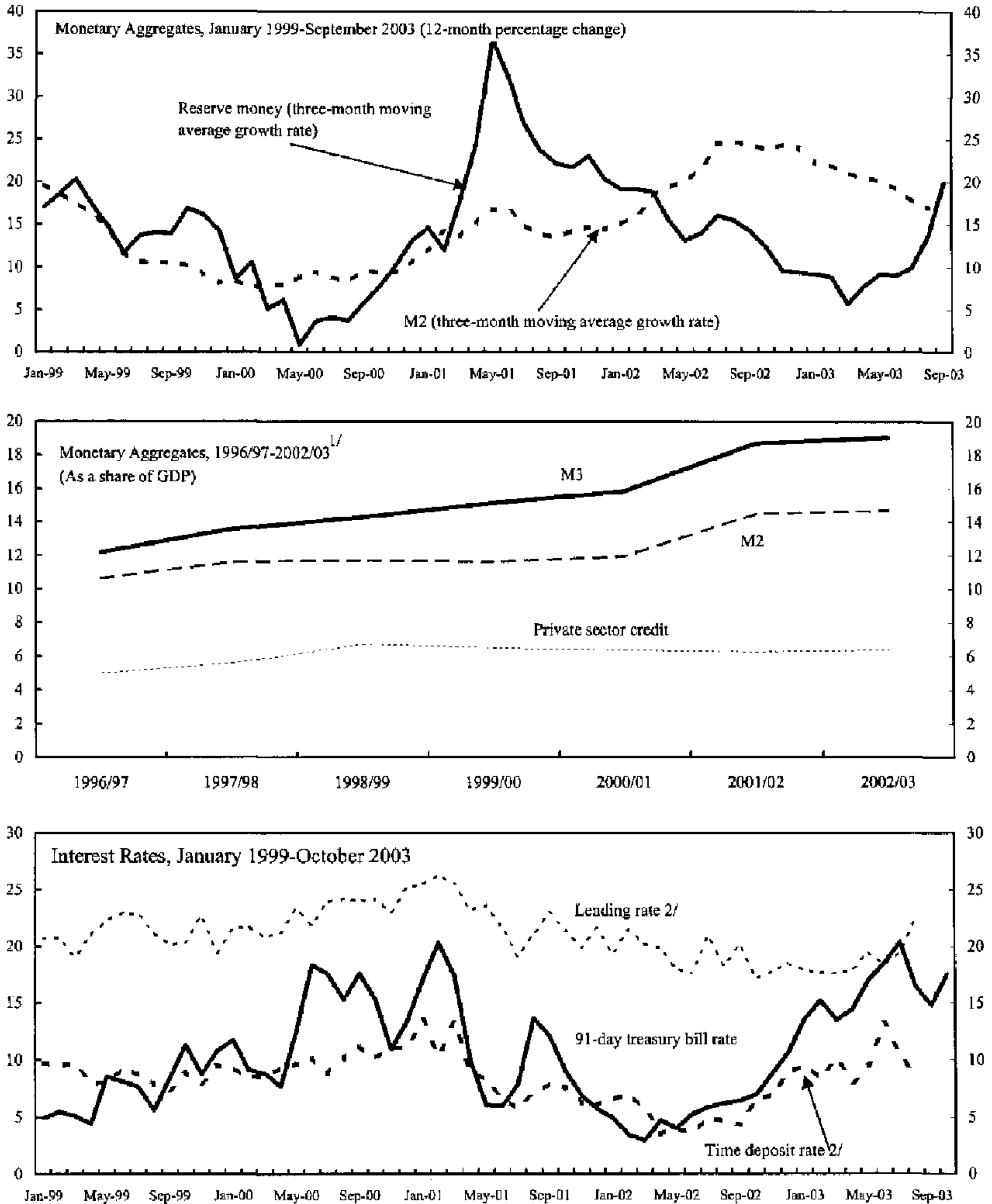



Sources: Ugandan authorities; and IMF staff estimates.

1/ Fiscal year begins in July.

©International Monetary Fund. Not for Redistribution

## Figure 3. Uganda: Monetary Aggregates and Interest Rates
(In percent)

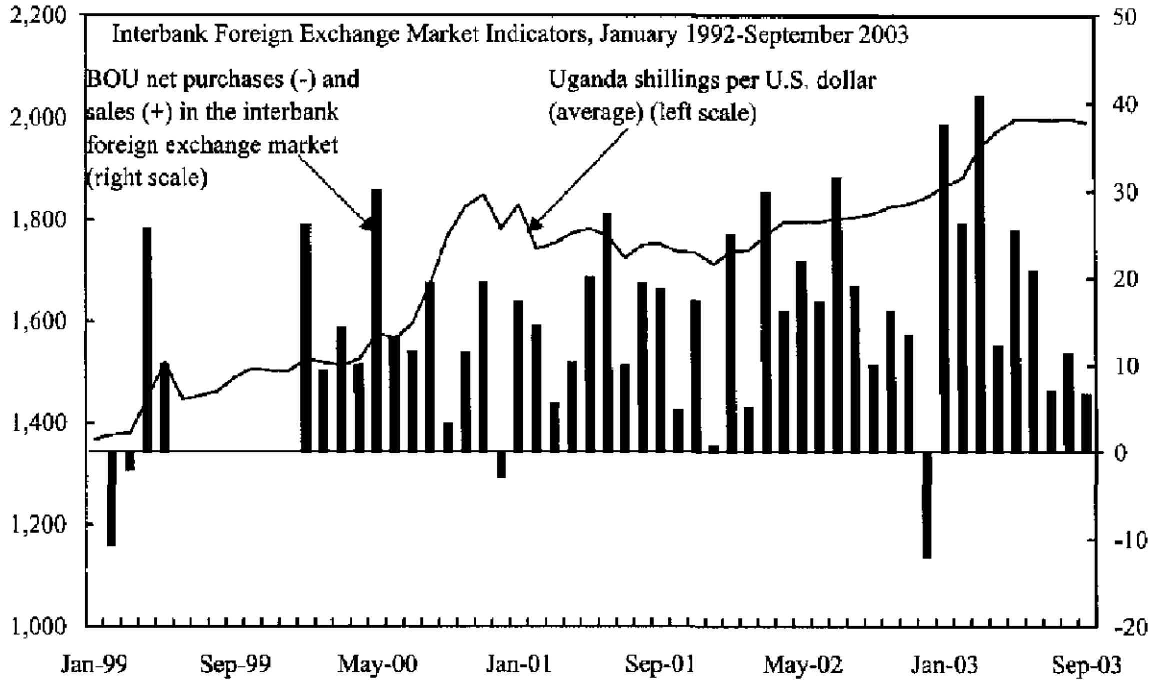


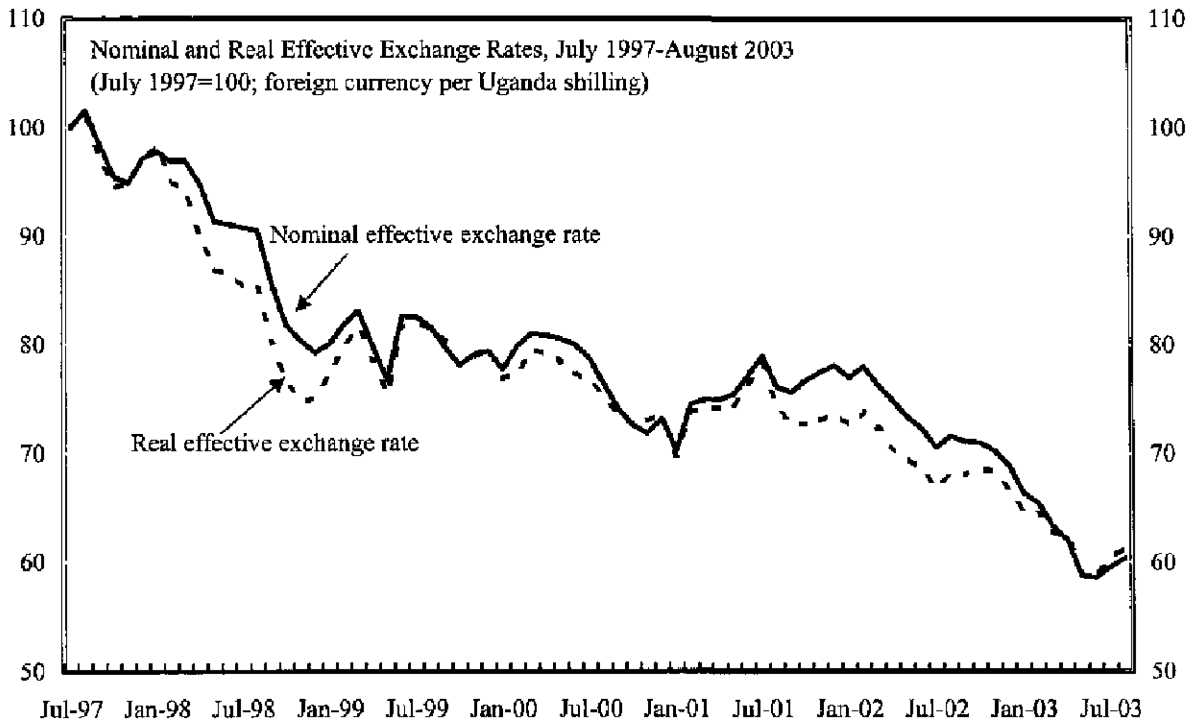

Source: Uganda authorities; and IMF staff estimates.

1/ Fiscal year begins on July 1.
2/ Weighted averages for Uganda shilling-denominated assets and liabilities.

©International Monetary Fund. Not for Redistribution

Figure 4. Uganda: Interbank Foreign Exchange Market Indicators, and Real and Nominal Effective Exchange Rates

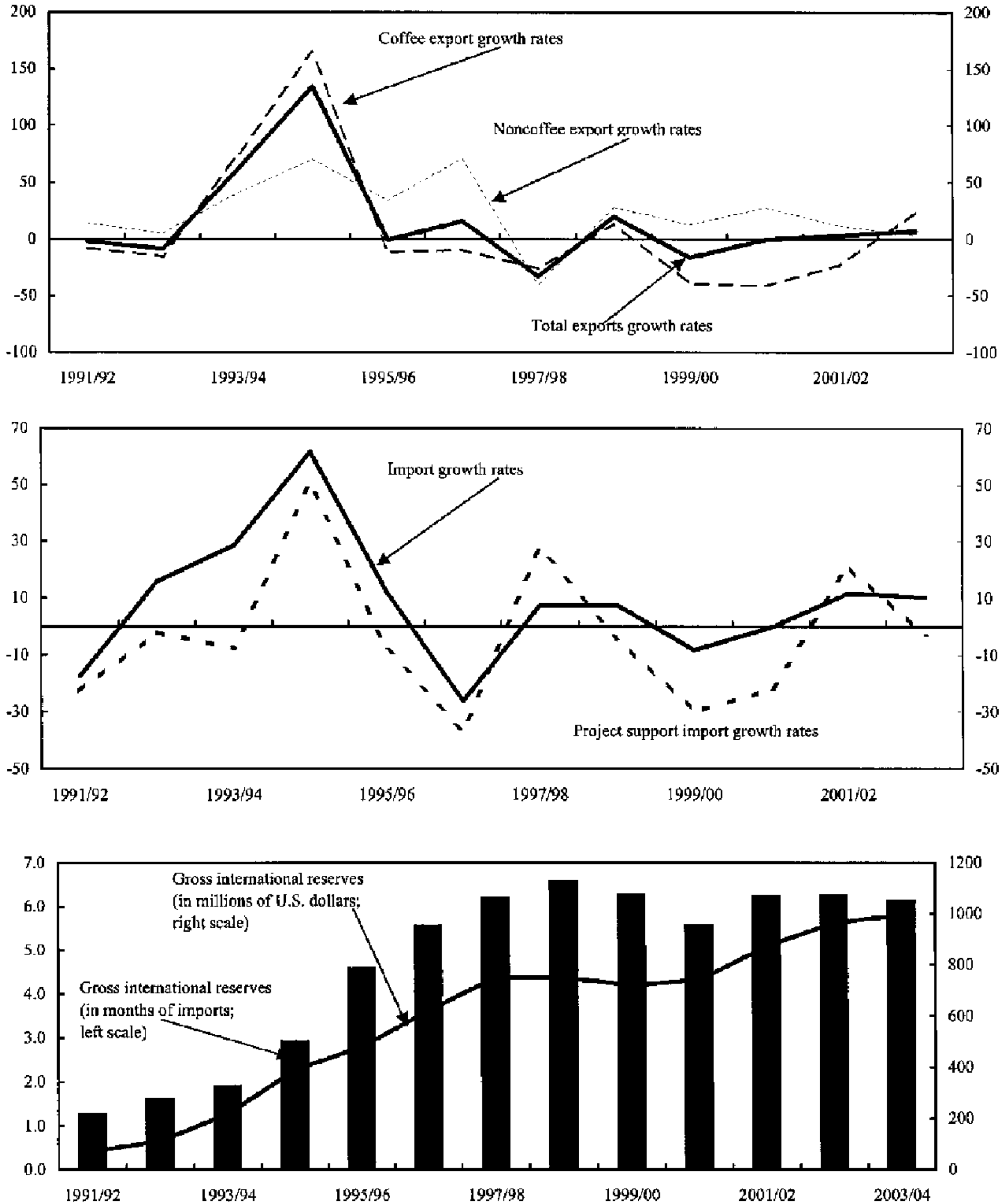



Sources: Ugandan authorities; IMF staff estimates; and INS, Information Notice System.

©International Monetary Fund. Not for Redistribution

Figure 5. Uganda: External Sector Indicators 1/
(Annual growth rates in percent, unless otherwise indicated)




Sources: Ugandan authorities; and IMF staff estimates.

1/ Fiscal year begins in July.

©International Monetary Fund. Not for Redistribution

Table 1. Uganda: Selected Economic and Financial Indicators, 2000/01–2007/2008 1/

| | 2000/01 | 2001/02 | 2002/03 Prog. | 2002/03 Est. | 2003/04 Prog. | 2003/04 Proj. | 2004/05 Proj. | 2005/06 Proj. | 2006/07 Proj. | 2007/08 Proj. |
|---|---|---|---|---|---|---|---|---|---|---|
| | (Annual percentage change, unless otherwise indicated) | | | | | | | | | |
| National income and prices | | | | | | | | | | |
| GDP at constant prices | 5.3 | 6.7 | 5.4 | 4.9 | 6.0 | 5.9 | 6.0 | 5.6 | 5.8 | 5.9 |
| GDP deflator | 6.1 | -4.0 | 6.5 | 9.3 | 5.5 | 5.7 | 3.6 | 3.6 | 3.5 | 3.7 |
| GDP at market prices | | | | | | | | | | |
| (in billions of Uganda shillings) | 9,944 | 10,184 | 11,555 | 11,669 | 12,921 | 13,066 | 14,341 | 15,698 | 17,197 | 18,870 |
| Consumer prices | | | | | | | | | | |
| Headline (end of period) | 6.4 | -2.5 | 10.0 | 10.2 | 1.9 | 1.9 | 3.5 | 3.5 | 3.5 | 3.5 |
| Underlying (end of period) | 8.5 | 0.1 | 6.6 | 5.5 | 3.0 | 3.0 | 4.0 | 4.0 | 4.0 | 4.0 |
| Headline (average) | 4.5 | -2.0 | 5.9 | 5.7 | 5.9 | 5.9 | 3.5 | 3.5 | 3.5 | 3.5 |
| Underlying (average) | 5.0 | 3.5 | 2.9 | 2.6 | 5.6 | 5.6 | 4.0 | 4.0 | 4.0 | 4.0 |
| External sector | | | | | | | | | | |
| Exports (volume) | 11.5 | 11.8 | 3.7 | -5.4 | 5.9 | 4.2 | 7.2 | 3.8 | 8.3 | 7.7 |
| Imports (volume) | 0.5 | 16.6 | 3.5 | 3.1 | 3.9 | 4.5 | 2.9 | 4.1 | 4.1 | 3.2 |
| Terms of trade (deterioration -) | -10.1 | -3.6 | 7.6 | 5.7 | 0.9 | 2.1 | 0.9 | 1.1 | 0.3 | 1.4 |
| Average exchange rate | | | | | | | | | | |
| (Uganda shillings per U.S. dollar) | 1,763 | 1,755 | 1,883 | 1,883 | ... | ... | ... | ... | ... | ... |
| Effective exchange rate (average) 2/ | | | | | | | | | | |
| Nominal (depreciation -) | -6.9 | 3.2 | -10.6 | -10.6 | ... | ... | ... | ... | ... | ... |
| Real (depreciation -) | -6.5 | -0.8 | -9.3 | -9.3 | ... | ... | ... | ... | ... | ... |
| | (Annual changes in percent of beginning-of-period stock of money and quasi money, unless otherwise indicated) | | | | | | | | | |
| Money and credit | | | | | | | | | | |
| Net foreign assets | 22.6 | 21.6 | 20.2 | 28.5 | 13.6 | 13.2 | 8.9 | 6.2 | 4.9 | 3.3 |
| Net domestic assets | -5.1 | 0.0 | -8.7 | -5.2 | 2.0 | -0.1 | 4.3 | 7.1 | 8.0 | 9.7 |
| Domestic credit | 7.0 | 2.8 | 1.2 | 4.9 | 9.0 | 3.3 | 10.1 | 10.3 | 12.1 | 12.2 |
| Central government | 3.4 | 1.4 | -7.4 | -4.8 | 3.7 | -2.1 | 5.0 | 4.8 | 7.0 | 7.0 |
| Private sector | 4.0 | 1.7 | 8.5 | 9.7 | 5.4 | 5.5 | 5.1 | 5.5 | 5.1 | 5.2 |
| Money and quasi money (M3) | 17.5 | 21.6 | 11.5 | 23.3 | 15.6 | 13.1 | 13.3 | 13.3 | 12.8 | 13.0 |
| M2 | 15.2 | 24.9 | 10.5 | 17.3 | 15.0 | 12.5 | 12.4 | 13.6 | 12.8 | 13.0 |
| Velocity (GDP/M2) 3/ | 8.9 | 7.6 | 7.4 | 7.2 | 7.3 | 7.0 | 6.9 | 6.6 | 6.4 | 6.2 |
| Interest rate (in percent) 2/ 4/ | 14.3 | 6.7 | 9.7 | 9.6 | ... | ... | ... | ... | ... | ... |
| | (In percent of GDP at market prices) | | | | | | | | | |
| National income accounts | | | | | | | | | | |
| Gross domestic investment | 20.1 | 21.7 | 21.5 | 22.8 | 22.2 | 23.2 | 23.4 | 23.5 | 23.5 | 23.5 |
| Public | 6.4 | 5.8 | 5.6 | 5.2 | 6.1 | 5.2 | 5.0 | 4.8 | 4.8 | 4.7 |
| Private | 13.8 | 15.8 | 15.9 | 17.6 | 16.1 | 18.1 | 18.5 | 18.7 | 18.7 | 18.8 |
| Gross domestic savings (excluding grants) | 6.0 | 8.2 | 8.2 | 9.8 | 8.6 | 9.6 | 10.8 | 11.1 | 11.5 | 11.8 |
| Public | -2.6 | -7.0 | -5.8 | -6.4 | -5.1 | -5.5 | -4.6 | -3.9 | -3.9 | -3.7 |
| Private | 8.6 | 15.2 | 14.0 | 16.1 | 13.7 | 15.2 | 15.4 | 15.0 | 15.4 | 15.6 |
| Gross national savings (including grants) | 13.0 | 15.3 | 15.8 | 16.8 | 16.4 | 19.3 | 17.5 | 17.4 | 17.4 | 17.4 |
| External sector | | | | | | | | | | |
| Current account balance | | | | | | | | | | |
| (including official grants) | -7.2 | -6.3 | -5.7 | -6.0 | -5.8 | -3.9 | -5.9 | -6.1 | -6.0 | -6.0 |
| (excluding official grants) | -14.1 | -13.5 | -13.3 | -13.0 | -13.7 | -13.6 | -12.6 | -12.4 | -12.0 | -11.6 |
| External debt (including Fund) | 58.9 | 67.5 | 67.9 | 72.4 | 65.6 | 66.5 | 65.1 | 61.7 | 60.1 | 57.1 |
| Government budget | | | | | | | | | | |
| Revenue 5/ | 10.9 | 12.3 | 12.3 | 12.3 | 12.8 | 12.9 | 13.4 | 13.9 | 14.4 | 14.9 |
| Grants | 6.7 | 7.1 | 7.3 | 7.1 | 7.9 | 9.7 | 6.7 | 6.3 | 6.0 | 5.6 |
| Total expenditure and net lending | 19.8 | 25.1 | 23.6 | 23.7 | 24.1 | 23.6 | 22.9 | 22.6 | 23.1 | 23.3 |
| Government balance (excluding grants) | -8.9 | -12.8 | -11.4 | -11.4 | -11.3 | -10.7 | -9.5 | -8.7 | -8.7 | -8.4 |
| Government balance (including grants) | -2.2 | -5.7 | -4.1 | -4.4 | -3.4 | -1.0 | -2.8 | -2.4 | -2.7 | -2.8 |
| Domestic balance | -4.3 | -6.5 | -5.2 | -5.1 | -4.6 | -4.6 | -4.0 | -3.5 | -3.7 | -3.6 |
| Net foreign financing | 2.8 | 5.0 | 4.7 | 4.4 | 2.6 | 1.3 | 1.8 | 1.4 | 1.2 | 1.3 |
| Domestic bank financing | 0.5 | 0.2 | -1.2 | -0.8 | 0.6 | -0.4 | 0.9 | 0.9 | 1.4 | 1.4 |
| Domestic nonbank financing | -0.6 | -0.7 | 0.6 | 0.6 | 0.2 | 0.2 | 0.1 | 0.0 | 0.0 | 0.0 |
| Net donor inflows | 9.0 | 11.3 | 11.2 | 10.7 | 9.8 | 10.4 | 8.1 | 7.4 | 7.0 | 6.4 |
| | (In percent of exports of goods and nonfactor services; unless otherwise indicated) | | | | | | | | | |
| Debt indicators | | | | | | | | | | |
| Net present value of external debt 6/ | 167.4 | 184.7 | 193.5 | 235.2 | 188.4 | 223.3 | 211.8 | 204.5 | 198.6 | 191.7 |
| External debt-service ratio 7/ | | | | | | | | | | |
| Including Fund obligations | 9.2 | 8.5 | 9.0 | 7.8 | 9.2 | 10.0 | 10.4 | 10.9 | 10.6 | 8.3 |
| Excluding Fund obligations | 2.1 | 2.2 | 2.6 | 2.0 | 2.9 | 3.8 | 4.9 | 6.2 | 7.0 | 6.1 |
| Stock of domestic debt (in percent of GDP) | 5.8 | 8.9 | 8.9 | 9.1 | 8.7 | 8.1 | 8.2 | 8.2 | 8.3 | 8.2 |
| Interest on domestic debt (in percent of GDP) | 0.6 | 0.9 | 1.0 | 1.0 | 1.2 | 1.4 | 1.1 | 1.1 | 1.2 | 1.3 |
| | (In millions of U.S. dollars, unless otherwise indicated) | | | | | | | | | |
| Overall balance of payments | 7 | 150 | 61 | 111 | 34 | 72 | 25 | 19 | -23 | -23 |
| External payments arrears (end of period) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Gross foreign exchange reserves | 739 | 873 | 916 | 964 | 916 | 995 | 981 | 965 | 909 | 865 |
| (in months of imports of goods and nonfactor services) | 5.6 | 6.2 | 6.0 | 6.3 | 5.3 | 6.3 | 6.0 | 5.6 | 5.0 | 4.5 |

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

1/ Fiscal year begins in July.
2/ The 2002/03 figure is provisional.
3/ Nominal GDP divided by average of current-year and previous-year end-period money stocks.
4/ Weighted annual average rate on 91-day treasury bills.
5/ The revenue projections are based on a revenue target as a share of GDP, and accordingly include unidentified revenue measures.
6/ Ratio of three-year average of exports and based on commercial interest reference rates (CIRRs) at June 2003.
7/ The debt-service ratios reflects actual debt service paid, that is, after debt relief including that attributable to the HIPC Initiative, deferment of payments to non-Paris Club creditors with whom bilateral agreements have not yet been reached, and the settlement of arrears.

©International Monetary Fund. Not for Redistribution

Table 2. Uganda: Fiscal Operations of the Central Government, 2001/02–2004/05 1/

| | 2001/02 | 2002/03 Prog. | 2002/03 Est. | 2003/04 Prog. | 2003/04 Rev. prog. | 2004/05 Proj. |
|---|---|---|---|---|---|---|
| | (In billions of Uganda shillings) | | | | | |
| Total revenue and grants | 1,981.1 | 2,263.8 | 2,256.7 | 2,670.3 | 2,948.0 | 2,884.7 |
| Revenue 2/ | 1,253.9 | 1,418.5 | 1,433.7 | 1,652.2 | 1,683.1 | 1,921.9 |
| Tax | 1,155.7 | 1,322.9 | 1,337.9 | 1,541.8 | 1,560.1 | 1,789.3 |
| Nontax 3/ | 98.2 | 95.7 | 95.8 | 110.4 | 123.0 | 132.5 |
| Grants | 727.2 | 845.3 | 823.0 | 1,018.1 | 1,264.9 | 962.8 |
| Budget support | 363.9 | 450.7 | 456.8 | 496.4 | 786.0 | 471.6 |
| *Of which*: HIPC assistance | 104.8 | 128.8 | 129.2 | 154.8 | 126.5 | 137.5 |
| Project grants | 363.3 | 394.6 | 366.2 | 521.7 | 478.9 | 491.2 |
| | | | | | | |
| Expenditures and net lending | 2,559.8 | 2,732.5 | 2,767.3 | 3,108.6 | 3,083.1 | 3,287.5 |
| Current expenditures | 1,419.7 | 1,585.0 | 1,584.9 | 1,714.3 | 1,743.4 | 1,850.9 |
| Wages and salaries | 548.6 | 613.1 | 612.3 | 664.3 | 682.8 | 707.1 |
| *Of which*: defense | 118.3 | 128.0 | 125.0 | 132.0 | 134.0 | 138.9 |
| Poverty Action Fund | 212.8 | 233.8 | 235.3 | 252.9 | 265.7 | 270.8 |
| Interest payments | 140.6 | 169.3 | 172.6 | 212.4 | 242.1 | 242.4 |
| Domestic | 91.5 | 117.4 | 118.0 | 149.2 | 184.7 | 176.7 |
| External interest | 49.1 | 51.9 | 54.6 | 63.2 | 57.4 | 65.7 |
| *Of which*: HIPC cancellation | 11.3 | 8.8 | 12.1 | 9.8 | 11.4 | 10.9 |
| Transfers to the Uganda Revenue Authority | 45.3 | 63.4 | 62.7 | 57.7 | 57.7 | 59.8 |
| Other current | 685.2 | 739.2 | 737.3 | 779.9 | 760.9 | 815.0 |
| *Of which*: defense | 92.5 | 133.0 | 138.8 | 167.8 | 162.4 | 162.7 |
| Poverty Action Fund | 146.8 | 159.7 | 155.1 | 187.2 | 166.3 | 199.4 |
| Additional spending 4/ | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 26.6 |
| Development expenditures | 1,025.0 | 1,105.9 | 1,140.6 | 1,327.9 | 1,271.2 | 1,322.4 |
| Donor-supported projects | 593.5 | 657.6 | 680.7 | 798.9 | 747.4 | 730.0 |
| Domestic | 431.5 | 448.3 | 459.9 | 529.0 | 523.8 | 574.0 |
| *Of which*: defense | 6.1 | 9.0 | 9.9 | 11.2 | 11.5 | 10.6 |
| Poverty Action Fund | 229.6 | 263.8 | 255.6 | 310.2 | 308.9 | 351.3 |
| Additional spending 4/ | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 18.4 |
| Net lending and investment | 4.9 | -13.8 | -12.5 | -28.6 | -9.3 | -28.6 |
| Other | 110.3 | 55.3 | 54.4 | 95.0 | 77.8 | 142.9 |
| *Of which*: domestic arrears repayment | 110.3 | 55.3 | 54.4 | 45.0 | 45.0 | 51.0 |
| | | | | | | |
| Overall balance | | | | | | |
| Including grants | -578.7 | -468.7 | -510.6 | -438.4 | -135.1 | -402.9 |
| Excluding grants | -1,305.9 | -1,313.9 | -1,333.6 | -1,456.5 | -1,400.0 | -1,365.7 |
| Domestic balance 5/ | -663.3 | -604.4 | -598.3 | -594.4 | -595.2 | -570.0 |
| | | | | | | |
| Financing | 455.4 | 468.7 | 497.4 | 438.4 | 135.0 | 402.8 |
| | | | | | | |
| External financing (net) | 510.1 | 540.9 | 517.1 | 338.9 | 164.7 | 261.9 |
| Disbursement | 591.2 | 660.0 | 621.1 | 477.0 | 299.6 | 430.1 |
| Budget support | 349.0 | 396.9 | 360.2 | 199.8 | 31.2 | 191.4 |
| Project loans | 242.2 | 263.0 | 261.0 | 277.2 | 268.5 | 238.7 |
| Amortization(-) | -122.8 | -158.9 | -143.1 | -164.3 | -147.2 | -166.1 |
| *Of which*: HIPC cancellation | -20.3 | -21.4 | -21.4 | -26.4 | -33.1 | -34.4 |
| Exceptional financing | 41.7 | 39.8 | 39.0 | 26.2 | 12.2 | -2.1 |
| *Of which*: HIPC rescheduling | 4.8 | 6.4 | 7.0 | 5.0 | 7.9 | 6.7 |
| | | | | | | |
| Domestic financing (net) | -54.7 | -72.2 | -19.7 | 99.6 | -29.7 | 140.9 |
| Bank financing 6/ | 21.4 | -142.2 | -92.8 | 79.6 | -49.7 | 132.9 |
| Bank of Uganda (BOU) | -190.3 | -187.5 | -208.6 | -9.3 | -58.6 | 25.9 |
| Commercial banks | 211.7 | 45.3 | 115.8 | 88.9 | 8.9 | 107.0 |
| Nonbank financing | -76.1 | 70.0 | 73.1 | 20.0 | 20.0 | 8.0 |
| *Of which*: treasury bills | 3.6 | 70.0 | 98.7 | 20.0 | 20.0 | 8.0 |
| | | | | | | |
| Errors and omissions/financing gap | 123 | 0 | 13 | 0 | 0 | 0 |
| | (In percent of GDP at market prices, unless otherwise indicated) | | | | | |
| Total revenue and grants | 19.5 | 19.6 | 19.3 | 20.7 | 22.6 | 20.1 |
| Revenue | 12.3 | 12.3 | 12.3 | 12.8 | 12.9 | 13.4 |
| Grants | 7.1 | 7.3 | 7.1 | 7.9 | 9.7 | 6.7 |
| Expenditures and net lending | 25.1 | 23.6 | 23.7 | 24.1 | 23.6 | 22.9 |
| Current expenditure | 13.9 | 13.7 | 13.6 | 13.3 | 13.3 | 12.9 |
| *Of which*: wages and salaries | 5.4 | 5.3 | 5.2 | 5.1 | 5.2 | 4.9 |
| interest payments | 1.4 | 1.5 | 1.5 | 1.6 | 1.9 | 1.7 |
| Development expenditures | 10.1 | 9.6 | 9.8 | 10.3 | 9.7 | 9.2 |
| *Of which*: donor-supported projects | 5.8 | 5.7 | 5.8 | 6.2 | 5.7 | 5.1 |
| domestic | 4.2 | 3.9 | 3.9 | 4.1 | 4.0 | 4.0 |
| Overall balance | | | | | | |
| Including grants | -5.7 | -4.1 | -4.4 | -3.4 | -1.0 | -2.8 |
| Excluding grants | -12.8 | -11.4 | -11.4 | -11.3 | -10.7 | -9.5 |
| Domestic balance 5/ | -6.5 | -5.2 | -5.1 | -4.6 | -4.6 | -4.0 |
| Primary balance, including grants | -4.3 | -2.6 | -2.9 | -1.7 | 0.8 | -1.1 |
| Financing | 4.5 | 4.1 | 4.3 | 3.4 | 1.0 | 2.8 |
| External financing (net) | 5.0 | 4.7 | 4.4 | 2.6 | 1.3 | 1.8 |
| Domestic bank financing (net) | 0.2 | -1.2 | -0.8 | 0.6 | -0.4 | 0.9 |
| Domestic nonbank financing (net) | -0.7 | 0.6 | 0.6 | 0.2 | 0.2 | 0.1 |
| | | | | | | |
| Memorandum items. | | | | | | |
| Total defense expenditures (in billions of Uganda shillings) | 216.8 | 270.0 | 273.7 | 311.0 | 307.8 | 312.1 |
| Total defense expenditures (in percent of GDP) | 2.1 | 2.3 | 2.3 | 2.4 | 2.4 | 2.2 |
| Total public administration expenditure (in billions of Uganda shillings) | 365.8 | 360.9 | 367.2 | 365.3 | 364.9 | 381.6 |
| Totrl public administration expenditure (in percent of GDP) | 3.6 | 3.1 | 3.1 | 2.8 | 2.8 | 2.7 |
| Poverty Action Fund (as a share of GDP) 3/ | 5.8 | 5.7 | 5.5 | 5.8 | 5.7 | 5.8 |
| Total HIPC assistance (in billions of Uganda shillings) | 141.2 | 165.5 | 169.6 | 196.0 | 179.0 | 189.4 |
| Total HIPC assistance (in percent of GDP) | 1.4 | 1.4 | 1.5 | 1.5 | 1.4 | 1.3 |

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

1/ Fiscal year begins in July.
2/ The revenue projections are based on a revenue target as a share of GDP, and accordingly include unidentified revenue measures.
3/ From 2001/02 onward, nontax revenue includes nontax revenue collected by ministries.
4/ Additional expenditures refer to the expected but not yet formally committed budget support and to new tax policy measures.
5/ These additional expenditures refer to new (unidentified) tax policy measures.
5/ Revenues less expenditures, excluding external interest due and externally financed development expenditures.
6/ 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.

©International Monetary Fund. Not for Redistribution

Table 3. Uganda: Monetary Survey, 2001/02–2004/05 1/
(In billions of Uganda shillings; end of period, unless otherwise indicated)

| | 2001/02 | 2002/03 Prog. | 2002/03 Actual | 2003/04 Prog. | 2003/04 Proj. | 2004/05 Proj. |
|---|---|---|---|---|---|---|
| Banking system | | | | | | |
| Net foreign assets (NFA) | 1,553 | 1,942 | 2,101 | 2,235 | 2,415 | 2,655 |
| Net domestic assets | 373 | 204 | 272 | 247 | 269 | 386 |
| Domestic credit | 1,151 | 1,174 | 1,246 | 1,368 | 1,325 | 1,595 |
| Claims on public sector (net) 2/ | 490 | 348 | 398 | 426 | 347 | 479 |
| Claims on private sector | 662 | 826 | 849 | 942 | 979 | 1,116 |
| Valuation | -163 | -308 | -334 | -419 | -376 | -489 |
| Other items (net) | -615 | -661 | -640 | -701 | -680 | -720 |
| Broad money (M3) | 1,925 | 2,147 | 2,373 | 2,482 | 2,684 | 3,040 |
| *Of which:* M2 | 1,491 | 1,646 | 1,749 | 1,894 | 1,967 | 2,212 |
| Monetary authorities | | | | | | |
| Net foreign assets | 1,091 | 1,372 | 1,501 | 1,562 | 1,703 | 1,870 |
| Foreign assets | 1,581 | 1,860 | 1,990 | 1,986 | 2,105 | 2,196 |
| *Of which* : foreign reserves | 1,569 | 1,850 | 1,931 | 1,975 | 2,044 | 2,132 |
| Foreign liabilities | 491 | 488 | 490 | 424 | 402 | 326 |
| *Of which* : liabilities to IMF | 486 | 483 | 485 | 419 | 397 | 321 |
| Net domestic assets | -461 | -691 | -870 | -803 | -910 | -996 |
| Domestic credit | 57 | -67 | -155 | -77 | -148 | -122 |
| Claims on public sector (net) 2/ | 17 | -171 | -191 | -180 | -249 | -223 |
| Claims on commercial banks (net) | 41 | 103 | 36 | 103 | 102 | 102 |
| Valuation | -161 | -281 | -339 | -374 | -377 | -478 |
| Other items (net) | -357 | -342 | -376 | -352 | -386 | -396 |
| Base money | 630 | 682 | 631 | 759 | 793 | 874 |
| Currency outside banks plus cash in vaults | 448 | 488 | 520 | 539 | 562 | 610 |
| Commercial bank deposits with Bank of Uganda (BOU) | 182 | 194 | 110 | 220 | 231 | 264 |
| Commercial banks | | | | | | |
| Net foreign assets | 462 | 570 | 601 | 672 | 712 | 785 |
| Net domestic assets | 1,056 | 1,128 | 1,311 | 1,316 | 1,477 | 1,722 |
| Domestic credit | 1,317 | 1,474 | 1,570 | 1,710 | 1,771 | 2,058 |
| Claims on public sector (net) 2/ | 473 | 518 | 588 | 606 | 596 | 702 |
| Claims on private sector | 662 | 826 | 849 | 942 | 979 | 1,116 |
| *Of which* : foreign exchange loans | 155 | 178 | 190 | 218 | 215 | 249 |
| Claims on BOU (net) | 182 | 129 | 133 | 162 | 196 | 239 |
| Total reserves | 198 | 213 | 134 | 242 | 258 | 295 |
| Required reserves | 168 | 186 | 199 | 212 | 223 | 253 |
| Excess reserves | 14 | 8 | -88 | 8 | 8 | 11 |
| Reservable cash-in-vault | 16 | 19 | 24 | 23 | 27 | 31 |
| Valuation | -2 | -27 | 5 | -45 | 0 | -11 |
| Other items (net) | -259 | -319 | -264 | -349 | -294 | -324 |
| Deposit liabilities to nonbank residents | 1,518 | 1,698 | 1,912 | 1,988 | 2,189 | 2,507 |
| Shilling deposits | 1,083 | 1,198 | 1,288 | 1,400 | 1,473 | 1,679 |
| Foreign currency deposits | 435 | 500 | 624 | 588 | 717 | 829 |
| Memorandum items: | | | | | | |
| Base money (12-month change in percent) 3/ | 14.6 | 8.3 | 0.2 | 11.4 | 10.6 | 10.2 |
| Money and quasi money (12-month change in percent) | 21.6 | 11.5 | 23.3 | 15.6 | 13.1 | 13.3 |
| Broad money (12-month change in percent) | 24.9 | 10.5 | 17.3 | 15.0 | 12.5 | 12.4 |
| M3-to-GDP ratio (percent) | 18.7 | 19.2 | 20.3 | 20.2 | 20.5 | 21.2 |
| M2-to-GDP ratio (percent) | 14.5 | 14.8 | 15.0 | 15.4 | 15.1 | 15.4 |
| Credit to private sector-to-GDP ratio (percent) | 6.4 | 7.4 | 7.3 | 7.7 | 7.5 | 7.8 |
| Currency outside banks-to-M3 ratio (percent) | 21.1 | 20.9 | 19.4 | 19.9 | 18.4 | 17.5 |
| Foreign currency deposits-to-M3 ratio (percent) | 22.6 | 23.3 | 26.3 | 23.7 | 26.7 | 27.3 |
| Credit to the private sector (12-month change in percent) | 4.2 | 24.8 | 28.2 | 14.0 | 15.3 | 14.1 |
| Base money multiplier (M2/base money) | 2.37 | 2.42 | 2.77 | 2.49 | 2.48 | 2.53 |
| NFA of BOU (millions of U.S. dollars) | 607 | 679 | 749 | 725 | 829 | 860 |
| Gross reserves of BOU (in millions of U.S. dollars) | 873 | 916 | 964 | 916 | 995 | 981 |
| NFA of commercial banks (in millions of U.S. dollars) | 257 | 282 | 300 | 312 | 346 | 361 |
| Foreign currency deposit (in millions of U.S. dollars) | 242 | 248 | 312 | 273 | 349 | 381 |
| Foreign currency loans (in millions of U.S. dollars) | 86 | 88 | 95 | 101 | 105 | 114 |

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/ The daily average of June of each financial year is used to calculate the annual percentage change from 2003/04 onward.

©International Monetary Fund. Not for Redistribution

Table 4. Uganda: Selected Banking Sector Information, December 2000-September 2003

| | 2000 | 2001 | | | | 2002 | | | | 2003 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Dec. | Mar. | June | Sep. | Dec. | Mar. | June | Sep. | Dec. | Mar. | June | Sep. |
| | (In billions of Uganda shillings) | | | | | | | | | | | |
| Adjusted assets | 1,778 | 1,797 | 1,937 | 1,924 | 1,979 | 2,110 | 2,318 | 2,255 | 2,406 | 2,542 | 2,723 | 2,845 |
| Liquid assets | 1,106 | 1,123 | 1,255 | 1,245 | 1,292 | 1,380 | 1,564 | 1,517 | 1,564 | 1,604 | 1,789 | 1,849 |
| Tier I | 148 | 157 | 179 | 182 | 180 | 208 | 200 | 203 | 211 | 238 | 237 | 239 |
| Tier II | 27 | 25 | 23 | 24 | 22 | 24 | 25 | 32 | 29 | 36 | 33 | 34 |
| Total capital | 175 | 183 | 202 | 206 | 203 | 232 | 226 | 235 | 240 | 274 | 270 | 273 |
| Risk-weighted assets (RWA) | 851 | 860 | 879 | 868 | 879 | 906 | 953 | 967 | 1,088 | 1,209 | 1,317 | 1,492 |
| Nonperforming assets (NPA) | 52 | 49 | 43 | 37 | 34 | 27 | 19 | 19 | 20 | 24 | 59 | 60 |
| Loans and advances | 525 | 516 | 528 | 527 | 521 | 533 | 536 | 566 | 661 | 723 | 741 | 774 |
| Foreign exchange advances | 114 | 122 | 117 | 136 | 140 | 155 | 154 | 153 | 191 | 218 | 189 | 203 |
| Foreign exchange deposits | 433 | 468 | 476 | 453 | 406 | 441 | 515 | 489 | 495 | 574 | 708 | 689 |
| Deposits | 1,315 | 1,371 | 1,450 | 1,447 | 1,475 | 1,588 | 1,764 | 1,763 | 1,816 | 1,910 | 2,109 | 2,157 |
| | (In percent) | | | | | | | | | | | |
| Return on average assets | 4.8 | 7.0 | 5.8 | 5.4 | 4.5 | 4.1 | 3.2 | 3.1 | 3.0 | 3.7 | 3.5 | 4.0 |
| Core capital/ RWA | 17.4 | 18.3 | 20.3 | 20.9 | 20.5 | 22.9 | 21.0 | 21.0 | 19.4 | 19.7 | 18.0 | 16.0 |
| Total capital/ RWA | 20.5 | 21.3 | 23.0 | 23.7 | 23.1 | 25.5 | 23.7 | 24.3 | 22.1 | 22.7 | 20.5 | 18.3 |
| NPA/total advances | 9.8 | 9.5 | 8.2 | 6.9 | 6.5 | 5.1 | 3.6 | 3.3 | 3.0 | 3.4 | 8.0 | 7.8 |
| Loan loss provision/ NPA | 61.7 | 58.1 | 68.2 | 68.5 | 70.0 | 76.8 | 87.5 | 81.3 | 81.5 | 70.8 | 46.8 | 69.8 |
| Liquid assets/ total deposits | 84.2 | 81.9 | 86.5 | 86.0 | 87.6 | 86.9 | 88.7 | 86.0 | 86.1 | 84.0 | 84.8 | 85.8 |
| Advances/ deposits | 39.9 | 37.6 | 36.4 | 36.4 | 35.3 | 33.5 | 30.4 | 32.1 | 36.4 | 37.8 | 35.1 | 35.9 |
| Foreign exchange exposure/core capital 1/ | 13.5 | 7.3 | 20.2 | 22.5 | 4.5 | 5.9 | 18.1 | 4.1 | 4.3 | 4.0 | 6.1 | 2.3 |
| Foreign exchange advances/foreign exchange deposits | 26.3 | 26.1 | 24.6 | 30.1 | 34.5 | 35.3 | 29.8 | 31.3 | 38.6 | 37.9 | 26.7 | 29.5 |

*Source: Ugandan authorities.*

1/ Starting in November 2002, the foreign exchange exposure is calculated using the shorthand method.



©International Monetary Fund. Not for Redistribution

Table 5. Uganda: Balance of Payments, 2001/02–2007/08 1/
(In millions of U.S. dollars, unless otherwise indicated)

| | 2001/02 | 2002/03 Prog. | 2002/03 Est. | 2003/04 Prog. | 2003/04 Proj. | 2004/05 Proj. | 2005/06 Proj. | 2006/07 Proj. | 2007/08 Proj. |
|---|---|---|---|---|---|---|---|---|---|
| Current account | -374 | -351 | -371 | -355 | -255 | -400 | -435 | -452 | -480 |
| Trade balance | -611 | -620 | -669 | -648 | -724 | -716 | -743 | -749 | -735 |
| Exports, f.o.b. | 472 | 549 | 507 | 604 | 567 | 614 | 648 | 709 | 780 |
| Coffee | 85 | 109 | 105 | 129 | 118 | 138 | 145 | 170 | 196 |
| Noncoffee | 387 | 440 | 402 | 475 | 449 | 477 | 503 | 539 | 585 |
| Imports, c.i.f. | -1,083 | -1,170 | -1,177 | -1,252 | -1,292 | -1,330 | -1,391 | -1,458 | -1,515 |
| Project related | -109 | -100 | -105 | -95 | -92 | -86 | -86 | -86 | -86 |
| Other imports | -974 | -1,070 | -1,071 | -1,157 | -1,199 | -1,244 | -1,304 | -1,372 | -1,429 |
| Services (net) | -329 | -307 | -224 | -326 | -225 | -232 | -242 | -248 | -279 |
| Inflows | 224 | 257 | 282 | 257 | 306 | 324 | 342 | 367 | 398 |
| Outflows | -553 | -564 | -507 | -583 | -531 | -556 | -584 | -615 | -677 |
| Income (net) | -124 | -139 | -135 | -150 | -136 | -144 | -152 | -168 | -192 |
| Inflows | 30 | 20 | 20 | 32 | 29 | 46 | 69 | 76 | 73 |
| Outflows | -153 | -159 | -155 | -182 | -165 | -189 | -221 | -244 | -265 |
| *Of which:* interest on public debt | -29 | -28 | -30 | -30 | -29 | -31 | -33 | -34 | -39 |
| HIPC savings due to cancellation 2/ | 7 | 6 | 6 | 5 | 6 | 5 | 5 | 4 | 0 |
| Transfers | 690 | 715 | 657 | 768 | 830 | 692 | 701 | 712 | 725 |
| Private transfers | 276 | 251 | 222 | 286 | 207 | 238 | 252 | 266 | 280 |
| *Of which:* nongovernmental organizations | 173 | 187 | 128 | 200 | 125 | 129 | 134 | 138 | 143 |
| Official transfers | 414 | 465 | 435 | 482 | 623 | 453 | 450 | 446 | 445 |
| Project support | 207 | 226 | 194 | 247 | 237 | 232 | 232 | 232 | 232 |
| Import support | 148 | 171 | 174 | 162 | 326 | 158 | 162 | 162 | 162 |
| HIPC assistance 2/ | 60 | 68 | 69 | 73 | 62 | 65 | 58 | 54 | 55 |
| Capital and financial account | 426 | 412 | 423 | 389 | 326 | 425 | 455 | 429 | 457 |
| Capital account | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Financial account | 426 | 412 | 423 | 389 | 326 | 425 | 455 | 429 | 457 |
| Foreign direct investment (FDI) | 146 | 154 | 154 | 163 | 160 | 168 | 177 | 187 | 197 |
| Portfolio investment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other investment | 280 | 258 | 269 | 226 | 166 | 257 | 277 | 243 | 260 |
| Medium and long term | 317 | 300 | 312 | 201 | 138 | 190 | 180 | 184 | 178 |
| Public sector (net) | 267 | 250 | 254 | 148 | 75 | 125 | 111 | 111 | 100 |
| Disbursements | 337 | 334 | 330 | 226 | 148 | 203 | 189 | 189 | 189 |
| Project support | 138 | 124 | 139 | 131 | 133 | 113 | 113 | 113 | 113 |
| Import support | 199 | 211 | 191 | 95 | 15 | 91 | 77 | 77 | 77 |
| Amortization due | -70 | -84 | -76 | -78 | -73 | -79 | -79 | -79 | -89 |
| *Of which*: HIPC savings due to cancellation 2/ | 11 | 12 | 15 | 11 | 16 | 16 | 15 | 14 | 4 |
| Private sector (net) | 50 | 50 | 58 | 53 | 62 | 66 | 69 | 73 | 77 |
| Short term | -37 | -42 | -43 | 26 | 28 | 66 | 98 | 59 | 82 |
| Errors and omissions | 97 | 0 | 59 | 0 | 0 | 0 | 0 | 0 | 0 |
| Overall balance | 150 | 61 | 111 | 34 | 72 | 25 | 19 | -23 | -23 |
| Financing | -150 | -61 | -111 | -34 | -72 | -25 | -19 | 23 | 23 |
| Central bank reserves (- = increase) | -173 | -82 | -133 | -47 | -78 | -24 | -12 | 40 | 21 |
| Gross reserve change | -134 | -43 | -91 | 0 | -31 | 20 | 28 | 78 | 44 |
| IMF (net) | -39 | -39 | -41 | -47 | -47 | -45 | -40 | -37 | -23 |
| Exceptional financing 2/ | 24 | 21 | 21 | 12 | 6 | -1 | -8 | -17 | 2 |
| *Of which:* HIPC rescheduling 2/ | 2 | 3 | 3 | 3 | 3 | 3 | 2 | 2 | 0 |
| Memorandum items: | | | | | | | | | |
| Gross international reserves 3/ | 6.2 | 6.0 | 6.3 | 5.5 | 6.3 | 6.0 | 5.6 | 5.0 | 4.5 |
| Current account balance (in percent of GDP) | | | | | | | | | |
| Including official transfers | -6.4 | -5.7 | -6.0 | -5.8 | -3.9 | -5.9 | -6.1 | -6.0 | -6.0 |
| Excluding official transfers | -13.4 | -13.3 | -13.0 | -13.7 | -13.6 | -12.6 | -12.4 | -12.0 | -11.6 |
| Debt service (in percent of exports) | | | | | | | | | |
| Before rescheduling (including IMF) | 24.3 | 22.0 | 21.9 | 24.7 | 20.4 | 19.5 | 18.0 | 15.8 | 13.4 |
| After rescheduling (including IMF) | 8.5 | 9.0 | 7.8 | 9.2 | 10.0 | 10.4 | 10.9 | 10.6 | 8.3 |
| Coffee price (U.S. cents per kg.) | 44.5 | 56.3 | 58.7 | 60.9 | 65.1 | 67.6 | 69.2 | 70.8 | 72.4 |
| Coffee export volume (in millions of 60-kg. bags) | 3.2 | 3.2 | 3.0 | 3.5 | 3.0 | 3.4 | 3.5 | 4.0 | 4.5 |
| Exports of goods and nonfactor services | 696 | 807 | 790 | 861 | 873 | 939 | 990 | 1076 | 1179 |
| (three-year moving average) | 672 | 722 | 721 | 788 | 787 | 867 | 934 | 1002 | 1082 |
| Net donor support | 655 | 690 | 663 | 602 | 673 | 550 | 530 | 525 | 509 |
| *Of which:* import support | 347 | 382 | 365 | 256 | 341 | 248 | 238 | 238 | 238 |
| project support | 345 | 349 | 333 | 378 | 369 | 345 | 345 | 345 | 345 |
| total HIPC assistance | 80 | 88 | 94 | 93 | 94 | 94 | 94 | 94 | 94 |
| Net donor support (in percent of GDP) | 11.2 | 11.2 | 10.7 | 9.8 | 10.4 | 8.1 | 7.4 | 7.0 | 6.4 |
| Debt service due before HIPC | 169 | 177 | 173 | 177 | 178 | 183 | 178 | 170 | 158 |
| Foreign direct investment: gross inflows (in percent of GDP) | 4.0 | 4.0 | 3.9 | 4.1 | 3.9 | 3.9 | 3.9 | 3.9 | 3.9 |

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

1/ Fiscal year begins on July 1.
2/ Except for 2002/03 program figures, where full HIPC assistance is included in exceptional financing, the components of HIPC assistance are treated as separate items. HIPC grants are included in import support transfers, HIPC rescheduling is included in exceptional financing, and HIPC cancellation is included in amortization.
3/ In months of imports of goods and services of the following year.

©International Monetary Fund. Not for Redistribution

Table 6. Uganda: Debt and Debt Service Indicators, 2000/01-2007/08 1/
(In millions of U.S. dollars, unless otherwise indicated)

| | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 |
|---|---|---|---|---|---|---|---|---|
| NPV of total debt 2/, 3/ | 1,147 | 1,255 | 1,696 | 1,756 | 1,837 | 1,910 | 1,989 | 2,073 |
| Existing debt | 1,147 | 1,255 | 1,696 | 1,688 | 1,672 | 1,653 | 1,637 | 1,624 |
| Multilateral | 1,037 | 1,155 | 1,589 | 1,588 | 1,579 | 1,567 | 1,559 | 1,552 |
| Paris Club bilateral | 43 | 45 | 56 | 52 | 47 | 42 | 38 | 34 |
| Non-Paris Club bilateral | 38 | 31 | 30 | 31 | 32 | 33 | 34 | 35 |
| Commercial | 30 | 24 | 21 | 18 | 14 | 10 | 7 | 3 |
| New debt | ... | ... | ... | 69 | 164 | 257 | 352 | 449 |
| Total debt service | ... | 65 | 79 | 88 | 96 | 100 | 91 | 89 |
| Existing debt | ... | 65 | 79 | 87 | 93 | 96 | 91 | 89 |
| Multilateral | ... | 45 | 56 | 74 | 81 | 84 | 80 | 78 |
| Paris Club bilateral | | 5 | 8 | 7 | 7 | 7 | 6 | 6 |
| Non-Paris Club bilateral | ... | 8 | 9 | 0 | 0 | 0 | 0 | 0 |
| Commercial | ... | 7 | 5 | 5 | 5 | 4 | 4 | 4 |
| New debt | ... | ... | ... | 1 | 2 | 4 | 0 | 0 |
| NPV of debt-to-exports ratio 2/ 3/ 4/ | 167.4 | 184.7 | 235.2 | 223.3 | 211.8 | 204.5 | 198.6 | 191.7 |
| NPV of debt-to-revenue ratio 2/ 3/ | 186.9 | 175.6 | 222.8 | 212.2 | 204.2 | 199.2 | 190.6 | 188.6 |
| NPV of debt-to-GDP ratio 2/ 3/ | 20.2 | 21.6 | 27.4 | 27.2 | 27.0 | 26.8 | 26.4 | 26.1 |
| NPV of new debt-to-exports ratio 2/ 3/ 4/ | ... | ... | ... | 8.7 | 19.0 | 27.6 | 35.1 | 41.5 |
| Debt service-to-exports ratio 5/ | ... | 9.3 | 10.0 | 10.0 | 10.2 | 10.1 | 8.5 | 7.5 |
| Debt service-to revenue ratio 5/ | ... | 9.1 | 10.3 | 10.6 | 10.6 | 10.5 | 8.7 | 8.1 |
| Memorandum items: | | | | | | | | |
| Gross domestic product | 5,641 | 5,803 | 6,194 | 6,450 | 6,794 | 7,123 | 7,523 | 7,933 |
| Exports of goods and services 6/ | | | | | | | | |
| Current year | 677 | 697 | 790 | 873 | 939 | 990 | 1,076 | 1,179 |
| Three-year average | 692 | 679 | 721 | 787 | 867 | 934 | 1,002 | 1,082 |
| Revenue | 614 | 714 | 761 | 828 | 900 | 959 | 1,044 | 1,099 |
| New borrowing annual flow | ... | ... | 330 | 148 | 203 | 189 | 189 | 189 |

Sources: Ugandan authorities; and World Bank/Fund staff estimates and projections.

1/ The NPV of debt and debt service payments are calculated on the assumption of full delivery of HIPC Initiative relief.

2/ NPV ratios for 2000/01 and 2001/02 are based on Commercial Interest Reference Rate (CIRRs) (discount rate) and exchange rates at June 2001.

3/ NPV ratios from 2002/03 are based on CIRRs (discount rate) and exchange rates at June 2003

4/ In relation to the average of three consecutive years of exports of goods and services ending in the current year.

5/ Assumes full delivery of HIPC Initiative relief even including creditors that have not yet reached agreement.

6/ Exports of goods and services as defined in IMF Balance of Payments Manual, 5th edition, 1993.

©International Monetary Fund. Not for Redistribution

Table 7. Uganda: Status of HIPC Initiative Agreements by Creditor 1/

| | Enhanced HIPC Initiative Relief (in US$ millions) | Agreement to Provide HIPC Initiative Relief? | Modalities/ Comments |
|---|---|---|---|
| Total | 655.8 | | |
| Total relief agreed upon | 630.6 | | There are agreements to provide 96 percent of the total HIPC Initiative relief committed. |
| Relief not agreed | 25.3 | | 2 percent of relief identified under the HIPC Initiative is still subject to negotiations 2/ |
| Multilateral | 545.7 | | |
| IDA | 356.6 | yes | Debt-service reduction on eligible stock outstanding as at June 30, 1999 except on PPFs and IDA-administered EEC loan |
| IMF | 90.9 | yes | Debt-service reduction on principal of stock outstanding as at June 30, 1999 |
| African Dev. Bank/Fund | 59.3 | yes | Debt-service reduction commenced January 2002; details at discretion of creditor |
| International Fund for Agricultural Dev. | 10.1 | yes | Debt-service reduction on eligible stock. IFAD to advise on details of application periodically |
| European Union/European Investment Bank | 14.1 | yes | One loan canceled and another partially canceled |
| Nordic Development Fund | 3.7 | yes | Reconciliation complete. Not servicing outside eligible period and awaiting final agreement |
| OPEC Fund | 5.1 | yes | Agreement signed in August 2003 for both HIPC Initiative I and II |
| *Arab Bank for Econ. Dev. in Africa* | *4.1* | *yes* | *Delivering through rescheduling of all loans outstanding at completion point* |
| East African Dev. Bank | 0.7 | no | Not reported any progress with accessing HIPC Initiative Trust Fund to enable their participation |
| Islamic Dev. Bank | 0.5 | yes | Delivering through rescheduling of all loans outstanding at completion point |
| PTA Bank | 0.5 | no | No decision taken on participation |
| Shelter Afrique | 0.1 | no | In June 2003, the government paid in full to avoid court action that had been initiated |
| Paris Club creditors | 73.1 | | |
| Austria | 6.8 | yes | Agreement signed for 18 percent cancellation on post-cutoff -date debt |
| Finland | 1.1 | yes | Canceled the debt |
| France | 6.7 | yes | 100 percent cancellation on pre-cutoff-date debt. Initially cancelled 18 percent of post-cod debt. Recently signed new agreement for the balance of 82 percent. |
| Germany | 0.4 | yes | 100 percent cancellation on pre-cutoff-date debt |
| Israel | 1.9 | yes | 100 percent cancellation on pre-cutoff-date debt |
| Italy | 20.3 | yes | 100 percent cancellation on pre-cutoff-date and post-cutoff-date debt |
| Japan | 16.5 | yes | Agreed to cancel payments as they fall due |
| Norway | 0.1 | yes | Agreement signed for 18 percent cancellation on pre-cutoff-date debt |
| Spain | 13.5 | yes | Agreement signed for 18 percent cancellation on pre-cutoff-date debt |
| Sweden | 1.7 | yes | Agreement signed for 18 percent cancellation on pre-cutoff-date debt |
| United Kingdom | 4.0 | yes | Agreement signed for 100 percent cancellation for pre-cutoff-date debt |
| United States | 0.1 | yes | Agreement signed for 100 percent cancellation for pre-cutoff-date debt |
| Non-Paris Club creditors | 29.0 | | |
| United Arab Emirates | 0.3 | no | No response |
| Burundi | 0.1 | no | World Bank/Fund have agreed to facilitate |
| China | 2.8 | yes | Written-off part of the loan. Negotiating terms for remaining balance of five loans, three remain to be considered after other countries have received relief |
| India | 3.7 | no | Canceled government-to-government claims of US$4.9 million. The government is seeking to obtain relief on US$50.6 million in export guarantees |
| Iraq | 0.0 | no | Judgment reached. Court awarded US$6.4 million interest to accrue at 2.5 percent until paid. The government plans to appeal |
| Kuwait | 6.6 | yes | Agreement signed for delivery of old HIPC Initiative and enhanced HIPC Initiative |
| Libya | 8.2 | no | Libya has indicated a willingness to participate. Discussions are ongoing |
| Nigeria | 0.9 | no | No agreement in place |
| North Korea, Dem. People's Rep. of | 0.3 | no | Repaid in full before enhanced HIPC Initiative |
| Pakistan | 0.3 | no | No response |
| Rwanda | 0.6 | yes | Loan has been cancelled |
| Saudi Arabia | 1.5 | yes | Agreement signed for provision of enhanced HIPC Initiative relief |
| Republic of Korea | 0.6 | yes | Agreement signed October 2003 for delivery of old HIPC Initiative and enhanced HIPC Initiative |
| Tanzania | 3.2 | partial | Bought back 15 percent; balance needs verification |
| Commercial creditors | 8.0 | | |
| Italy (Industrial Development) | 0.1 | no | Repaid in full before enhanced HIPC Initiative |
| Panama | 0.0 | no | Repaid in full before enhanced HIPC Initiative |
| Spain (Banco Arabe) | 0.5 | no | Judgment reached. Court awarded US$2.7m. The government has paid in full. |
| United Kingdom (Transroad) | 5.0 | no | Judgment reached. Court awarded $9.4m. The government has negotiated a lower settlement figure of US$7.9m, which it intends to pay in 2003/04. |
| Yugoslavia (14 Octobar and Fab Famos) | 2.4 | no | Judgment reached. Total court award of $10.3m. The government has fully repaid. |

Sources: Ugandan authorities; and Fund staff estimates.

1/ Figures are based on end-June 1999 data, using end-June 1999 exchange rates and the six-month average commercial interest reference rate (CIRR) at end-June 1999.
2/ Remainder of relief under the HIPC Initiative forgone, owing to court awards and settlements.

©International Monetary Fund. Not for Redistribution

Table 8. Uganda: Schedule of Disbursements Under the 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. |
| June 2003 | 2.0 | 1.11 | Observance of end-December 2002 performance criteria and completion of first review. |
| December 2003 | 2.0 | 1.11 | Observance of end-June 2003 performance criteria and completion of second review. |
| June 2004 | 2.0 | 1.11 | Observance of end-December 2003 performance criteria and completion of third review. |
| December 2004 | 2.0 | 1.11 | Observance of end-June 2004 performance criteria and completion of fourth review. |
| June 2005 | 2.0 | 1.11 | Observance of end-December 2004 performance criteria and completion of fifth review. |
| September 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.

©International Monetary Fund. Not for Redistribution

Kampala, Uganda
November 26, 2003

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 the second review of the economic program supported by a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF), which was approved by the Executive Board on September 13, 2002.

2. The attached memorandum of economic and financial policies (MEFP) reviews the implementation of the program for fiscal-year 2002/03 (July–June) and describes the objectives and policies that the government intends to pursue for fiscal-year 2003/04. The government is committed to reducing the incidence of poverty in Uganda through the continued implementation of sound economic and financial policies necessary for sustained economic growth and macroeconomic stability. The 2003/04 budget approved by parliament envisages a reduction of more than one-half of one percentage point of GDP in the fiscal deficit before grants, including higher tax revenue from tax measures and improvements in tax administration. Spending on public administration will be reduced relative to GDP, while resources will be provided to expand social and economic programs designed to meet the objectives of the Poverty Eradication Action Plan. The deficit would be covered by expected net inflows of donor support, mostly in the form of grants. The focus of the structural program is on improving public expenditure management at both the national and local levels of government, strengthening tax administration, deepening the financial sector, and improving debt management.

3. In light of the progress achieved in the implementation of the program for 2002/03 and the supporting details provided in the MEFP, the Government of Uganda request waivers for the nonobservance of the performance criteria for the accumulation of new domestic arrears; development of a plan to clear the outstanding stock of domestic arrears, including arrears on pensions and privatization of the Uganda Development Bank.

4. The Government of Uganda requests the disbursement of the third loan of SDR 2 million upon completion of the second review. The Government also requests that the disbursement of SDR 4 million over the next year of the three-year arrangement will be made as follows: the disbursement of the fourth loan (SDR 2 million) of the arrangement will be subject to the observance of the performance criteria for end-December 2003 and the completion of the third review under the arrangement no later than June 2004; and the disbursement of the fifth loan (SDR 2 million) of the arrangement will be subject to the

©International Monetary Fund. Not for Redistribution

observance of the performance criteria for end-June 2004 and the completion of the fourth review under the arrangement no later than December 2004.

5. The Government believes that the policies set forth in the attached MEFP are adequate to achieve the objectives of its program, but it will take any further measures that may become appropriate for this purpose. The Government of Uganda will consult with the Fund on the adoption of these measures and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultations.

6. The Government of Uganda authorizes the publication and distribution of this letter and MEFP and all reports prepared by Fund staff regarding the Poverty Reduction and Growth Facility (PRGF)-supported program.

Sincerely yours,

/ s /

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

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

©International Monetary Fund. Not for Redistribution

**Memorandum of Economic and Financial Policies of the Government of Uganda for 2003–04**

1. The Government of Uganda remains committed to reducing poverty through strong economic growth, macroeconomic stability, and programs targeted to increase the incomes of the poor and improve the quality of their livelihood, as laid out in the Poverty Eradication Action Plan (PEAP). The Government's economic program is supported by a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF), which was approved by the Fund's Board on September 13, 2002. This memorandum of economic and financial policies (MEFP) reviews the performance under the program and sets out the Government's policies and targets for the remainder of the 2003/04 fiscal year (July–June), including actions that the Government has taken to address program slippages.

2. In July 2003, the Government of Uganda initiated the preparation of the second revision of the PEAP. This exercise, in which a wide range of stakeholders are participating, is expected to be completed by early-2004. The revised PEAP will articulate the medium-term macroeconomic policy framework that will guide the Government's strategy for achieving sustained economic growth and poverty reduction, taking into account the progress and lessons learned since the initial PEAP in 1997. Reversing the recent increase in poverty, which occurred after several years of substantial reductions, will depend not only on boosting the GDP growth rate and the effective implementation of social and economic programs, but also on resolving the security problems in the northern and northeastern regions of the country.

## I. Performance under the PRGF-Supported Program in 2002/03

3. Overall, macroeconomic performance was satisfactory in 2002/03. Despite adverse weather conditions, which depressed agricultural production, real GDP grew by 5 percent, led by strong growth in private sector construction. The shortfall in agriculture contributed to a sharp rise in inflation during the year to 10.2 percent—well above the average of the past ten years—as food crop prices surged by 32 percent. Underlying inflation, which excludes food crops, remained subdued at 5.4 percent.

4. A significant advance was made in 2002/03 toward achieving a more sustainable fiscal position and one less vulnerable to disturbances. The overall fiscal deficit, excluding grants, was reduced by 1.3 percentage points of GDP to 11.5 percent of GDP, reflecting both restraint in the growth of government spending and a steady revenue performance. Uganda continued to rely heavily on support from its development partners to finance its fiscal deficit, with net donor inflows of 10.7 percent of GDP. The large fiscal deficit continued to exert upward pressure on real interest rates and complicated the conduct of monetary and exchange rate policies. Net issues of treasury bills and sales of foreign exchange by the Bank of Uganda (BOU) totaling about 6 percent of GDP were needed to mop up the excess liquidity generated by the fiscal deficit. Still, broad money, excluding foreign currency deposits, grew by 17.3 percent during the year, while bank credit to the private sector increased by 28.2 percent, albeit after three years of stagnation.

©International Monetary Fund. Not for Redistribution

5. Regional tensions and uncertainties regarding the magnitude of donor support, together with global economic uncertainties during the run-up to the war in Iraq, increased volatility in the foreign exchange market during the second half of the fiscal year. Between December 2002 and April 2003, the Uganda shilling depreciated by 7 percent in nominal terms against the U.S. dollar, with occasionally large daily fluctuations (especially in March) of up to 2 percent. Since April, the shilling has remained fairly constant, as those difficulties have eased.

6. Uganda's external position improved in 2002/03. A recovery in export prices contributed to a 7.1 percent increase in export earnings, even though weather conditions hindered production of some key cash crops, including coffee and cotton. Various nontraditional export commodities, however, maintained solid growth, both in terms of volume and earnings. The external current account deficit, excluding grants, was narrowed by ½ of 1 percentage point of GDP to 13 percent of GDP. This deficit was more than covered by net donor support and private capital inflows, consisting mainly of foreign direct investment. As a result, the BOU continued to build up international reserves, which stood at 6.3 months of imports as of end-June 2003.

7. With regard to the execution of the PRGF-supported program, all quantitative performance criteria for June 2003 were observed, with the exception of the zero limit on new domestic arrears (Table 1). By the end of March 2004, the Government will clear all remaining nonwage recurrent and development expenditure arrears incurred under the commitment control system (CCS) during 2002/03 (amounting to U Sh 5.1 billion). In addition, we have implemented significant measures to prevent such arrears from reoccurring in the future (paragraph 13), including the Public Finance and Accountability Act (PFAA) approved by parliament in April 2003, which constrains supplementary expenditures and strengthens enforcement of the CCS. On this basis, we are requesting a waiver for the nonobservance of this performance criterion. Moreover, while the ceiling for net credit to the government by the banking system was observed, this outturn is based on data for the check float, the quality of which needs to be improved. To strengthen our check-tracking system and methods of measuring the check float, we have requested and will be receiving technical assistance from the Fund.

8. As for the structural elements of the program, the Uganda Revenue Authority (URA) prepared a business plan for implementing strengthened tax administration measures in line with the program. In October 2003, the URA management submitted to its Board a plan for computerization of the URA; Board approval of the plan is expected by end-November. The BOU published its audited financial statements for 2001/02 and 2002/03 in July and September, respectively, and the aggregated local government financial statistics for 2001/02 were produced by end-September 2003. However, the performance criteria for the submission of a bill to parliament to repeal the National Social Security Fund (NSSF) Statute

©International Monetary Fund. Not for Redistribution

by end-March 2003;[1] the privatization of the Uganda Development Bank Limited (UDBL); and the development of a time-bound plan to clear the outstanding stock of domestic arrears, including arrears on pensions, by end-June 2003 were not observed (Table 2). Although no plan for clearing the stock of domestic nonpension arrears has been formally announced, the 2003/04 budget (submitted to parliament in June 2003) and the medium-term expenditure framework (MTEF) make explicit provisions for payment of the non-CCS component of these arrears, and there are explicit regulations for clearing overcommitments incurred under the CCS. Upon concluding an updated verification of the stock of domestic nonpension arrears—net of settlements—we will submit a note to the Fund that describes our schedule for fully clearing these arrears. In addition, the Ministry of Public Service is in the process of finalizing a plan to clear pension arrears. It is expected that this plan would be adopted by cabinet during the current fiscal year and would then be submitted to parliament as part of a broader bill on public sector pension reform. The end June-2003 benchmark to establish a unit in the office of the Inspector General of Government (IGG) to identify cases of improper conduct and corruption by Uganda Revenue Authority (URA) staff was not observed because of a lack of resources and the delay in the release of the report of the Judicial Commission of Inquiry on corruption in the URA. As discussed below, we intend to correct for the slippages incurred in the 2003/04 structural program, on which basis we are requesting waivers for the unobserved performance criteria.

## II. POLICIES FOR 2003/04

9. As presented in the previous MEFP, dated June 9, 2003, the program for 2003/04 aims to support a rebound in economic activity, while reducing inflation to the low rates that have prevailed over the past decade. With a return to normal weather conditions and the consequent recovery in agricultural production, real GDP growth is projected to be about 6 percent in 2003/04. Both headline and underlying inflation are projected to fall to about 3 percent during the year, as a firm monetary policy is expected to be complemented by stable food and fuel prices.

10. Fiscal adjustment continues to be a central element of our medium-term macroeconomic policy framework. In 2003/04, we project a reduction in the fiscal deficit, excluding grants, of about 0.8 percent of GDP. Tax measures announced in the June 2003 budget speech and improvements in tax administration are projected to increase government revenue by ½ of 1 percentage point of GDP. Expenditure is expected to decline by 0.3 percent of GDP, as nonwage recurrent expenditure in nonpriority areas is envisaged to fall by about 0.2 percent of GDP, while development expenditure linked to project aid is expected to fall by about 0.1 percent of GDP. The overall fiscal deficit is thus projected to narrow to 10.7 percent of GDP and would be financed almost entirely by donor support. In this regard, full disbursement of the US$150 million Poverty Reduction Support Credit

[1] The Government was granted a waiver by the Executive Board of the Fund for the nonobservance of this performance criterion in June 2003, at the time of the first review of the three-year PRGF arrangement.

©International Monetary Fund. Not for Redistribution

(PRSC) by the World Bank in the form of a grant has led to an upward adjustment in our projections of donor support and a reduction in our net domestic financing needs.

11. The URA is continuing its efforts to increase revenue collections by strengthening administration and fighting corruption. In March 2002, the Government appointed a Judicial Commission of Inquiry to investigate corruption in the URA. Upon the issuance of its final report, we will act expeditiously on the commission's recommendations. To strengthen the supervision of staff, the URA's internal Staff-Monitoring Unit will be augmented by four additional auditors, bringing the total number of auditors in the unit to twelve. Moreover, training will be carried out to enhance the Unit's ability to investigate staff asset declarations and allegations of corrupt behavior. More generally, new URA staff will be tested to assure competency, and extensive training programs will be implemented. In line with its business plan, URA management has established a series of quantifiable targets to measure improvements in tax administration, including building a database of tax offenders; continuing the cleanup of the taxpayer registry and the tax identification number (TIN); monitoring taxpayers' compliance with payments in installments; rolling out a single customs valuation system at collection points; and stepping up audits for domestic and external taxes. Furthermore, the URA will also begin implementing its computerization plan immediately following approval by the URA Board, with the aim of establishing an integrated system across domestic tax departments, as well as strengthening implementation of the automated system for customs data (ASYCUDA++) at three specific custom points (Busia, Malaba, and Entebbe) by June 2004.

12. Improvements in public expenditure management are needed to achieve greater effectiveness of expenditures, which would be essential for achieving PEAP targets. In this respect, the government's budget process will remain highly transparent and steps have been taken to ensure that outcomes reflect budget intentions. First, as mentioned above, the new Public Finance and Accountability Act (PFAA) will help to tighten control on supplementary allocations by requiring prior parliamentary approval of all supplementaries. Second, beginning this year, all classified expenditures will be audited by the Auditor General. Third, with support from the World Bank, we are undertaking a comprehensive review of procurement procedures at both the national and local levels of government. Finally, we have embarked on a comprehensive agenda to eliminate all domestic arrears, including the paying down of outstanding stocks over the medium term.

13. Eliminating all domestic arrears involves the verification and paying down of outstanding pension arrears, the paying down of outstanding pre-CCS nonpension arrears, the clearance of arrears accumulated under the CCS, and measures to prevent new arrears. The new PFAA will make a significant contribution to preventing new arrears by constraining supplementary expenditures and enforcing compliance with the CCS by accounting officers. Inspections and internal audits have been stepped up to further encourage compliance with the CCS, which is being computerized within all central government ministries and agencies over the next two years, in conjunction with the implementation of the integrated financial management system (IFMS).We have also instituted prepayment schemes for utility services, a leading source of past arrears, and line ministries have now paid down their obligations

©International Monetary Fund. Not for Redistribution

incurred under the CCS in 2002/03, using their budgeted allocations. By December 2003, the Treasury's internal audit department will complete an updated calculation of the stock of nonpension, nonwage arrears (including the CCS), taking into account all prior settlements. Using this base, the Government will update the plan for reducing the stock of domestic nonpension arrears, which is currently budgeted in the MTEF (U Sh 45 billion a year). As noted above, a plan to clear pension arrears is expected to be finalized in the coming months and will be submitted to cabinet for adoption by end-June 2004, most likely as part of a comprehensive proposal for public sector pension reform. To contain the growth of pension obligations, the Government will review the indexation of pension benefits.

14. The Government has adopted a number of measures to reduce public administration expenditures, including: rationalizing the appointments of full-time presidential advisers; eliminating the positions of Deputy Resident District Commissioner in districts with a population of less than 500,000 and of all Assistant Resident District Commissioners; restricting the use of government vehicles; and putting a freeze on the creation of new districts. Implementation of a number of other measures to reduce the costs associated with commissions, semiautonomous agencies, and regulatory bodies will require legislative approval. Looking ahead, the government remains committed to reducing the growth in overall public administration expenditures.

15. With one-third of PAF spending executed by local governments, we need to upgrade our capacity for accounting and reporting by these governments and the monitoring of their activities. We will continue the implementation of the fiscal decentralization strategy (FDS) to achieve such an upgrade, with fifteen pilot governments in the current year. These local governments will be subject to the new budgeting and planning manuals under the FDS to ensure better reporting and greater accountability. In addition, four pilot local governments started implementing the IFMS in October 2003. To facilitate these tasks, and to assist with follow-up implementation of the CCS, we will request support from the Fund for a long-term advisor. Other policies geared toward improving public expenditure management include the implementation of the new chart of accounts, which establishes uniform budget classifications, across all local governments (for both pilot and nonpilot governments in the strategy). Finally, the FDS envisages the completion of sector policy reviews, with the aim of aligning sector policies with the decentralization strategy of the government. The draft guidelines for the sector review are in place, and negotiations on the sector guidelines are due to begin in November 2003.

16. Sound implementation of the base money program will be key to maintaining low inflation and a stable environment for financial intermediation and the foreign exchange market. Indeed, innovations in the use of monetary and exchange rate policy instruments, such as the introduction of the biweekly treasury bill auction, increased use of repurchase operations for liquidity management, and the steady daily sales of foreign exchange by the BOU for sterilization purposes, have generally allowed for greater money market and exchange rate stability. In this regard, we are seeking to encourage the further development of the secondary market for treasury bills and the interbank money market.

©International Monetary Fund. Not for Redistribution

17. To avoid sharp movements in monetary aggregates, the BOU has revised its quarterly base money ceilings to apply to the average of the daily stocks of base money in the last month of each quarter. Consequently, the 2003/04 program has been rebased on the average stock of base money during June 2003, and, reflecting the need to contain excess liquidity, the programmed annual growth in base money has been set at 10.6 percent. Furthermore, to ease the upward pressure on treasury bill yields, the mix of treasury bill issues and foreign exchange sales in sterilization operations has been shifted toward greater foreign exchange sales. The floor for the net increase in net international reserves of the BOU has thus been reduced by US$22 million. Broad money, excluding foreign currency deposits, is projected to expand at a moderate rate of 12.5 percent in the current year, while bank credit to the private sector is expected to increase by 15.3 percent following the strong rebound in lending during the previous year.

18. To address the shortage of long-term financial instruments, the government will introduce treasury bonds with maturities of up to five years, which would serve as a benchmark instrument. Initial offerings of two-year bonds are expected to start in 2003/04. Other measures aimed at mobilizing domestic financial resources for investment include the restructuring of the NSSF, which is a potentially large source of long-term savings. For this purpose, it is necessary to establish qualified regulatory supervision for the NSSF as soon as possible. By June 2004, we will submit a bill to parliament for the repeal of the NSSF Statute, which would establish the BOU as the interim supervisor until the Capital Markets Authority is better equipped to handle such responsibilities. We expect to have a proposal for the liberalization of the pension system prepared by the Social Security Stakeholders Transitional Group (STG) available at that time. We will recommend to this working group that, in order to minimize discrimination across pension schemes and to ensure solvency, pension plans for civil servants and the private sector be subject to the same regulatory framework.

19. In addition, to address shortages of resources for term lending, we are seeking to restructure the UDBL in a manner that ensures its sustainability through sound financial management. In this respect, we will by end-March 2004 decide on the divestiture option to follow (performance criterion for the fourth disbursement). Two main options are under consideration: one, the Government will retain the majority stake in UDBL but will contract to manage the UDBL a reputable private sector financial institution willing to take a minority stake of at least 30 percent. The management contract will include explicit targets for minimizing the nonperforming loans and for ensuring that lending decisions are made on the basis of the economic viability of the prospective borrower. Two, the UDBL would be merged with the Development Finance Department (DFD) of the BOU to create a new guarantee and refinancing agency. Pending the divestiture, the UDBL will not engage in any new lending, and neither the government nor the BOU will provide or guarantee any further resources for on-lending by the UDBL (performance criterion for the fourth disbursement).

20. The main challenges in the external sector are to enhance Uganda's international competitiveness and achieve a more sustainable and less vulnerable external position. Over the past few years, government has based its competitiveness policies on the Medium-Term

©International Monetary Fund. Not for Redistribution

Competitiveness Strategy (MTCS), the Plan for the Modernization of Agriculture (PMA), and the Strategic Exports Program (SEP), which emphasize creating an enabling environment for private business and agriculture. However, these programs have often been underfunded or had their resources reallocated to other priorities. The Government will seek to address these issues by redirecting resources to resolve core problems, such as the high cost of transportation. The Government has also sought to gain access to new markets through the U.S. African Growth and Opportunity Act (AGOA), the Everything But Arms (EBA) initiative, and regional integration. The Government also wants the East African Community (EAC) to move to a more harmonized system of incentives. To this end, technical assistance is being provided by the World Bank and the Fund on the harmonization of the investment codes and the rationalization of investment incentives in the EAC.

21. There has been some progress in obtaining from creditors debt relief under the Initiative for Heavily Indebted Poor Countries (HIPC Initiative). The OPEC Fund and the Republic of Korea have recently provided debt relief under the HIPC Initiative while the Government of India has canceled all its claims[2] on Uganda. Furthermore, in recent discussions, the Government of Libya agreed to enact legislation soon that will allow it to provide debt relief. For our part, we will strive to engage those creditors with whom we have yet to reach agreement on the delivery of HIPC Initiative assistance.

22. Notwithstanding the progress made in obtaining debt relief under the original and enhanced frameworks of the HIPC Initiative, Uganda still has an unsustainable external debt situation. We are taking steps to improve this situation not only by encouraging exports, but also by exercising better debt management. In particular, we will adhere to our strategy of borrowing on IDA-equivalent terms and strengthening the institutional and administrative frameworks. This will involve ensuring that both the Macroeconomic Policy Department and the Development Committee of the Ministry of Finance play a full role in evaluating all proposals for new loans and loan guarantees.

## III. Medium-Term Macroeconomic Policy Agenda

23. The Government's medium-term policy aims at spurring private sector investment and economic growth, while reducing fiscal and external vulnerability. The central element of this growth strategy is the reduction of the fiscal deficit, which, along with donor support, increased sharply between 1997/98 and 2001/02. A smaller fiscal deficit would not only allow for greater mobilization of savings for private investment, but would also insulate government programs, and the broader economy, from possible shortfalls in donor support. The success of this strategy depends on strong annual increases in government revenues (by ½ of 1 percentage point of GDP a year), coupled with spending restraint. Based on these policies, real GDP is projected to grow by about 6 percent a year over the medium term, and annual inflation would be held to 5 percent or less.

[2] This refers to government-to-government debt and does not include claims by the Indian Export Credit Agency.

©International Monetary Fund. Not for Redistribution

24. While these policies will be updated with the forthcoming revision to the PEAP, the Government remains committed to a substantial fiscal adjustment over the medium term. In the PEAP revision, the Government will spell out its strategy for raising revenues, including steps to strengthen tax administration and tax principles that would bring greater stability and consistency to tax policy. On the spending side, the revised PEAP will incorporate cost estimates for reaching its updated goals for poverty reduction, which, in turn, would reflect the constraint foreseen on spending. Achieving savings by trimming nonpriority expenditures, such as in the streamlining of public administration, will be crucial to the success of the program. Stepped-up efforts to improve the effectiveness of government expenditures, particularly on programs aimed at reducing poverty, would be necessary to expand the delivery of public services. In addition, the Government must fulfill its obligation to resolve security problems throughout the country, if any substantial gains are to be made in reducing poverty. In this regard, we anticipate taking steps over the medium term to strengthen the Uganda People's Defense Forces, in line with the recommendations of the forthcoming defense review.

25. The Government will continue to exercise monetary and exchange rate policies that support low inflation and preserve international competitiveness. The Government would continue to implement a flexible exchange rate policy. The BOU would maintain orderly market conditions in the foreign exchange market but would not counter movements in the exchange rate stemming from changes in economic fundamentals. Effective implementation of structural policies aimed at boosting productivity in agriculture and diversifying exports, as well as supporting privatization, infrastructure development, and regional integration, would further increase Uganda's international competitiveness.

©International Monetary Fund. Not for Redistribution

Table 1. Uganda: Quantitative Performance Criteria and Benchmarks Under the Program for 2002/03 and 2003/04 1/ 2/

| | Mar. 31, 2003 3/ Prog. | Mar. 31, 2003 3/ Adj. prog. | Mar. 31, 2003 3/ Outturn | June 30, 2003 4/ Prog. | June 30, 2003 4/ Adj. prog. | June 30, 2003 4/ Outturn | Sep. 30, 2003 3/ Prog. | Dec. 31, 2003 4/ Prog. | Dec. 31, 2003 4/ Rev. prog. | Mar. 31, 2004 3/ Prog. | Mar. 31, 2004 3/ Rev. prog. | June 30, 2004 4/ Prog. | June 30, 2004 4/ Rev. prog. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | (In billions of Uganda shillings; end of period, unless otherwise stated) | | | | | | | | | | | | |
| Cumulative change from end-June 2002 for 2002/03, and from end-June 2003 for 2003/04, unless otherwise stated | | | | | | | | | | | | | |
| Ceiling on the increase in base money liabilities of the Bank of Uganda 5/ | 46.6 | 46.6 | 6.1 | 49.5 | 49.5 | 0.6 | 9.7 | 84.0 | 72.7 | 81.7 | 64.9 | 77.5 | 76.0 |
| Ceiling on the increase in net claims on the central government by the banking system | 31.9 | 206.4 | 146.1 | -17.4 | -139.9 | -145.1 | 127.6 | 155.3 | 145.0 | 215.1 | 217.3 | 79.5 | -49.7 |
| Ceiling on the issuance of promissory notes by the government 6/ | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Minimum expenditures under the Poverty Action Fund (including the Universal Primary Education component of development expenditures) 7/ | 464.1 | 464.1 | 436.8 | 647.3 | 647.3 | 646.1 | 151.8 | 327.3 | 327.3 | 502.1 | 502.1 | 712.8 | 712.8 |
| Accumulation of new domestic budgetary arrears of the central government 6/ 8/ | 0 | 0 | ... | 0 | 0 | 5.1 | 0 | 0 | ... | 0 | ... | 0 | ... |
| Accumulation of new domestic budgetary arrears under the Commitment Control System (CCS) 6/ 9/ | ... | ... | ... | ... | ... | ... | ... | ... | 0 | ... | 0 | ... | 0 |
| Ceiling on public administration expenditure 7/ | 188.1 | 188.1 | 178.7 | 250.8 | 250.8 | 238.9 | 56.5 | 123.0 | 123.0 | 184.5 | 184.5 | 246.0 | 246.0 |
| New lending by Uganda Development Bank Ltd., including on-lending on behalf of the Government or the Bank of Uganda, pending divestiture 6/ 9/ | ... | ... | ... | ... | ... | ... | ... | ... | 0 | ... | 0 | ... | 0 |
| | (In millions of U.S. dollars; end of period) | | | | | | | | | | | | |
| Ceiling on the stock of external payments arrears incurred by the government or the Bank of Uganda 6/ | 0 | 0 | 0 | 0 | 0 | 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 6/ | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Minimum increase in net international reserves of the Bank of Uganda | 94.2 | -5.3 | -31.3 | 66.7 | 97.9 | 119.6 | -36.3 | 16.1 | -93.4 | -22.1 | -146.6 | 45.2 | 79.7 |

1/ Fiscal year begins on July 1.
2/ The performance criteria and benchmark targets under the program, and their adjusters, are defined in the technical memorandum of understanding (TMU).
3/ Benchmarks, unless measure is a continuous performance criterion.
4/ Performance criteria, unless measure is an indicative target.
5/ Cumulative changes from the average of June 2003 for the 2003/04 program as defined in the TMU.
6/ Continuous performance criterion.
7/ Indicative target throughout the program.
8/ For the purpose of program monitoring, audits of arrears by the Internal Auditor Office of the Ministry of Finance, Planning and Economic Development was to be used to determine the new arrears. However, the end-March and end-June 2003 audit figures were not available, and information from the CCS was used for the second review of the program. While the CCS shows that the new arrears exceeded the zero limit, it covers only part of the budget and it is possible that additional arrears were accumulated. From completion of the second review, this item will not apply as a performance criterion.
9/ This item will apply as a performance criterion with effect from the completion of the second review.

©International Monetary Fund. Not for Redistribution

Table 2. Uganda: Structural Performance Criteria and Benchmarks, and Status of Implementation Under the Programs for 2002/03 and 2003/04

| Performance Criteria/ Benchmark | Policy Measure | Date of Implementation | Implementation Status | Comments |
|---|---|---|---|---|
| | | **Fiscal** | | |
| Benchmark | Verify domestic budget arrears outstanding as of end-June 2002. | March 31, 2003 | Observed | |
| Performance criterion | Develop a time-bound plan to clear the outstanding stock of domestic arrears, including arrears on pensions. | June 30, 2003 | Not observed | Medium-term expenditure framework submitted to parliament includes U Sh 45 billion a year for payment of domestic [nonpension] arrears outstanding as of end-June 2002. Arrears under the commitment control system (CCS) are to be cleared within each line ministry's budget allocation.<br>Ministry of Public Service is revising plan to clear arrears on pensions based on comments provided by the Ministry of Finance, Planning, and Economic Development (MFPED). |
| Benchmark | Develop the annual business plan for implementing tax administration measures in 2003/04, in accordance with the Uganda Revenue Authority's (URA's) five-year corporate plan, and a plan for the completion of the computerization of the URA. | June 30, 2003 | Implemented late | Business plan developed. A new information technology strategy was submitted to the URA Board in October 2003. |
| Benchmark | Establish a unit in the office of the Inspector General of Government (IGG) to identify and investigate cases of improper conduct and corruption by URA or staff. | June 30, 2003 | Not observed | Monitoring unit has remained within the URA and is being strengthened. Number of staff to increase by 50 percent. |
| **Performance criterion** | **Adoption by cabinet of a time-bound plan to clear the stock of pension arrears.** | **June 30, 2004** | ... | **New measure.** |





©International Monetary Fund. Not for Redistribution

Table 2. Uganda: Structural Performance Criteria and Benchmarks, and Status of Implementation Under the Programs for 2002/03 and 2003/04

| Performance Criteria/ Benchmark | Policy Measure | Date of Implementation | Implementation Status | Comments |
|---|---|---|---|---|
| **Benchmark** | **Ensure that Internal Auditor Office of MFPED will issue a report with a verified figure for the stock of nonwage/ nonpension arrears to June 2003, including revised figures of arrears to date.** | **December 31, 2003** | **...** | **New measure.** |
| **Benchmark** | **Pay off arrears accumulated under the CCS in 2002/03** | **March 31, 2004** | **...** | **New measure.** |
| **Benchmark** | **Include in the budget documents for the 2004/05 budget, and an update of plan for clearing the stock of nonpension arrears.** | **June 30, 2004** | **...** | **New measure.** |
| **Benchmark** | **Complete initial stage of the modernization of the URA:**<br>**• award contract to implement integrated tax administration system for domestic taxes;**<br>**• rollout automated system for customs data (ASYCUDA++) to at least three stations other than the Kampala long room;**<br>**• identify 75 percent of late filers within 45 days of the statutory filing period; and**<br>**• prepare registry of pay-as-you-earn (PAYE) per employee and tax bracket.** | **June 30, 2004** | **...** | **New measure.** |
| | | **Fiscal Decentralization** | | |
| Benchmark | Produce aggregated local government financial statistics for 2001/02 fiscal year. | September 30, 2003 | Observed | |
| | | **Financial Sector** | | |
| Performance criterion | 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 | Not observed | Waiver granted at the time of the first review of the PRGF-supported program. Bill expected to be submitted by June 2004. |
| Benchmark | Ensure 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 | Observed | |



©International Monetary Fund. Not for Redistribution

Table 2. Uganda: Structural Performance Criteria and Benchmarks, and Status of Implementation Under the Programs for 2002/03 and 2003/04

| Performance Criteria/ Benchmark | Policy Measure | Date of Implementation | Implementation Status | Comments |
|---|---|---|---|---|
| Benchmark | Assign the privatization of Uganda Development Bank Limited (UDBL) to the Privatization Unit and engage a privatization advisor to handle the privatization. | December 31, 2002 | Implemented late | Assigned to the Privatization Unit on time. Selection of privatization advisor finalized in October 2003. |
| Performance criterion | Privatize the UDBL. | June 30, 2003 | Not observed | Transactions advisor preparing study on restructuring options. |
| **Performance criterion** | **Government will decide on the divestiture option to follow on the UDBL based on the recommendations of *the transaction advisor*.** | **March 31, 2004** | ... | **New measure** |
| **Benchmark** | **Submit to cabinet an anti-money laundering bill.** | **June 30, 2004** | ... | **New measure.** |
| **Benchmark** | **Conduct initial offering of a multiyear treasury bond.** | **June 30, 2004** | ... | **New measure.** |
| | | **Debt management** | | |
| **Benchmark** | **Integrate and computerize debt-information management systems within the MFPED** | **December 31, 2003** | ... | **New measure.** |
| | | **Safeguards assessment report** | | |
| Benchmark | Publish the audited financial statements of the BOU for the year ended June 30, 2002. | April 30, 2003 | Implemented late | Audited accounts were posted on the BOU website in July 2003. |
| Benchmark | Publish the audited financial statements of the BOU for the year ended June 30, 2003. | September 30, 2003 | Observed | Audited accounts were posted on the BOU website in September 2003. |
| Benchmark | Ensure that the BOU and Ministry of Finance enter into a memorandum of understanding to ensure that unrealized gains will be excluded from the distributable profits. | June 30, 2003 | Observed | |





©International Monetary Fund. Not for Redistribution

## Uganda: Technical Memorandum of Understanding
(October 30, 2003)

### A. Introduction

1. This memorandum defines the quantitative benchmarks and performance criteria described in the memorandum of economic and financial policies (MEFP) for the 2003/04 financial program that would be supported by the IMF Poverty Reduction and Growth Facility (PRGF), and sets forth the reporting requirements under the arrangement.

### B. 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 and are net of the deposits of closed banks at the BOU and Development Finance Funds (DFF) contributed by commercial banks held at the BOU. Under this definition, the daily average of June 2003 base money was estimated at U Sh 717 billion. The base money limits for the 2003/04 program will be cumulative changes from the daily average of June 2003 to the daily average of December 2003, March 2004, and June 2004, and will be monitored by the monetary authority and provided to the IMF by the BOU.

### C. Net Claims on the Central Government by the Banking System

3. **Net claims on the central government** (NCG) by the banking system base 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. NCG will be calculated based on data from balance sheets of the monetary authority and commercial banks as per the monetary survey. The limits on the change in net claims on the central government by the banking system will be cumulative beginning end-June 2003 for the 2003/04 program.

### D. 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.

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

©International Monetary Fund. Not for Redistribution

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 Finance Department of the IMF using the U.S. dollar per SDR exchange rate at the end of each quarter.

## E. 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 cumulative expenditures under the PAF are defined in Schedule A below.

| Schedule A: Minimum PAF Expenditure (In cumulative billions of Uganda shillings, beginning July 1, 2003) | | | | |
|---|---|---|---|---|
| Quarter | Sep. 30, 2003 | Dec. 31, 2003 | Mar. 31, 2004 | June 20, 2004 |
| PAF expenditure | 151.8 | 327.3 | 502.1 | 712.8 |

## F. New Domestic Budgetary Arrears of the Central Government

7. The nonaccumulation of new domestic payment arrears under the Commitment Controls System (CCS) 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 under the recurrent expenditure budget or the development expenditure budget. For the purpose of program monitoring, the monthly reports for both Recurrent and Development Expenditure under the CCS will serve as audits of arrears to December 2003, and to March 2004, while the annual report by the Internal Auditor Office's of the Ministry of Finance, Planning, and Economic Development (MFPED) at end-June 2004 shall be used to determine the new arrears created during the entire 2003/04 fiscal year. The result of these audits should be available not later than seven weeks following the close of the covered period.

## G. Ceiling on Public Administration Expenditures

8. The quarterly expenditure limits for the public administration sector are defined in Schedule B. For the purpose of program monitoring, the public administration sector includes the following votes: Office of the Prime Minister (004) (excluding development), Foreign Affairs (006), Missions Abroad (0A0), MFPED (008) (excluding Uganda Revenue Authority (URA), Contingency, Accountability, and Development), URA (008), State House (002), Public Service (005), Public Service Commission (027), Local Government (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

©International Monetary Fund. Not for Redistribution

Government Finance Commission (033), Uganda Human Rights Commission (347), and Electoral Commission (349). Any supplementary allocation of votes in the public administration sector that would exceed program ceilings will be accommodated by cuts in votes belonging to other categories within this same sector.

| **Schedule B: Ceiling on Public Administration Expenditures**<br>(In cumulative billions of Uganda shillings, beginning July 1, 2003) | | | | |
|---|---|---|---|---|
| Quarter | Sep. 30, 2003 | Dec. 31, 2003 | Mar. 31, 2004 | June 30, 2004 |
| Expenditure | 56.5 | 123.0 | 184.5 | 246.0 |

## H. 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,*[1] 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.

## I. 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.

11. The Uganda shilling equivalent of import support (grants and loans) plus HIPC Initiative assistance in the form of grants on a cumulative basis from July 1, 2003 onward is presented under Schedule C. 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 Initiative assistance, exceeds (falls short of) the projected amounts.

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

©International Monetary Fund. Not for Redistribution

| Schedule C: Import Support Plus Total HIPC Initiative Assistance (In cumulative billions of Uganda shillings , beginning July 1, 2003) | | | | |
|---|---|---|---|---|
| Quarter | Sep. 30, 2003 1/ | Dec. 31, 2003 | Mar. 31, 2004 | June 30, 2004 |
| Import support including HIPC Initiative grants | ... | 299.2 | 400.0 | 821.1 |

1/ For September 2003, program value is defined as in the Technical Memorandum of Understanding of June 9, 2003. Figures to December 2003, March 2004, and June 2004, are consistent with the revised program of October 2003.

12. 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 due[2] plus payments of external debt arrears less deferred payments (exceptional financing) falls short of (exceeds) the projections presented in Schedule D. Deferred payments are defined to be (i) all debt service rescheduled under the HIPC Initiative; and (ii) payments falling due to all non-HIPC Initiative creditors that are not currently being serviced by the authorities (that is, gross new arrears being incurred).

| Schedule D: Debt Service Due, before HIPC Initiative Assistance (In cumulative billions of Uganda shillings, beginning July 1, 2003) | | | | |
|---|---|---|---|---|
| Quarter | Sep. 30, 2003 1/ | Dec. 31, 2003 | Mar. 31, 2004 | June 30, 2004 |
| Debt service due before HIPC excluding exceptional financing | ... | 94.3 | 149.4 | 193.2 |

1/ For September 2003, program value is defined as in the Technical Memorandum of Understanding of June 9, 2003. Figures to December 2003, March 2004, and June 2004 are consistent with the revised program of October 2003.

13. 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 45 billion) relative to the programmed cumulative amounts presented in Schedule E.

[2] Debt service due is defined as pre-HIPC Initiative debt service due, but as of 2003/04 this excludes HIPC Initiative cancellation.
[3] Comprising the check float and the change in government securities and government promissory notes held by the nonbank public. The change in government securities held by the nonbank public will be calculated from the data provided by the Central Depository System (CDS).

©International Monetary Fund. Not for Redistribution

| Schedule E: Nonbank Financing Minus Repayment of Domestic Arrears (In cumulative billions of Uganda shillings, beginning July 1, 2003) | | | | |
|---|---|---|---|---|
| Quarter | Sep. 30, 2003 1/ | Dec. 31, 2003 | Mar. 31, 2004 | June 30, 2004 |
| (A) Nonbank financing | ... | -87.0 | -60.0 | 20.0 |
| (B) Domestic arrears repayment | ... | 16.6 | 26.6 | 45.0 |
| (C) Total = (A) - (B) | -75.3 | -103.6 | -86.6 | -25.0 |

1/ For September 2003, program value is defined as in the Technical Memorandum of Understanding of June 9, 2003. Figures to December 2003, March 2004, and June 2004 are consistent with the revised program of October 2003.

14. Furthermore, NCG will be adjusted downward by the amount by which expenditures under the PAF fall short of the total presented under Schedule A above.

15. The Development Finance Department of the BOU provides export credit guarantee schemes (ECGS) to commercial banks. As of June 2003, the outstanding ECGS amounted to U Sh 3.89 billion, which have a maximum guarantee period of six months. These contingent liabilities fall due on the BOU balance sheet, and therefore do not affect the program targets for the NIR and the NCG.

## J. Nonconcessional External Borrowing Contracted or Guaranteed by the Central Government, Statutory Bodies, or the Bank of Uganda, and Arrears

16. The program includes a ceiling on new nonconcessional borrowing with maturities greater than one year contracted or guaranteed by the government, statutory bodies, 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 Organization for Economic Cooperation and Development (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 and is to be observed on a continuous basis. 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 program, arrangements to pay over time obligations arising from judicial

©International Monetary Fund. Not for Redistribution

awards to external creditors that have not complied with the HIPC Initiative do not constitute nonconcessional external borrowing.

17. 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. 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.

18. The ceiling on 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

©International Monetary Fund. Not for Redistribution

payments on debt contracted or guaranteed by the government, the BOU, and statutory bodies[4] from their level at end-June 2003. It comprises those external arrears reported by the Trade and External Debt Department of the BOU, the Macro Department of the Ministry of Finance that cannot be rescheduled because they were disbursed after the Paris Club cutoff date.

### K. Monitoring and Reporting Requirements

19. The authorities will inform the IMF staff in writing at least ten business days (excluding legal holidays in Uganda or in the United States) prior to making any changes in 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, the BOU, or any statutory bodies, and any accumulation of new external payments arrears on the debt contracted or guaranteed by these entities.

20. The information, such as 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.

21. The BOU will reconcile the monetary survey data with the financial statements on an annual basis and with the financial records on a quarterly basis. The Internal Audit Department (IAD) of the BOU will review the reconciliations of monetary survey data with the financial records and the audited financial statements.

22. The government will provide the IMF staff with a summary of the fiscal accounts, both on a monthly and quarterly basis, with a seven-week lag from the end of the reporting month and quarter. Revenues will be recorded on a cash basis as reported by the Uganda Revenue Authority 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

[4] This definition is consistent with the coverage of borrowing defined by the Fund (public sector debt—defined as at least 50 percent owned by the government regardless of whether the debt is formally publicly guaranteed) for the Public Sector and Public Finance and Accountability Bill 2002 (Part V — Control of the Finances of State Enterprises).

©International Monetary Fund. Not for Redistribution

government project accounts held at commercial banks in Uganda. Information on required and approved supplementary allocations in each month should be provided to the IMF within 15 days of the end of each month.

23. The government will provide the IMF staff with a summary of expenditure cash limits on a quarterly basis with a one-week lag from the date they are provided to ministries, and no later than two weeks after the beginning of the quarter.

24. The government will provide the IMF staff with a summary of the contingent liabilities of the central government on a quarterly basis with a seven-week lag from the end of the reporting quarter. For the purpose of the program, contingent liabilities include all borrowings by statutory bodies, loans borrowed by public enterprises or the private sector and guaranteed by the government, claims against the government in court cases that are pending, or court awards that the government has appealed.

25. Final accounts of the local government authorities for fiscal-year 2002/03 will be consolidated by end-September 2004 by the Ministry of Finance, Macro Department. The summary Status of Submission of District Monthly Accounts Returns will be provided to the IMF Resident Representative within 45 days of the end of each month. A report explaining any noncompliance with the monthly reporting requirement by districts will be provided at the same time as the summary status report to the IMF. Any noncompliance by 45 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 noncompliance districts should be discontinued until compliance is restored. A memorandum indicating this action will be sent to each noncompliant district.

26. The quarterly summaries prepared under the CCS and the overcommitments not backed by cash accumulated in the previous quarter that was cleared in the current quarter will be provided to the IMF staff within 40 days after the end of each quarter.

27. 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 the following: (i) outstanding stock of checks issued by the Uganda Computer Services of the MFPED, disaggregated into checks issued for commitments arising during July 1, 2003 through June 30, 2004, and checks issued to settle intraministerial payment obligations; and (ii) the value of budget support (grants and loans) received by the government, and the value of projections of donor project support received so far. The government will provide the IMF forecasts of the value of budget support and project support (grants and loans) expected to be received for the rest of the current year and the medium term, by donor and sector, by the end of each reporting quarter.

28. As supplementary information, the BOU will provide the IMF staff on a monthly basis, with a seven-week lag from the end of the reporting month, a statement of the

©International Monetary Fund. Not for Redistribution

following: (i) cash balances held in project accounts at commercial banks; (ii) total value (measured at issue price) of outstanding government securities from the Central Depository System (CDS); and (iii) the stock of government securities (measured at issue price) held by commercial banks from the CDS.

29. The government will provide the IMF staff on a quarterly basis, with a seven-week lag from the end of the reporting quarter the following: (i) a statement on new loans contracted during the period as per the loan agreement, with additional information on disbursement provided within six months; and (ii) a statement on creditor participation in the HIPC Initiative, the status of creditor litigation cases, and cash payments relating to the settlement of awards.

30. The BOU will provide the IMF staff on a quarterly basis, with a seven-week lag from the end of the reporting quarter, (i) monthly commodity and direction of trade statistics; (ii) the stock of debt, disbursements, principal and interest, flows of debt rescheduling and debt cancellation, arrears, and committed undisbursed balances—by creditor category; and (iii) the monthly composition of nominal HIPC Initiative assistance, disaggregated into grants, flow rescheduling, and stock-of-debt reduction by creditor.

31. 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.

32. 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.

©International Monetary Fund. Not for Redistribution

## Uganda: Relations with the Fund
(As of September 30, 2003)

**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 | 1.78 | 6.07 |

| **IV. Outstanding Purchases and Loans:** | SDR Million | % Quota |
|---|---|---|
| Enhanced Structural Adjustment Facility (ESAF)/Poverty Reduction and Growth Facility (PRGF) arrangements | 171.19 | 94.84 |

**V. Financial Arrangements:**

| Type | Approval Date | Expiration Date | Amount Approved (SDR Million) | Amount Drawn (SDR Million) |
|---|---|---|---|---|
| PRGF | 09/13/2002 | 09/12/2005 | 13.50 | 3.50 |
| 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 (without HIPC assistance)**

| | Overdue | Forthcoming | | | | |
|---|---|---|---|---|---|---|
| | 7/31/2003 | 2003 | 2004 | 2005 | 2006 | 2007 |
| Principal | 0.00 | 14.39 | 37.48 | 35.60 | 30.57 | 22.43 |
| Charges/interest | 0.00 | 0.53 | 1.15 | 0.97 | 0.79 | 0.64 |
| Total | 0.00 | 14.93 | 38.62 | 36.56 | 31.36 | 23.07 |

©International Monetary Fund. Not for Redistribution

**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) | | | |
| Assistance disbursed to the member | 51.51 | 68.10 | 119.61 |
| Interim assistance | ... | 8.20 | 8.20 |
| Completion point | 51.51 | 59.90 | 111.41 |
| Additional disbursement of interest income [2] | | 2.06 | 2.06 |

**VIII. Safeguards Assessments**

Under the Fund's safeguards assessment policy, the Bank of Uganda (BOU) is subject to a full safeguards assessment with respect to the PRGF arrangement, which was approved on September 13, 2002 and is scheduled to expire on September 12, 2005. The assessment was completed on April 13, 2003 and concluded that, although the BOU had several strengths, some vulnerabilities existed. In line with the program, the authorities have been implementing specific measures proposed by the safeguards assessment to address these vulnerabilities. The audited financial statements for the years ended June 30, 2002 and June 30, 2003 have both been completed and laid before the legislature by May 9, 2003 and September 30, 2003 respectively. Both were published on the BOU website. The BOU has requested IMF technical assistance (TA) in examining the setting up of a control function over transactions coming from subledgers outside the Accounting Department; a TA team is due to visit Kampala in November 2003 to look at this issue, among other things.

[1] Net present value (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 Initiative for Heavily Indebted Poor Countries (HIPC Initiative), an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

©International Monetary Fund. Not for Redistribution

## IX. Exchange Rate Arrangement

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 September 30, 2003, the official exchange rate was U Sh 1,984.68 per U.S. dollar. The exchange system is free of restrictions on the making of payments and transfers for current international transactions.

## X. Article IV Consultation

The Executive Board concluded the last Article IV consultation on February 12, 2003. The next Article IV consultation with Uganda will be held on the 24-month cycle, subject to the provisions of the decision on consultation cycles approved on July 15, 2002.

In February and April 2001, joint World Bank/Fund missions visited Kampala as part of the Financial Sector Assessment Program (FSAP). A final report was provided to the authorities in November 2001, an MFD mission discussed the report with the authorities during the Article IV consultation discussion in November 2002, and the Financial System Stability Assessment was prepared for Board discussion in February 2003.

## XI. Technical Assistance

Uganda has received extensive technical assistance from the Fund in recent years.[3]

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 1998 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. 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. A joint Bank/Fund TA mission visited Kampala in October 2003 to harmonize tax and nontax investment incentives among the member countries of the East African Community (EAC).

An STA multisector statistics mission visited Kampala in December 1998 to conduct a comprehensive assessment of Uganda's macroeconomic statistics, including data 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

[3] For a description of technical assistance provided prior to 1998, see the staff report for Uganda's request for a three-year arrangement under the PRGF (IMF Country Report No. 02/213).

©International Monetary Fund. Not for Redistribution

STA 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 ensuring consistency within monetary sector data for the government. A follow-up mission on GFS visited Uganda in May 2003. A mission visited Uganda during February–March 2002 to review balance of payment statistics and the progress in 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. A follow-up mission on balance of payments statistics visited Uganda in August 2003. Uganda participates in the General Data Dissemination Standard (GDDS).

Since the 2001 FSAP, MFD's TA to Uganda has focused on liquidity management, exchange rate intervention, central bank accounting and auditing, and banking supervision. The authorities have effectively used TA advice on these topics, and they have made good use of an MFD resident advisor, who took up her initial appointment in mid-July 2001. The advisor has been fully integrated into the supervision function and has been involved in all aspects of the work, including participating in on-site examinations. Her contract has since been extended through July 2004. MFD has fielded two TA missions (July 2001 and January 2002) to assist the authorities with liquidity management and address the problems of interest rate volatility and exchange rate interventions. The BOU has started implementing the recommendations made in the report, and now clearly separates sterilization operations and liquidity management; however, they are still having problems with interest rate and exchange rate volatility and have requested follow-up TA in this area. In March and September–October 2002, MFD provided TA to improve central bank accounting and the Bank of Uganda's accounting manual. A TA evaluation visit was conducted in June 2003, and an MFD mission is envisaged for November 2003 covering monetary and exchange rate operations, public debt, and central bank accounting and auditing.

## XII. Future Technical Assistance Priorities

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

## XIII. Resident Representative

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

©International Monetary Fund. Not for Redistribution

## Uganda: Relations with the World Bank Group

(As of October 31, 2003)

### I. Partnership in Uganda's Development Strategy

1. The development strategy of the government of Uganda is based on the Poverty Eradication Action Plan (PEAP), a medium-term development framework that guides government policy and provides a framework for detailed sector and district plans. Because the PEAP's objectives are fully consistent with those of the poverty reduction strategy paper (PRSP) process, a summary of the revised PEAP was used as a basis for Uganda's PRSP, which was presented to the Boards of the Bank and Fund in May 2000. Uganda's PEAP/PRSP is based on four pillars: (i) creating an environment for economic growth and structural transformation; (ii) ensuring good governance and security; (iii) directly increasing the ability of the poor to raise incomes; and (iv) directly increasing the quality of life of the poor.

2. The Bank and Fund support the government's efforts to implement the strategy in a complementary fashion. The Fund provides its support through a second three-year arrangement under the Poverty Reduction and Growth Facility (PRGF), and continues concentrating on macroeconomic and financial sector issues, focusing specifically on short- and medium-term macroeconomic stability, which falls under the first PEAP/PRSP pillar (creating an environment for economic growth and structural transformation). The structural program of the Fund addresses the areas of tax administration, budget management, monitoring of local government finances, financial sector regulations and supervision, and improvement of the national accounts and statistics.

3. The Bank is supporting the implementation of PEAP/PRSP, specifically focusing on structural and sectoral reforms to alleviate poverty. The assistance is delivered in the form of budget and project support, with a heavy focus also on analytic work.

### II. Bank Group Strategy

4. The World Bank Group's current Country Assistance Strategy (CAS) for Uganda was approved by the Board on November 16, 2000.[1] The objective of the CAS is to support Uganda's economic transformation and poverty reduction strategy. The emphasis on maintaining macroeconomic stability continues, but the focus is increasingly shifting to sector-level and cross-cutting public sector management issues.

5. Consistent with this strategy, the Bank has been increasingly shifting to programmatic lending through a series of annual Poverty Reduction Support Credits (PRSC) that support the implementation of Uganda's PEAP/PRSP. The first annual single-tranche PRSC (PRSC1) for Uganda was approved by the Board in May 2001. A subsequent arrangement,

[1] The next CAS is scheduled to be presented to the Board in fiscal-year 2003/04 (July–June).

©International Monetary Fund. Not for Redistribution

PRSC2, was approved in July 2002, and PRSC3 was approved by the Board in September 2003. PRSCs support a medium-term reform program, with each annual arrangement linked to specific reform actions. The reform program supported by PRSCs aims to improve public service delivery and agricultural production, since basic services critical to development are still inadequate in Uganda and about 70 percent of the population derives its livelihood from agriculture. Services provided, in particular by the public sector, are of poor quality owing to various governance problems and capacity constraints. Also, the enabling environment for private sector and civil society involvement is weak, thus further constraining service delivery and growth.

6. The World Bank Group's assistance program is fully consistent with and supports the four pillars of the PEAP/PRSP through a combination of lending and analytical activities as follows:

7. **PEAP/PRSP Pillar 1—Creating an Environment for Economic Growth and Structural Transformation.** To promote economic growth and development of the private sector, the Bank Group supports the development of Uganda's infrastructure, specifically, roads, power, and reform of key utilities. Infrastructure, and in particular power availability, has been identified as one of the key constraints on private sector investments. Projects such as the Fourth Power and Bujagali Hydropower aim to increase Uganda's capacity for power generation and support the reform of the power sector. The Bank also provides support to the government's ten-year Road Development Program through a series of road sector projects. The Privatization and Utility Sector Reform Project, in turn, supports the reform of key utilities and divestiture of the remaining public enterprises. On a regional basis, the Bank continues to provide advisory support to the Nile Basin Initiative, in which nine riparian countries of the Nile Basin are cooperating to utilize the resources of the river in environmentally sustainable ways.

8. Through the PRSCs, the Bank supports the government's efforts to strengthen public expenditure and budgetary management, enhance the results orientation of sector expenditure programs, rationalize and strengthen monitoring and evaluation systems, and proceed with gradual fiscal decentralization by streamlining the intergovernmental fiscal transfer system. To strengthen financial sector performance in terms of soundness, efficiency, and access, PRSCs also support development of the legal and regulatory framework for microfinance, pension reform, and the strengthening of the insurance sector.

9. **PEAP/PRSP Pillar 2—Ensuring Good Governance and Security.** Good governance is essential for effective public service delivery. The Bank plays a key role in supporting the government's efforts to improve governance, including in the areas of combating corruption and implementing broad-based public sector reform. The Bank supports through the PRSCs a variety of cross-cutting public sector management reforms to increase accountability and transparency, and reduce corruption. These include reforms in public procurement, financial management, public sector pay, payroll and personal management, and anticorruption legislation. Ongoing work on financial accountability

©International Monetary Fund. Not for Redistribution

through the Second Economic and Financial Management Project (EFMP II) and Local Government Development Project (LGDP) complements these efforts.

10. **PEAP/PRSP Pillar 3—Directly Increasing the Ability of the Poor to Raise Their Incomes.** Agriculture dominates Uganda's economy and the majority of the poor live in rural areas. The Bank supports several activities that aim to enhance environmentally sustainable rural development and reduce regional disparities. Support is provided to agricultural extension through a demand-driven National Agricultural Services Project. The Second Agricultural Research and Training Project provides support for agricultural research. Furthermore, the series of PRSCs supports the government so that it can identify ways to promote agricultural diversification and modernization, mainstreaming of environmental concerns in government programs, land tenure reforms, and expansion of nonfarm activities in rural areas. The Second Environmental Management and Capacity Building Project continues support for the government's efforts to strengthen environmental management capacity at national and local levels, the Second Protected Areas Management and Sustainable Use Project supports long-term conservation of biodiversity through, among other things, establishment of the Uganda Wildlife Authority, and the second phase of the regional Lake Victoria Project is designed to sustain the effort to protect Lake Victoria's ecosystem. To reduce regional disparities, the Second Northern Uganda Social Action Fund targets the relatively poor districts of northern and eastern Uganda, which have not benefited proportionately from economic reform and liberalization.

11. **PEAP/PRSP Pillar 4—Directly Increasing the Quality of Life of the Poor.** The delivery of primary education, health care, and potable water has a direct impact on the quality of life of the poor, and the delivery is at the core of the government's poverty reduction strategy. The Bank supports the government's efforts to improve access to, and quality of, education, health care, and water and sanitation services, primarily through the series of PRSCs. The HIV/AIDs Control Project supports Uganda's effort to fight the HIV/AIDS epidemic by supporting local initiatives that are providing prevention, treatment, and care.

## III. Bank Portfolio

12. The World Bank Group is Uganda's largest creditor. As of September 30, 2003 a total of 100 credits, 9 loans, and 3 grants, amounting to US$4.2 billion (including US$4.1 billion from IDA and US$43 million from the IBRD), had been approved for Uganda, and total disbursements amounted to about US$3.2 billion (see table below).

©International Monetary Fund. Not for Redistribution

## IV. Uganda: Financial Relations with the World Bank Group

Statement of Loans and Credits, as of September 30, 2003
(In millions of U.S. dollars)

| | IBRD | IDA | IDA Grant | Total |
|---|---|---|---|---|
| Original principal | 43 | 3,890 | 300 | 4,233 |
| Cancellations | 277 | 146 | 0 | 146 |
| Disbursement to date | 43 | 3,084 | 74 | 3,201 |
| Repayments | 35 | 327 | 0 | 362 |
| Undisbursed | 0 | 791 | 228 | 1,019 |
| Exchange adjustment | 0 | 0 | 0 | 0 |
| Borrower's obligation | 0 | 2,909 | 0 | 2,909 |

13. Four new projects were approved in fiscal-year (FY) 2003 (Northern Uganda Social Action Fund, Protected Areas Management and Sustainable Use Project, Second Poverty Reduction Support Credit, and Second Local Government Development Project), totaling about US$420 million, and a US$4.5 million supplemental credit for the Lake Victoria Environment Management Project was approved in FY 2003. The Uganda Third Poverty Reduction Support Operation (PRSC3) has been approved by the board in FY 2004. Six projects in FY 2001 and four projects in FY 2002 were closed.

## V. Bank-Fund Collaboration in Specific Areas

14. The IMF and World Bank staffs maintain a close collaborative relationship in supporting the government's structural reforms. As part of its overall assistance, the Bank supports policy reforms in the following areas in collaboration with the Fund:

15. **Poverty reduction strategy paper.** The Bank and Fund are assisting the government in the revision and implementation of its poverty reduction strategy. The staffs of the two institutions prepare joint assessments of the PRSP or the PRSP progress report on an annual basis.

16. **Debt sustainability.** The staffs of the Bank and Fund continue collaborating on issues related to the Initiative for Heavily Indebted Poor Countries (HIPC Initiative), and prepared jointly an updated debt sustainability analysis for Uganda in calendar-year 2002.

17. **Public expenditure management.** Strengthening public expenditure management is the critical first step in improving the efficiency of public service delivery. The Bank, Fund, and other donors are working closely to provide the government the support needed for institutional and policy reforms. The Fund is leading the dialogue on fiscal policy, while the Bank is focusing on strategic expenditure allocation and efficiency of public expenditures through its work on the public expenditure review and PRSC. The staffs of the two institutions prepare, on an annual basis a report that track HIPC Initiative poverty-reducing

©International Monetary Fund. Not for Redistribution

spending, analyzes the quality of public expenditure management in Uganda, and identifies areas needing strengthening.

18. **Financial sector reform.** A joint Bank-Fund Financial Sector Assessment was conducted in 2001. The assessment indicates that performance of the financial sector has improved in the past few years, but access to financial services remains a problem, especially in rural areas, and the range of financial products is limited. The insurance sector has been liberalized and new companies and brokers have entered the market, but supervision of the sector is still weak. The pension sector needs urgently to be reformed, as civil service pension obligations are taking an increasing portion of budget resources. Both the Bank and Fund are supporting the government's efforts to reform the financial sector. The Bank supports these efforts through PRSC measures to strengthen the insurance sector, reform the pension system, and develop the legal and regulatory framework for microfinance. The work is closely coordinated with a program supported by the Fund's PRGF arrangement, which addresses selected aspects of pension reform.

19. **Trade reforms.** The Bank and Fund are working closely to assist Uganda in establishing a pro-growth trade framework. Both institutions are involved in the dialogue on trade reforms in the context of the East African Community at the regional level.

20. Questions may be referred to Robert Blake, Country Economist for Uganda (Tel. 458-0434).

©International Monetary Fund. Not for Redistribution

## Uganda: Social Output and Outcome Indicators, 2000–05

| | 2000 | 2001 | 2002 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|
| | | | Target | Outturn | PEAP target | | |
| **Health** | | | | | | | |
| Outpatient department utilization (OPD) per capita | 0.40 | 0.43 | 0.43 | 0.60 | 0.45 | 0.47 | 0.50 |
| Percentage of approved positions filled by a trained health worker | 40 | 47 | 40 | 42 | 43 | 46 | 50 |
| DPT3 immunization rates among children less than 1 year old (percent) | 41 | 47 | 46 | | 50 | 54 | |
| Deliveries in health units (percent) | 25 | 23 | 25 | 19 | 38 | 31 | 35 |
| HIV prevalence (percent) | 7 | 6 | 6 | 6.5 | 6 | 5 | 5 |
| **Education** | | | | | | | |
| Pupil-teacher ratio | 63:1 | 54:1 | 54:1 | 54:1 | 50:1 | 45:1 | 49:1 |
| Pupil-textbook ratio 1/ | 6:1 | 4:1 | 4:1 | ... | ... | 3:1 | 3:1 |
| Pupil-classroom ratio | 118:1 | 98:1 | 104:1 | 94:1 | 92:1 | 82:1 | 92:1 |
| P7 net enrollment rate 2/ | | | 16 | ... | 20 | 20 | 20 |
| **Rural water** | | | | | | | |
| Safe water coverage (percent) | 52 | 53 | ... | | ... | 60 | 60 |
| New water systems | 3,000 | 2,900 | 2,900 | | 3,700 | 3,700 | 3,700 |
| New public, school, and institutional sanitation systems | 450 | 1,205 | 1,205 | | 900 | 900 | 900 |
| **Urban water** | | | | | | | |
| Safe water coverage (percent) | 60 | 62 | ... | | ... | 65 | 65 |
| New water connections | 3,100 | 6,300 | 6,300 | | 7,000 | 7,000 | 7,000 |
| *Of which*: poor households | 900 | 1,800 | 1,800 | | 2,100 | 2,100 | 2,100 |
| New sewerage connections | 75 | 75 | 70 | | 100 | 100 | 100 |

Source: "Uganda Poverty Reduction Strategy Paper—Progress Report 2002." The 2005 PEAP target and the 2002 output figures are updated from "Uganda Poverty Status Report 2003."

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. The outturn for 2002 is zero because of the introduction of the new curriculum in 2000/01. But a wide range of nontextbooks has been distributed to all P1 and P2 classes. A total of 3.5 million books have been distributed to P3 and P4 classes. The cycle to purchase and distribute books to P5-P7 classes has been launched.

2/ In percent. Estimates of net enrollment rates will be provided following the results of the 2002 population census.

©International Monetary Fund. Not for Redistribution

INTERNATIONAL MONETARY FUND EXTERNAL RELATIONS DEPARTMENT

Press Release No. 03/220
FOR IMMEDIATE RELEASE
December 17, 2003

International Monetary Fund
Washington, D.C. 20431 USA

**IMF Completes Second Review Under Uganda's PRGF Arrangement, Grants Waivers, and Approves US$3 Million Disbursement**

The Executive Board of the International Monetary Fund (IMF) today completed the second review of Uganda's economic performance under a three-year Poverty Reduction and Growth Facility (PRGF) arrangement and approved the disbursement of an amount equivalent to SDR 2 million (about US$3 million). In completing the review, the Executive Board granted Uganda's request for waivers on nonobservance of performance criteria pertaining to the accumulation of new domestic arrears, the development of a plan to clear the outstanding stock of domestic arrears, and the privatization of the Uganda Development Bank.

Uganda's three-year arrangement was approved on September 13, 2002 (see Press Release No. 02/41) for SDR 13.5 million (about US$19 million). So far, Uganda has drawn SDR 3.5 million (about US$5 million).

The PRGF is the IMF's concessional facility for low-income countries. PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners and articulated in a Poverty Reduction Strategy Paper (PRSP). This is intended to ensure that each PRGF-supported program is consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent, and are repayable over 10 years with a 5 ½-year grace period on principal payments.

Following the Executive Board's discussion on Uganda's request, Shigemitsu Sugisaki, Deputy Managing Director and Acting Chairman, stated:

"Uganda has continued to demonstrate a strong commitment to macroeconomic stability and the pursuit of a comprehensive poverty reduction strategy. Notwithstanding the impact of adverse weather conditions on agricultural production, economic growth was robust in 2002/03 and underlying inflation was subdued. Improved revenue performance and expenditure restraint contributed to a substantial fiscal adjustment. However, after several years of marked improvements, there has been an increase in the measured incidence of poverty and inequality in the distribution of income. The authorities are committed to strengthening their policies for boosting and broadening the bases of economic growth and reducing poverty in the context of the forthcoming revision of the Poverty Eradication Action Plan.

Washington, D.C. 20431 • Telephone 202-623-7100 • Fax 202-623-6772 • www.imf.org

©International Monetary Fund. Not for Redistribution

"In the current fiscal year, the authorities aim to support a sustained pickup in economic growth by further reducing the fiscal deficit. This would help alleviate ongoing pressures on real interest rates and the real exchange rate. To this end, it will be critical to adhere to measures to raise revenue and improve tax administration, and enhance the effectiveness of government spending at both the national and local levels by strengthening expenditure management systems. Curtailing expenditures for public administration, nonproductive purposes, and low priority items would provide additional scope for social spending.

"Monetary policy will be aimed at keeping inflation low, and a flexible exchange rate policy will help to maintain Uganda's international competitiveness. The recent passage of the new Financial Institutions Bill and the Microfinance Deposit-Taking Institutions Act will facilitate improvements in regulatory supervision and encourage a sound expansion of financial intermediation. At the same time, the planned reform of the pension system and a broadening of the nonbank financial sector are essential to the mobilization of additional domestic resources for investment. Restructuring of the Uganda Development Bank Limited would ensure its sound financial management and provide long-term financing for development purposes.

"Improvements to transportation networks and other infrastructure, as well as good governance, would underpin the authorities' efforts to encourage private sector-led investment and growth. In addition, strong implementation of programs to raise agricultural productivity and diversify exports, such as the Plan for the Modernization of Agriculture, would enhance Uganda's international competitiveness and its resilience to shocks, and would raise the incomes of the rural poor," Mr. Sugisaki stated.

©International Monetary Fund. Not for Redistribution

**Statement by Ismaila Usman, Executive Director for Uganda**
**December 17, 2003**

My Ugandan authorities would like to express their gratitude to the Fund management and staff for their continuous technical and financial assistance in their reform effort and they also appreciate the lasting support received from the international community. This support played a critical role in helping the authorities to crystallize the substantive progress made towards achieving macroeconomic stability, strengthening the institutional capacity and improving social indicators.

The significant improvement in economic performance, reflected in positive real GDP per capita growth since the early 1990s and low inflation was the result of the authorities' strong resolve and consistency in the implementation of prudent policies under successive Fund-supported programs. Notwithstanding the remarkable progress that has also been made in reducing poverty levels from 56 percent in 1992 to 34 percent in late 1990s, much remains to be done to provide access to basic social services to a still large segment of the population and lifting the peoples living standards.

My Ugandan authorities are determined to remain steadfast in the path of reform by further strengthening their efforts, to achieve a stronger and sustainable growth that could positively impact on employment creation and further poverty reduction. To this effect, the policies outlined in the current PRGF arrangement are focused on preserving the stable macroeconomic environment and deepening structural reforms

**Recent Economic Developments**

The program for 2002/03 remained broadly on track. Economic growth at 5 percent, albeit slightly lower than projected given the adverse weather conditions, was broad-based. Consumer prices rose by 10.2 percent on account of a surge in food crop prices, the rise in fuel prices, as well as the depreciation of the Ugandan shilling. Underlying inflation, however, was contained at 5.5 percent, well below the program objective of 6.6 percent. The fiscal deficit, before grants, declined by 1.4 percentage points of GDP from previous year and the external current account position, excluding grants, strengthened more than expected. All but few performance criteria and structural benchmarks for end-June 2003 were met. My authorities are requesting waivers on the three missed performance criteria, based on the corrective actions taken meanwhile, and the completion of the second review under the PRGF arrangement.

**Macroeconomic policy stance in 2003/04 and beyond**

During 2003/04, real GDP is expected to grow by 6 percent, mainly due to the recovery in agricultural sector. Inflation is projected to decline substantially to about 3 percent as a result of subdued food crop prices and stricter monetary policy. Fiscal and external positions are envisaged to be further strengthened.

©International Monetary Fund. Not for Redistribution

**Fiscal Policy**

Fiscal consolidation will remain the cornerstone of the program, where the objective is to reduce the fiscal deficit before grants, by an additional 0.8 percentage points of GDP. The authorities are aware of the need for further adjustments to improve the prospects of achieving fiscal sustainability over the medium-term. To support this effort, revenue is estimated to increase to 12.9 percent of GDP in 2003/04 as a result of additional tax measures announced in mid-2003 and additional improvements in the efficiency and effectiveness of tax administration.

Regarding expenditure, the authorities are committed to curb non-wage recurrent outlays in non-priority areas by 0.2 percentage points of GDP, while ensuring a better allocation of resources particularly towards poverty reduction -related programs, which will continue to be protected. To this end, the authorities have been redoubling their efforts to continue enhancing public expenditure management to ensure that budget outcomes reflect budget intentions. In this connection, an important step has been taken with the approval, last April, of the Public Finance and Accountability Act (PFAA), thus providing the authorities with an important instrument to restrain supplementary expenditures and strengthen enforcement of the commitment control system (CCS). This will greatly assist in preventing new arrears from emerging. In the meantime the authorities are in the process of verifying all accumulated domestic arrears, with a view to eliminating them in the medium-term. To help contain public administration expenditures, several cost saving measures have already been put in place, including the rationalization of certain government positions and elimination of others. In the context of the fiscal decentralization strategy, the authorities are also giving priority to strengthening the capacity of local governments, which are responsible for the execution of 33 percent of the PAF spending, to ensure better reporting and greater accountability of their activities.

**Monetary Policy**

The authorities will continue to pursue a restrictive monetary policy geared towards ensuring reduction in inflation and maintaining a stable environment supportive of financial intermediation and foreign exchange market. In this context, broad money growth will be limited to 12.5 percent while allowing an expansion of credit to the private sector. The authorities will continue to target liquidity management to ensure that growth in monetary aggregates is contained within the limits set under the program. Also in order to ease the upward pressure on domestic interest rates the sterilization operations are being conducted with greater recourse to foreign exchange sales.

A number of measures are being envisaged to help mobilize domestic financial resources for investments, including the introduction of a multiyear treasury bond starting in 2003/04, the restructuring of the National Social Security Fund (NSSF), which could be an important source of long-term savings. In light of the strong political opposition to the full privatization of the Uganda Development Bank Limited (UDBL), the authorities intend to take a final decision in the first quarter of 2004, regarding the best divestiture option with a

©International Monetary Fund. Not for Redistribution

view to ensuring that it becomes a financially viable institution for term lending on strictly commercial basis.

**External Sector**

Regarding the external sector, the authorities have in the past, set up various programs (MTCS, PMA, and SEP) to enhance the country's international competitiveness, diversify its productive and export bases, and increase productivity, particularly in the agriculture sector, which they view as critical to help build up a stronger external position that would be less vulnerable to exogenous shocks. However, given the limitation of resources, the implementation of these programs has been slow. Although still very modest, some progress has been made to gain access to new markets for Ugandan products. In the context of regional integration, the authorities also look forward to a more harmonized system of incentives within the East African Community. They are appreciative of the technical assistance being provided by the Fund and the World Bank to this effect.

Despite having benefited from the generous debt relief provided under the HIPC Initiative, Uganda's external debt remains unsustainable. In light of this situation, the authorities are paying close attention to debt management and adhering to their strategy of borrowing only on highly concessional terms. Some progress has been made in obtaining debt relief in terms comparable to those under the HIPC Initiative from a few non-Paris Club members. The authorities are strongly committed to continue to seek the engagement of the remaining creditors.

**Beyond 2003/04**

My Ugandan authorities are fully aware that the achievement of the medium-term objectives of sustained economic growth and financial viability requires continued implementation of prudent macroeconomic policies and reforms. The economic strategy, which aims to further promote the economic and social development of the country and strengthen investors' confidence, will continue to focus on additional fiscal consolidation effort, further liberalizing the economy, and promoting the private sector development. The authorities remain fully committed to this strategy as they viewed it as fundamental to crystallize the objectives of the PEAP and place the Millennium Development Goals within reach.

©International Monetary Fund. Not for Redistribution