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UGANDA: SECOND REVIEW UNDER THE POLICY SUPPORT INSTRUMENT AND REQUEST FOR MODIFICATION OF ASSESSMENT CRITERIA—STAFF REPORT; PRESS RELEASE; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR UGANDA

INTERNATIONAL MONETARY FUND

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UGANDA

July 2014

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In the context of the second review under the Policy Support Instrument and request for modification of assessment criteria, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 27, 2014, following discussions that ended on May 12, 2014, 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 June 16, 2014.
- An **Informational Annex** prepared by the IMF
- A **Press Release** including a statement by the Chair of the Executive Board.
- **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*
Technical Memorandum of Understanding*

*Also included in the Staff Report

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

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UGANDA

June 16, 2014

SECOND REVIEW UNDER THE POLICY SUPPORT INSTRUMENT AND REQUEST FOR MODIFICATION OF ASSESSMENT CRITERIA

KEY ISSUES

Economic performance has been broadly favorable. Despite difficult conditions, real GDP growth has proved resilient in the context of low inflation and strong international reserves.

The policy mix has deviated from program expectations. Significant revenue shortfalls and expenditure overruns raised the fiscal deficit and domestic borrowing needs, and hindered an opportunity to ease monetary policy more markedly.

Policies are set to return to the envisaged path. To reverse course, the authorities intend to adopt a package of tax measures, efficiency gains, rationalization of spending, and reduction of arrears. The tighter fiscal stance would create space for further interest rate declines and support private sector credit expansion. However, with deteriorating bank asset quality, strengthening financial oversight will be crucial.

Progress has been made on structural reforms, but further steps are needed. Starting the construction of the two hydropower projects without further delay, approving and regulating the Public Financial Management Bill, and strengthening accounting controls are crucial steps in the reform effort. The expected amendments to the Bank of Uganda Act should support the inflation targeting regime.

Downside risks to the program are significant. Success of the adjustment efforts will depend critically on parliament's approval of the entire revenue package and government's subsequent ability to enforce tax collections and resist further spending pressures in a pre-electoral year.

Based on the proposed policies, staff supports completion of the second PSI review. Quantitative assessment criteria were met with the exception of the ceiling on net domestic financing, missed by a small margin, to which staff supports a waiver. The PFM-related structural benchmarks were observed, and others are proposed to be redefined or postponed given their good prospects for completion.

Approved by
Roger Nord (AFR) and Masato Miyazaki (SPR)

IMF team: A. L. Coronel (head, senior resident representative), A. Aisen and A. Oshima (all AFR), J. Danforth (FAD) and Y. Bal Gündüz (SPR). G. Gasasira-Manzi (OED) attended some official meetings.
Discussions: Held in Kampala during April 29-May 12, 2014. The mission met with economic authorities, senior government officials, parliamentarians, and representatives of the financial, business and international communities.

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RECENT DEVELOPMENTS

1. **A challenging geo-political environment complicated recent economic management.** Instability in neighboring countries hurt trade and family remittances, posed refugee-related costs, and triggered unexpected fiscal outlays to finance military engagement and preserve domestic security. President Museveni was nominated by party parliamentarians to stand for a new five-year term in the 2016 elections. An early start of the electoral cycle is creating further expenditure pressures. The government enacted an anti-homosexuality act—now under review by the constitutional court— which became controversial and generated adverse reaction from the international community, resulting in postponement and redirection of certain grants and concessional loans.

2. **Nonetheless growth remained strong, inflation declined, and external buffers were preserved.**

- **Real GDP growth** has been robust, but leading indicators point to weaker-than-expected economic activity this fiscal year, reflecting lower external inflows and agricultural output, and delays in the construction of two hydropower projects (HPPs). Growth remains led by public sector activity as the private sector's contribution—notably from agriculture—remains weak.

- **Annual headline and core inflation** decelerated to 5.4 and 3.3 percent, respectively, in May, mainly benefiting from an appreciated exchange rate and moderation of food prices after the sharp drought-driven increase at the beginning of the fiscal year.

- **The external current account deficit** is running lower than projected despite curtailed exports and remittances, reflecting weaker imports—including those related to the delayed HPPs. Bolstered further by higher-than-anticipated portfolio inflows, international reserves are set to reach a comfortable level, equivalent to 4.2 months of imports.

3. **The fiscal position significantly worsened, as a boost in investment was accompanied by a large revenue underperformance and an unexpected increase in current spending.**

- **Tax revenue.** A large revenue gap—amounting to 0.6 percent of GDP—is expected this fiscal year despite reinforced tax administration efforts in the last few months. About one-third of this gap could be explained by lower-than-anticipated growth, notably due to lower corporate income tax collections—mainly reflecting increased provisioning of non-performing loans (NPLs) by commercial banks. Another third is attributable to policy slippages; in particular, a loophole in the tax on money transfers and the substitution of measures not passed by parliament last year (introduction of capital gains tax on the disposal of commercial buildings and amendment of the thin capitalization rule) by measures that generated lower yields. General overall compliance issues, enforcement shortcomings, over estimation of the tax base used to project revenues, and delays in government payments to the revenue authority explain the difference.[1]

- **Spending.** Despite the revenue shortfall, spending was broadly executed in line with the approved budget leading to a larger-than-expected fiscal expansion. Moreover, in February, the government requested parliamentary approval of supplementary budgets to finance the deployment of troops to neighboring countries, other allowances for defense and line ministries, and issuance of national identity cards. While the last item was included in the PSI projections, the overall impact of unanticipated spending on the budget was about 0.7 percent of GDP.

- **Financing**. The fiscal expansion is generating higher net domestic borrowing requirements of about 1.2 percent of GDP compared to PSI projections, with issuance of bonds and T-bills twice as large as last year's.

- **Arrears.** Quarterly monitoring of unpaid bills was irregular with information available and published only for March 2014 and not for the previous two quarters. However, a reduction of 0.4 percent of GDP since June 2013 reflects the government's efforts to gradually regularize payments. At 1.2 percent of GDP, the stock of arrears is large and mainly explained by delays in payments to contractors of public works, utility providers, and the revenue authority.

4. **Amid these fiscal developments, the monetary policy stance was kept tight, and needed reductions in the policy rate were halted for six months until June.** The Bank of Uganda (BoU) left the central bank rate (CBR) constant at 11.5 percent from December to May and reduced it slightly to 11 percent in June, one week before the new budget presentation. This cautious approach reflected the impact on the inflation forecast of the fiscal expansion and potential shocks to food prices and business confidence[2], which overshadowed downward pressures posed by shilling appreciation and low credit growth. Subdued credit demand with persistently high lending rates, tightened bank risk management, and banks' appetite for increasingly available zero-risk high-yield government paper kept private sector credit growth sluggish. To preserve reserve adequacy, the BoU adhered to its program of daily foreign exchange purchases, which were largely sterilized through repo operations. The nominal exchange rate appreciated during the year, mainly on account of increased portfolio inflows and resilient foreign direct investment (FDI), and the real effective exchange rate continues to be broadly in line with its long-run equilibrium.[3]

5. **A significant increase in nonperforming loans (NPLs) and in large credit exposures weighted on banks' profitability.** While banks remain solvent, the sharp increase in NPLs from 4 to

[1] The government has the legal obligation to make tax payments to the revenue authority on behalf of firms that are tax exempted.

[2] S&P's downgraded the sovereign credit rating in January 2014 from B+ to B with a stable outlook. Anecdotic evidence points to declining investor interest following approval of the anti-homosexuality act.

[3] See IMF Country Report No. 13/215, July 2013, Box 3.

6 percent of total loans between September and December 2013 led to significant provisioning. Bad loans, mainly concentrated on trade and construction, are attributed to weak household and corporate balance sheets following monetary policy tightening to suppress inflation in FY2011/12, and new cash-flow difficulties of traders dealing with neighboring countries and construction operators. Bank lending rates are still high, reflecting banks' structural inefficiencies, limited competition, and uncertainties in the context of the evolving geo-political and fiscal situations.

PROGRAM PERFORMANCE

6. **Macroeconomic performance was mixed, with satisfactory monetary and external sector indicators, but sizeable budgetary slippages.** The end-December quantitative assessment criterion (QAC) on net international reserves and the indicative target (IT) on base money were met, and core inflation was well within the inflation consultation clause. All continuous QACs were also met. However, the QAC on government net domestic financing was missed by a small amount (with the IT on social spending met), the IT on tax revenue was not observed by a wide margin, and the end-December IT on net change in the stock of domestic arrears was missed. Preliminary data show that all March 2014 ITs followed the trend described, with the IT on the net change in domestic arrears being met by a large margin.

7. **Despite some delays, considerable progress on structural reforms was achieved.** Structural benchmarks on the rollout of the payroll system, expansion of the treasury accounting system, and introduction of the treasury single account (TSA) were all met. While results of the VAT-gap analysis were not published by March 2014, publication of the report, along with an action plan to implement its recommendations, occurred in May. The FY2014/15 budget is set to include an appropriation to recapitalize the BoU, but preparation of amendments to the BoU Act to improve monetary policy independence and credibility is delayed because of the work required to adopt international best practices. The authorities intend to attach a report of all ongoing PPP programs to the final budget submission. Issuance of the new national identification cards is running late, but the registration phase is ongoing. With irregular quarterly production and monitoring of unpaid bills, partly reflecting capacity constraints, arrears reports did not take place as envisaged.

ECONOMIC OUTLOOK AND RISKS

8. **Supported by sound policy implementation, the outlook looks favorable.** Real GDP growth is projected to increase from 5.7 percent to 6.1 percent next fiscal year driven by public investment and exports. Restraint in public consumption would lay the ground for the needed rebound in private sector activity. Average core inflation is projected to slightly increase from 5.4 percent to 5.7 percent next year on account of possible second round effects of food price behavior, and gradually decline toward the 5 percent medium-term target. The current account deficit would expand to 11.2 percent mainly on account of HPPs-related imports. The associated lending from Eximbank China, along with concessional loans, FDI, and some use of international reserves would finance the deficit, keeping reserves at an adequate level. However, budget support

grants will remain at this year's level (one fourth of the trend observed until two years ago), and no budget support loans are expected during the projection period. East African Community (EAC) integration, infrastructure development, and oil production bring favorable medium-term external sector and growth prospects.

Macroeconomic Outlook

	FY 2011/12	FY 2012/13	FY 2013/14	FY 2014/15
	(Percent)			
Real GDP growth	3.4	5.8	5.7	6.1
Headline CPI inflation, period average	23.5	5.8	6.9	6.9
Core CPI inflation, period average	24.6	6.6	5.4	5.7
	(Percent of GDP, unless otherwise specified)			
External current account balance	-13.3	-8.8	-9.7	-11.2
International reserves (stock, months of imports)	4.2	4.6	4.2	4.0
Fiscal balance (excluding one-off spending)	-3.9	-3.4	-4.8	-3.7
Overall balance	-3.0	-4.1	-5.0	-7.2
Policy rate (end of period)	20.0	11.0		
Credit to the private sector (annual growth, percent)	11.5	6.4	10.6	14.7

Sources: Ministry of Finance, Planning and Economic Development of Uganda, Bank of Uganda, and IMF staff calculations.

9. **Downside risks to the outlook are significant.** They originate from an early start of the electoral cycle limiting scope to address fiscal slippages; insufficient parliamentary support for tax revenue enhancement; prolonged instability in neighboring countries; weaker-than-anticipated project grants and non-concessional lending; changes in donors' sentiment toward Uganda; possible reversal of foreign exchange flows due to lower economic stimuli in advanced economies; and implementation capacity constraints.

FISCAL POLICY

A. Preserving Fiscal Sustainability

10. **The fiscal position (excluding one-off spending) must be strengthened to ensure achievement of the economic objectives.** Staff expressed concern about the large expansion of the fiscal deficit in the last months, which is raising domestic financing needs and crowding out of the private sector. While the expansion was partially explained by the the regional insecurity, tax compliance and enforcement issues, accommodation of spending pressures, and failure to adapt the expenditure pattern to available resources also contributed. The Ministry of Finance explained that spending would have been even higher had they not resisted mounting pressures. They concurred with staff that this fiscal trend is unsustainable given its potential impact on inflation, the subsequent economic growth consequences of monetary tightening, and the burden posed by debt service obligations on future budgets (Box 1). Consequently, they intend to limit this year's deficit to

4.8 percent of GDP and reduce it by about 1 percent of GDP next fiscal year through revenue increases and expenditure restraint that would provide the necessary space for the large HPPs (3.2 percent of GDP) and continuation of central bank recapitalization. The envisaged change in the fiscal stance would cut domestic market borrowing needs in FY2014/15 by 0.8 percent of GDP.

Fiscal Operations of the Central Government, FY2012/13–2015/2016

(Percent of GDP)

	2012/13	2013/14	2014/15	2015/16
Total revenue and grants	14.8	14.5	15.4	15.3
Revenue	13.2	13.1	13.6	14.2
Tax	12.6	12.6	13.1	13.6
Expenditures and net lending	18.9	19.5	22.6	20.7
Current expenditures	10.5	10.7	10.5	10.8
Development expenditures	7.6	8.6	8.2	6.9
Other spending [1]	0.1	0.0	0.4	0.4
Fiscal balance (excluding one-off spending)	-3.4	-4.8	-3.7	-2.8
Net lending and investment	0.7	0.2	3.5	2.6
Of which: HPP projects	0.0	0.2	3.2	2.3
Of which: Bank of Uganda recapitalization	0.7	0.0	0.3	0.2
Overall balance	-4.1	-5.0	-7.2	-5.4
Financing	3.8	5.0	7.2	5.4
External financing (net)	2.6	2.4	3.6	3.7
Domestic financing (net)	1.2	2.6	3.6	1.8
Commercial and non-bank financing	1.4	2.7	1.9	1.5
Errors and omissions	-0.3	0.0	0.0	0.0

Sources: Ministry of Finance, Planning and Economic Development of Uganda and IMF staff calculations.

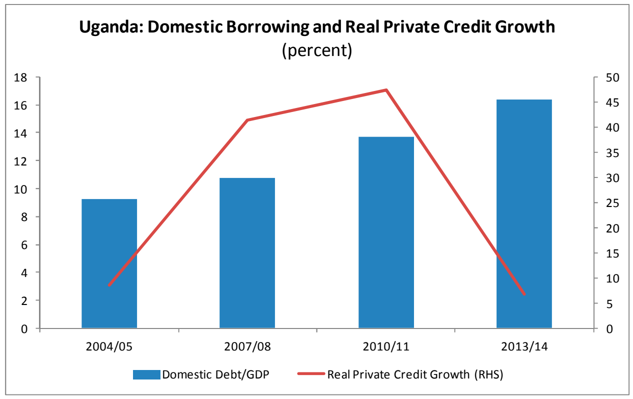
1/ Other spending includes contingency reserve and repayment of domestic arrears.

B. Boosting Revenue Mobilization

11. **Increasing tax revenue by broadening the base and effectively collecting taxes is more critical than ever.** The authorities' program envisaged an increase of 1.5 percent in the tax-to-GDP ratio in the course of three years. This objective was ambitious but necessary to bring this ratio closer to regional standards, and secure reliable financing for infrastructure and social spending amid declining foreign development assistance. The objective was also plausible given the ample space to reduce multiple statutory and discretionary tax exemptions, notably on the VAT front (Box 2). The authorities indicated that in light of this year's revenue shortfall, achieving this target in the remaining two program years would be overly challenging given their ultimate objective of reviving private sector growth. They are committed however to accomplishing a 0.5 percent increase in FY2014/15 and also a minimum of 0.5 percent increase in FY2015/16. Staff emphasized the importance of adopting a comprehensive strategy to broaden the tax base while minimizing the impact of tax measures on the most vulnerable segments of the population.

Box 1. Uganda: Government Domestic Debt and Private Sector Crowding Out

Government domestic debt has increased over the last ten years. The debt-to-GDP ratio stayed relatively constant at about 9 percent before increasing to 13¾ percent in FY2010/11. This fiscal year it is projected to reach about 16 percent while total debt/GDP remains at 33 percent. The rise in domestic debt is associated with increased borrowing needs amid lower external financing.



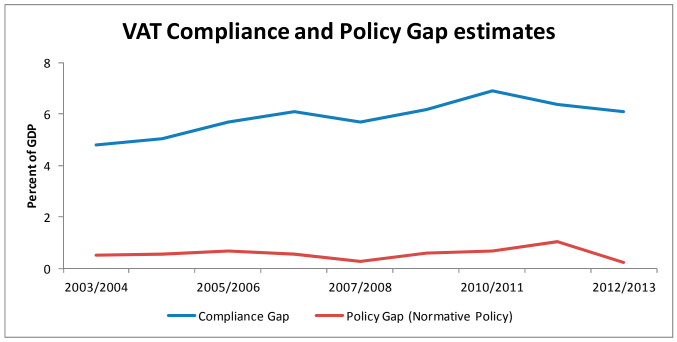
Sharp increases in government domestic debt are likely to lead to abrupt interest rate hikes. While a rise in debt that is absorbed without interest rate pressures is favorable to market development, sharp increases could generate crowding out effects on the private sector. Following the FY2010/11 domestic debt hike, for example, the average nominal yield on the 91-day treasury bill (the shortest and most liquid tenor) increased by 230 basis points even as inflation declined by 300 basis points. In FY2013/14, the increase in domestic debt is taking place amid depressed credit conditions, putting pressure on interest rates, and inhibiting the central bank to reduce the policy rate.

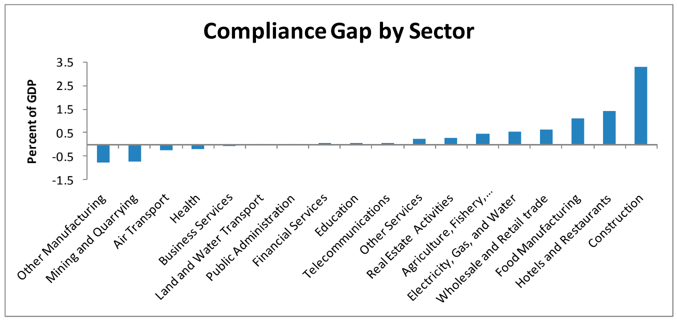
Pass-through of treasury bill rates to lending rates could be significant. Estimates from impulse response functions using a VAR model show that additional issuances of treasury bills and bonds would raise their yields significantly. If sustained, the recent pace of increase in issuances could raise interest rates along the yield curve on average by 9-11 percent in a period of 12 to 24 months even if they are placed at diverse maturities (although marginal increases would be smaller the longer the maturity of the issuances). In line with these estimates, yields on government paper started to edge up immediately after the government stepped up issuances, with the 91-day Treasury bill rate increasing by 150 basis points between January and April 2014. With an expected issuance of government securities of 2¾ percent of GDP (more than twice last year's level of 1¼ percent), it is reasonable to anticipate a pass through to lending rates over time. Rising yields on government securities attracted foreign investors' demand, with about 13 percent of the outstanding stock now held by foreigners. Further increases in this demand have the potential to contain interest rate hikes, but raise another set of risks in case of abrupt sentiment changes.

Higher lending rates could crowd out private investments. Ceteris paribus, the opportunity cost for banks to lend would increase with the rise in treasury bill rates, reducing the supply of bank loans—already depressed by the deteriorating quality of assets of banks, corporations and households. The impact on credit will depend on the elasticity of credit to interest rates.

The relatively short maturities of domestic debt could create debt service difficulties through rollover and interest rate risks. The debt sustainability analysis (IMF country report 13/375) shows that the short average maturity of domestic debt (less than three years) combined with a low revenue base leads to a debt service-to-revenue ratio of about 35 percent, among the highest in LICs. This significantly increases rollover and interest rate risks, and needs to be addressed by a combination of stronger revenue mobilization and deeper and more liquid financial markets.

Box 2. Uganda: Revenue Mobilizing Measures





A *VAT compliance gap* of 5-6 percent of GDP has remained fairly steady over time. Uganda is one of the few countries in Africa that has conducted an exercise based on the value added generated by each sector of activity to estimate the potential VAT base and compare it with actual collections. The exercise shows a compliance gap of around 60 percent of potential VAT. This result is consistent with Uganda's low tax efficiency relative to its regional peers. To achieve the regional average tax efficiency, Uganda will need to reduce the compliance gap to around 50 percent of potential VAT. This would increase VAT revenues by 2–2 ½ percent of GDP.

At 1 percent of GDP, the *VAT policy gap* is smaller than the compliance gap, but policy measures to improve the VAT law are expected to narrow both gaps. There are a number of exemptions and zero-rates in the VAT Act that if removed would facilitate administration and reduce the compliance gap. Such is the case, for example, of exemptions on hotel accommodation and supply of computers and software, now scheduled to be removed in the FY2014/15 budget. Similarly, exemptions to business-to-business transactions result in significant revenue leakage. This is clearly illustrated for the legal exemptions on the supply of agriculture-related inputs and products. While a sectoral analysis reveals little revenue to be gained by removing these exemptions—since the tax foregone at one stage would be recovered at the next stage of the production chain—this "missing link" in the VAT chain is estimated to be leading to a large compliance gap in the immediate downstream sectors of food manufacturing and hotels and restaurants. Finally discretionary exemptions to selected industries, such as textiles, steel, chemicals, dairy, and palm oil have a direct impact on the compliance gap, but need a change in policy to be addressed. Some progress is being made on this front with the removal of the textile exemption proposed in the FY2014/15 budget.

A transformation in tax morale is essential to achieving significant reductions in the VAT gap. Several risk factors have been identified by the Uganda Revenue Authority (URA), such as tax planning and avoidance by larger companies, diversion of declared exports to the domestic market and smuggling of goods, and widespread failure to register by small taxpayers. The URA has been successful in its reforms in the area of taxpayers' services and relations, but must now focus its efforts on ensuring individuals and firms pay the taxes they owe. To this end the URA should expedite audits of large taxpayers, intensify marketing campaigns, better manage VAT refunds, and enhance debt collection.

Using tax gap analyses in a systematic way can support the URA's reform objective to improve performance monitoring. A unified approach to tax gap studies throughout the organization would provide a common framework for analysis at all levels in the URA, allowing strategic direction to both inform and be informed by individual operational units' compliance strategies, plans and operations. This should enable better compliance interventions, and provide more robust performance indicators to monitor progress in the reform program.

12. **Next year's revenue measures will aim at removing most exemptions that have outlived their usefulness (see Annex I of the MEFP).** The authorities intend to reform the VAT code to eliminate most exemptions; adopt several corporate and income tax measures, including removing exemptions on interest earned on loans to the agricultural sector (structural benchmark); and revise excise duties, including those agreed under the EAC's common external tariff regime. The central government has also committed to meeting timely its tax payments to the revenue authority on behalf of exempted taxpayers. The authorities halted the planned elimination of income tax exemptions on agro-processing (a PSI structural benchmark), which lacked political support, but instead decided to discontinue the exemption on the supply of goods and services for construction (structural benchmark), a measure estimated to produce a higher yield. Other discretionary tax breaks—now in place for taxpayers operating in the palm oil, steel, chemicals, and dairy industries—are subject to contracts that the authorities considered hard to cancel before their expiration. Staff urged them to renegotiate such contracts and adapt them to the new fiscal and economic reality.

13. **The projected yield from the envisaged revenue package is conservative.** Following an analysis of the systematic overestimation of tax revenue in the past few years, the authorities and staff agreed on using a conservative tax base when projecting the yield this time, which required a revenue effort amounting to about 0.8 percent of GDP to achieve the expected yield of 0.5 percent of GDP in FY2014/15.[4] The removal of various VAT exemptions is expected to yield about 0.4 percent of GDP; income tax measures would produce 0.2 percent; and increases in excises another 0.1 percent. Tax administration efforts are expected to yield 0.1 percent of GDP.

14. **The authorities have prepared an action plan to ensure efficiency gains in tax collections and address in this way the large tax compliance gap.** The plan focuses on increased collaboration of the revenue authority with public and private sector agents and strengthened capacity of its data analysis and international taxation units. The yield of these tax administration measures has been conservatively estimated in the first year, but its potential for increasing over time is large. The revenue authority intends to use the trading license regime in at least three municipalities to register, assess, and collect revenue (structural benchmark).

C. Enhancing Spending Efficiency

15. **Public spending is to be redirected to priority areas.** The FY2014/15 budget is expected to reflect the large HPP investments, honor the commitment of compensating civil servants for the declining purchasing power of salaries, provide for the interest costs of higher debt issuances, and ensure an increase in poverty reducing spending. To make these payments possible, other current outlays are to be streamlined and the pace of domestically-financed investment restrained. Staff supported this strategy, emphasizing the need for realism, which critically hinges on decisive efforts

[4] Under the agreed methodology, the tax base is projected to increase only by the rate of growth in the private sector portion of nominal GDP. Growth next year will be mainly driven by the largely untaxed public sector. Yields were also conservatively projected to account for the learning process inherent to the introduction of new taxes.

to resist pre-electoral and other spending pressures. In this context, the authorities and staff agreed to keep an appropriation of about 0.3 percent of GDP to cap at that level any reasonable contingency budget needs, and another one of 0.1 percent of GDP to meet the minimum envisaged reduction in arrears. Staff and the authorities agreed on the conditions under which the contingency reserve would be used, which are broadly in line with the provisions of the PFM bill under discussion in parliament, and on a definition and methodology to measure, reduce and report arrears and unpaid bills (see paragraph 23 and Annex II of the MEFP, and proposed redefined structural benchmark). A faster reduction in arrears could be envisaged if rapid progress is made.

16. **Construction of the two large HPPs and related substations is expected to start next fiscal year and continue over the next five years.**[5] The land acquisition and initial works for the Karuma and Isimba projects and the transmission substations—anticipated to significantly improve electrification in Uganda—are ongoing, but negotiations with Eximbank China have not concluded. Staff encouraged avoiding further delays that could raise the cost of the projects and their financing, and undermine their consistency with the absorptive capacity of the economy and debt sustainability. Staff stressed the need to ensure that the projects remain commercially viable, and underpinned by strong financial management and institutional arrangements.

MONETARY AND FINANCIAL SECTOR POLICIES

A. Preserving the Inflation Target

17. **Discussions centered on the links between fiscal and monetary policies within the inflation targeting regime.** Based on its updated inflation forecast, the BoU plans to change the monetary policy stance only if domestic or external factors call for adjustment, with a view to keeping inflation expectations anchored at all times. Staff advised the BoU to continue to implement gradual declines in the CBR once the government's borrowing requirements recede, to induce a decline in lending rates while keeping core inflation within the medium-term target. BoU officials saw full implementation of the fiscal tightening as necessary to support their anti-inflationary efforts. With effective fiscal-monetary policy coordination and improved confidence, the tighter fiscal stance is expected to bring some dynamism to credit, projected to increase at 15 percent next year. Staff also recommended widening the range of maturities within the BoU's set of monetary policy instruments and using longer term securities, mainly two-and three-year bonds, to mop up liquidity of a more structural nature.

[5] See IMF Country Report No 13/375 for a description of the investment plans on HPPs; their commercial viability and financing modalities; their impact on debt and growth; and their possible risks. See same report for a full debt sustainability analysis.

Key Interest Rates (in percent)[1]

	Jul-11	Jul-12	Jul-13	Jan-14	Apr-14 [2]
CBR	13.00	19.00	11.00	11.50	11.50
7-day interbank market	15.32	18.52	11.02	11.16	11.35
Deposit (shillings)	2.82	3.61	2.90	3.53	2.88
Lending (shillings)	21.72	26.88	23.15	21.82	21.87
91-day Treasury bill	13.09	16.74	9.37	8.37	9.87
182-day Treasury bill	13.47	16.38	10.68	10.66	11.33
364-day Treasury bill	13.30	14.93	11.70	10.74	11.53

Source: Bank of Uganda

1/ Interest rates are monthly averages.

2/ March data used when April not available.

18. **Foreign exchange intervention will continue to be guided by the objectives of maintaining reserve adequacy and containing excessive exchange rate volatility.** Given that foreign exchange flows—including those from aid—are volatile, the BoU is closely monitoring them to prevent undue effects on the economy. With international reserves already at a comfortable level, the BoU may be able to reduce the daily purchases of foreign exchange over time. Staff advised announcing early on to the markets the rationale for such reduction and reiterated the need to fully sterilize the purchases. The BoU confirmed that any other intervention will be limited to preventing undue exchange rate volatility.

B. Protecting Banking Sector Stability

19. **The BoU has strengthened supervisory practices in view of the recent increase in NPLs.** Through enforcement of provisioning requirements and revised risk management guidelines, the BoU is confident that banks will fare well despite the recent increase of bad loans in their porfolios. The BoU is also closely supervising bank restructuring of viable loans. Staff supported these efforts and encouraged continuous training of regulators and supervisors to oversee accuracy of loan classification and risk measurement. Implementation of the action plan agreed with the Financial Action Task Force is expected to help remedy AML/CFT deficiencies.

STRUCTURAL REFORMS

A. Public Financial Management (PFM)

20. **Progress on implementing PFM reforms has been strong, improving governance and transparency of budget execution (Box 3).** The Public Financial Management Bill (PFMB) reached an important milestone when it was added to parliament's order paper in May, making debate and passage likely within the next few months. The bill is expected to improve the budget process and credibility, stipulate the formulation of a charter of fiscal responsibility, and prepare the economy for efficient oil revenue management. The government intends to start working on regulations for the

bill and completion of the charter with a view to finalizing them by May 2015 (structural benchmark). Staff also recommended initiating as soon as possible—with TA from the IMF's FAD, East AFRITAC and the US Treasury—the operational and coordination work needed to complete the second phase of implementation of the treasury single account (TSA). Development partners seem open to the plan of moving their funds to the TSA system, and the authorities are to reassure them that all needed controls will be in place. The second phase is expected to be concluded by March 2015 (structural benchmark).

B. Central Bank Modernization

21. **A memorandum of understanding between the government and the BoU provides for periodic BoU recapitalization and streamlining of BoU's administrative expenses.** The central bank's capital build-up will take place in line with the current statutory requirements until amendments to the BoU Act allow for continuous capital adjustments in line with the level of monetary liabilities (proposed rescheduled structural benchmark). Upcoming IMF's MCM and LEG TA will help the authorities develop a plan to make this operational. Meanwhile, the BoU has committed to streamlining its non-monetary expenses in line with a redefined business plan. The amendments to the BoU Act, to be sent to parliament by April 2015, are also expected to improve other operational and institutional aspects needed for enhanced inflation targeting (proposed rescheduled structural benchmark).

22. **The BoU also intends to improve its forecasting capacity in support of monetary policy formulation**. With the use of an IMF's RES-supported enhanced Forecast and Policy Analysis System (FPAS), expected to incorporate the impact of fiscal and exchange rate policies on inflation, and the existing forecasting techniques and judgmental considerations, the BoU plans to upgrade its inflation forecast. The BoU is also planning to extend training and practical experience to a larger group of staff to improve its institutional capacity.

C. Regional Integration and the Business Environment

23. **Continuous progress toward EAC integration is expected to enhance the business climate.** In November 2013 Uganda signed the joint protocol setting out the process and convergence criteria for the EAC monetary union. Members are committed to fully implementing the customs union and common markets protocols by 2015. To this end, Uganda needs to streamline issuance of origin certificates, eliminate restrictions on imports of beef, and homogenize licensing and registration requirements. These and other actions, such as the planned infrastructure upgrades and cost reductions in trade across borders, should help improve the business climate and promote growth and job creation. The planned issuance of national identity cards is expected to facilitate movement of workers within the region and bring benefits to economic policymaking (proposed redefined structural benchmark). Policy harmonization toward macroeconomic convergence and management of natural resources is ongoing, with full fiscal policy harmonization expected by 2018. Uganda is making progress in addressing its fiscal risks, but challenges remain (Annex 1).

Box 3. Uganda: Public Financial Management Reform

The authorities—with technical support from development partners—have engaged in a comprehensive strategy to strengthen PFM at all levels of government. Since FY2011/12 considerable progress has been made on key areas, such as discussion of the PFM bill in parliament, extension of the Information Financial Management System (IFMS) to central government ministries, departments and agencies, and completion of the first phase of the Treasury Single Account (TSA). However, action is still required in important areas, such as drafting regulations for the PFM bill and completing phase two of the TSA.

Progress to date

A new PFM bill. A major pillar in the PFM reform strategy, the bill, in parliament since May 2012, improves all stages of the budgetary cycle and introduces revamped fiscal responsibility principles, better audit mechanisms, and an efficient oil revenue management system. The government has extensively discussed the bill with parliament, and is now confident of its imminent approval.

Upgraded payment and payroll systems. The revamped electronic IFMS allows the government to record and audit all central government revenues and expenditures, increasing the transparency and accountability of its financial operations. New links between systems in the Treasury, Uganda Revenue Administration, the BoU, and the other government institutions are helping increase payments efficiency. Salaries and pension payments of the central government are fully conducted through the Integrated Personnel and Payroll System (IPPS), a human resource management information system that allows for better control and transparency, resulting in improved efficiency and security of transactions.

Treasury Single Account (TSA). The first phase of the conversion to the TSA, completed in March 2014, included upgrading Oracle IFMS, training all accounting officers on its use, and closing nearly 400 bank accounts at the BoU. Under phase one, all spending agents are given quarterly cash allocations by the Cash Management Committee, and that amount of cash itself is moved to single subaccounts from the Uganda Consolidated Fund (UCF) (via the TSA). At the end of each day unspent cash is swept back into the central TSA account. While this system has improved efficiency, it still involves the movement of cash between accounts at the BoU which is unnecessary under a fully implemented TSA system.

Next steps in the reform process

Regulations for the PFM bill. To clarify definitions and responsibilities that may be diluted during parliament's review of the PFM bill, it is crucial that regulations are drafted soon after the bill passes. The government intends to formulate a charter of fiscal responsibility, and ensure that all future expenditures and revenues related to crude oil extraction and refinement are conducted through the budget, and that financial investments of oil wealth are held abroad and invested appropriately.

Second phase of TSA adoption. Before this phase can begin, the current system of cash rationing must be converted to a system of cash management, with revenues and expenditures made through the UCF. Spending agencies should be given full appropriation authority to spend their cash limits, but the actual cash should remain in the UCF so that the release of funds is controlled by the Treasury. The second phase of TSA adoption, expected to be completed by March 2015, consists of integrating revenues and expenditures associated with donor funds into the UCF, enabling more accurate and timely forecasts of cash flows.

PFM reform over the medium term. The government intends to roll out IFMS to all local governments and government agencies and to incorporate them into the TSA system. This process will involve costly network infrastructure upgrades and improved implementation capacity, but will generate clear efficiency gains.

STAFF APPRAISAL

24. **With low inflation and comfortable international reserves, Uganda is well placed to implement economic policies in support of broad-based growth.** Business plans and access to credit by highly leveraged households and corporations remain constrained by high interest rates and difficulties in the business environment. The strategy of tightening the fiscal stance and implementing the envisaged infrastructure projects is the right course of action to encourage private sector dynamism, as it should facilitate monetary easing and encourage credit expansion. Further progress on structural reforms should support confidence—in the context of an uncertain geo-political environment and strained relations with development partners.

25. **Preserving fiscal sustainability through credible action to strengthen revenue mobilization and streamline spending is critical to achieving the growth objective.** The recent revenue shortfall and unanticipated spending revealed the economy's vulnerability to fiscal shocks. Staff welcomes plans to strengthen revenue in FY2014/15 by removing key VAT and income tax exemptions and using excise taxes more efficiently. These plans are ambitious, and achievement will critically depend on ensuring the needed political backing to bring them to completion, and on carrying out strong enforcement and decisive tax administration efforts. Given the need to significantly raise the tax-to-GDP while also improving economic efficiency, staff encourages the authorities to develop a strategy to phase out the remaining tax holidays granted to several large industries. Timely action to adapt the expenditure pace to available revenues—including by resisting spending pressures—will be critical to limiting domestic borrowing to the programmed levels and avoiding further crowding out effects. The contingency reserve should be part of the budget and limit the need for undue supplementary budgets.

26. **Staff encourages the BoU to maintain a monetary policy stance that keeps inflation within the band of the inflation consultation clause.** Continuous refinements in the inflation targeting framework are likely to improve inflation forecasting and better guide the direction of monetary policy. Further monetary easing should be possible as soon as the fiscal tightening kicks in, but the BoU needs to be vigilant of evolving developments, notably weather and geo-political induced shocks and changing external flows, and adapt policies accordingly. Credibility of the BoU will be closely related to its success in keeping low and stable inflation and the efficacy of its signaling mechanisms, including on the rationale for intervention in the foreign exchange market. Financial supervision needs to continuously improve and focus on those institutions where the asset quality deterioration is most evident.

27. **Supported by the upcoming PFMB, stronger accounting systems, and a revamped strategy to monitor and reduce arrears, governance is set to improve.** Staff encourages the authorities to make full use of the upgraded payments and payroll systems and complete the establishment of the TSA to enhance fiduciary controls. The new PFMB will be a key component of this strategy as it will provide legal backing to sound management of revenues and improvements in the budget process. The use of a new methodology to manage arrears and unpaid bills—now fully incorporated in the PSI—should facilitate a gradual but steady reduction of the existing stock, and

regular publication should improve accountability. Issuance of national identity cards to all citizens will be another important mechanism to boost transparency of economic transactions.

28. **Over the medium-term the economy is set to benefit from the planned infrastructure investment, oil production and regional integration.** Efficient institutions and sound resource management are crucial in achieving success in these areas. Implementation of the hydropower projects should remain timely, consistent with fiscal and debt sustainability, and subject to transparent management and appropriate cost recovery. Ensuring full integration of future revenues into the medium-term budget framework, and taking early action to address fiscal risks in support of regional integration are key ingredients for the achievement of medium-term broad-based growth.

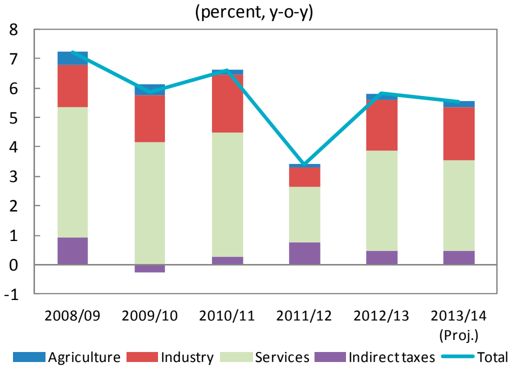
29. **Staff recommends completion of the second review of the PSI**. The attached LOI and MEFP outline policies for the next fiscal year (notably to redirect fiscal policy to support program objectives); and propose rescheduling of some structural benchmarks to take account of ongoing progress. Staff supports a waiver for the non-observance of the government net domestic financing target for end-December 2013 on the basis that the deviation was minor and corrective action has been taken. The authorities propose a new indicative target beginning end-June 2014 to limit the use of the government's petroleum and energy funds on key infrastructure projects (currently confined to HPPs) to the programmed levels and avoid any undue monetary impact.[6] The authorities also propose modifications to the end-June 2014 QACs on net domestic financing and net international reserves, which staff supports.

[6] The revised TMU redefines and measures arrears in line with the new understandings, and modifies the adjustors on government net domestic financing and NIR to provide flexibility (within 15 percent above projected levels) to the anticipated co-financing of HPPs. It also eliminates an adjustor on external debt service that is no longer useful, and redefines the adjustor on budget support loans and grants to exclude HIPC grants.

Figure 1. Uganda: Recent Economic Developments

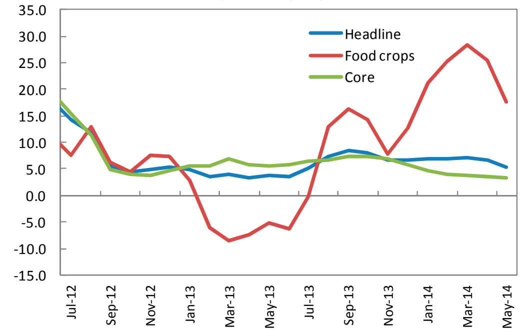
Economic growth is recovering, led by industry and services…

Contribution to GDP growth
(percent, y-o-y)



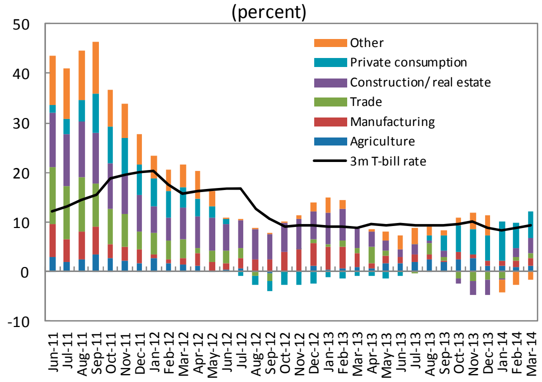
…in an environment of low and stable inflation despite volatile food prices.

Inflation Rate
(percent, y-o-y)



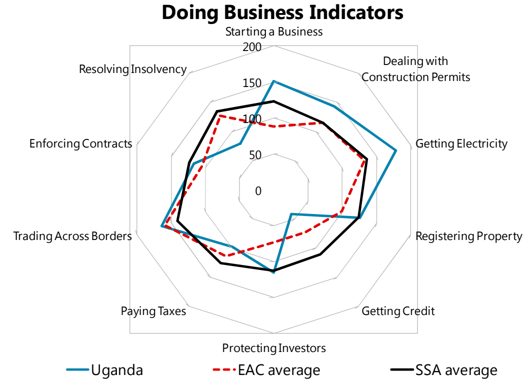
However, private sector credit growth remains subdued….

Contribution to Private Credit Growth
(percent)



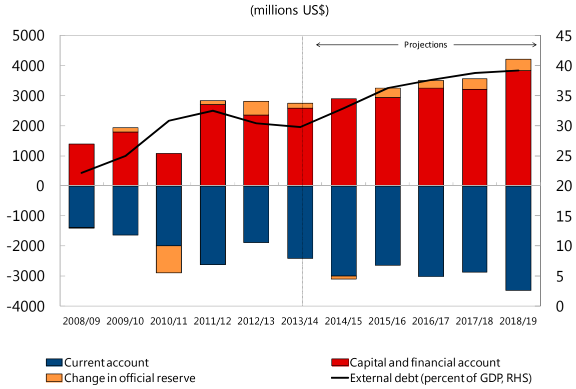
…and there is room for improvement in the business environment.

Doing Business Indicators



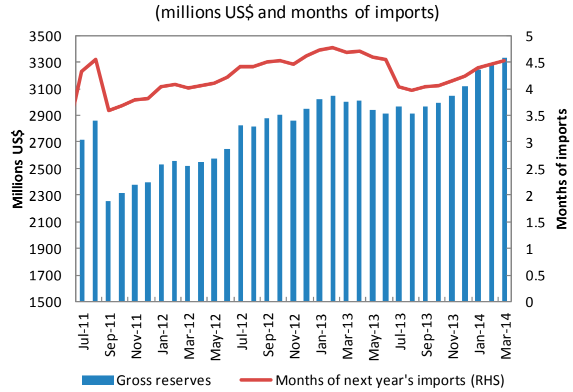
Robust investment flows are financing the current account deficit…

External Situation
(millions US$)



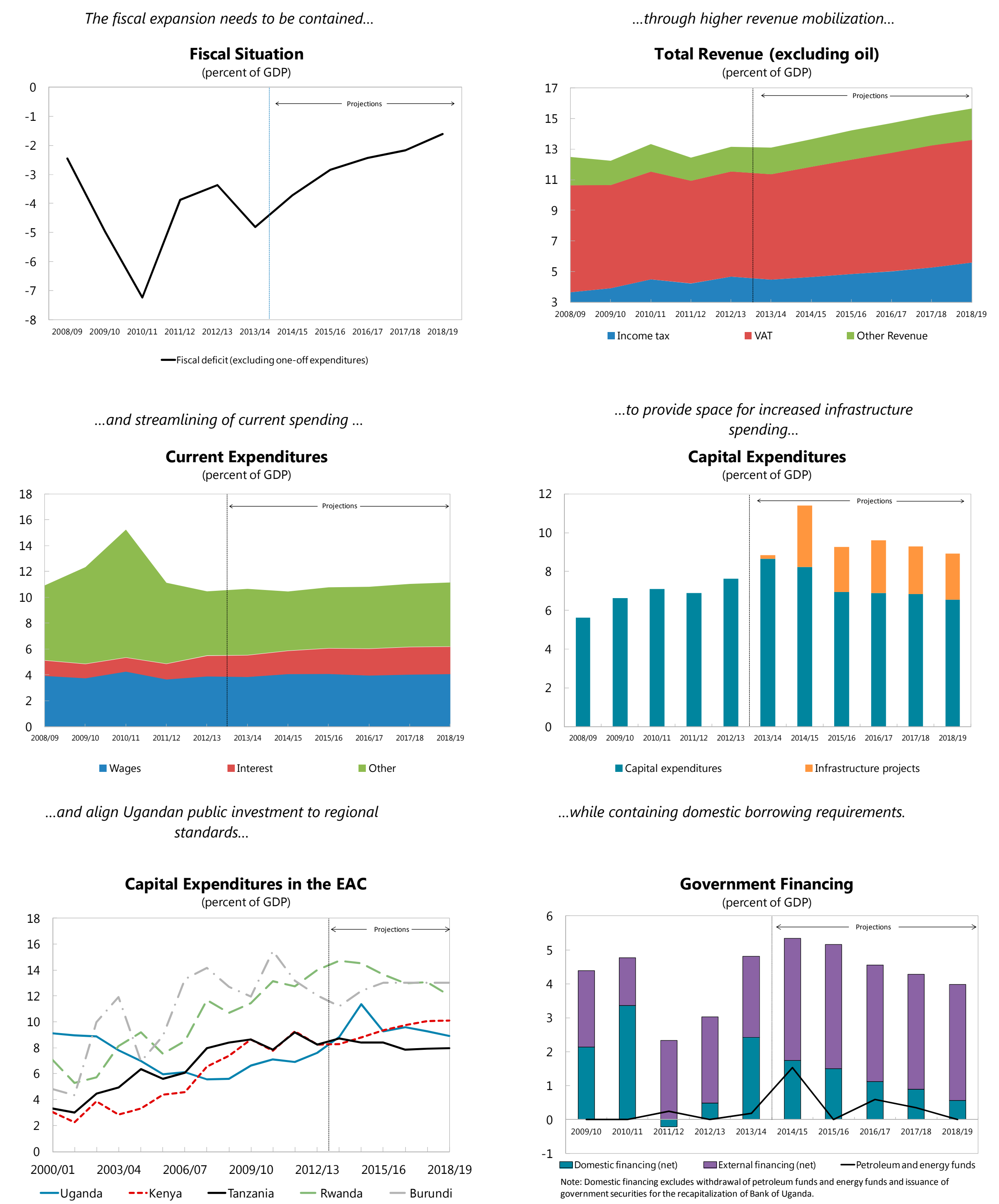
…and international reserves maintain adequate coverage.

International Reserve Buffers
(millions US$ and months of imports)



Sources: Bank of Uganda, World Bank and IMF staff calculations.

Figure 2. Uganda: Fiscal Developments and Outlook

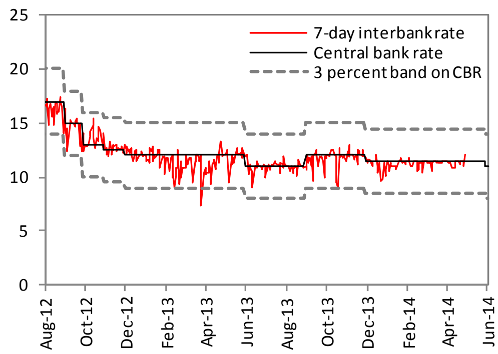


Sources: Bank of Uganda and IMF staff calculations.

Figure 3. Uganda: Monetary and Financial Sector Developments and Outlook

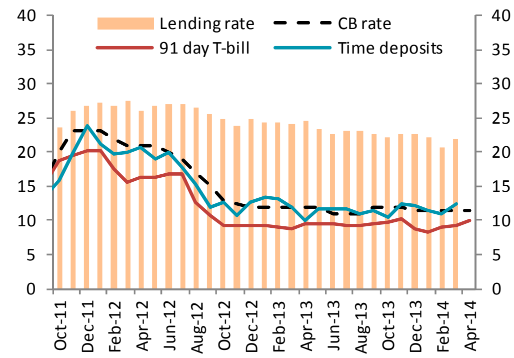
The Central Bank rate has a clear influence on interbank rates...

Central Bank and Interbank Rate
(percent)



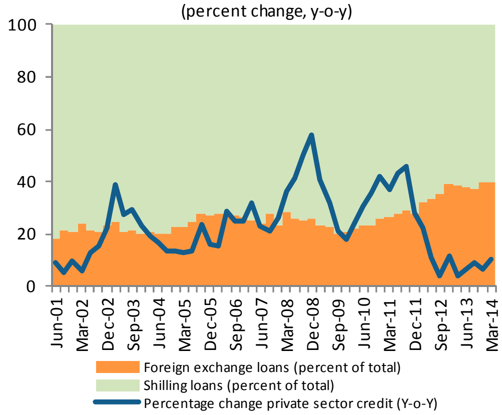
...but the spread between deposit and lending rates remains high.

Interest Rate Structure
(percent)



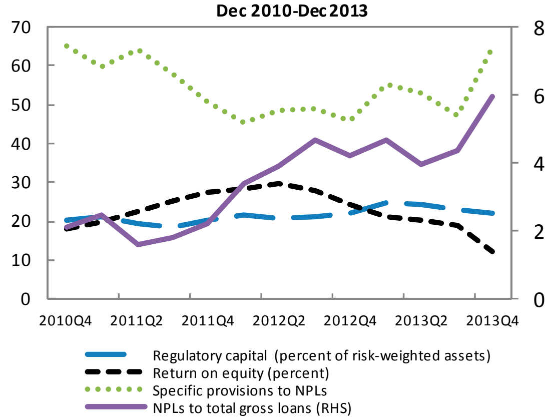
High lending rates have resulted in low credit growth...

Private Bank Credit Growth
(percent change, y-o-y)



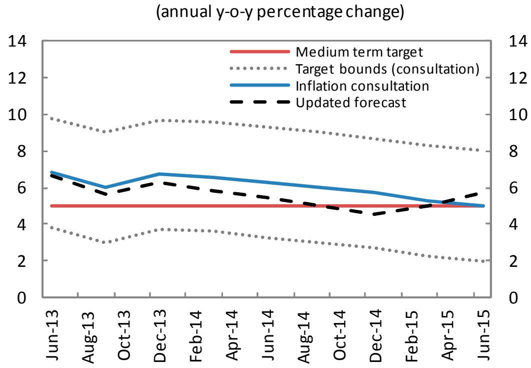
...and impaired the quality of bank assets and their profitability.

Selected Financial Sector Indicators, Dec 2010-Dec 2013



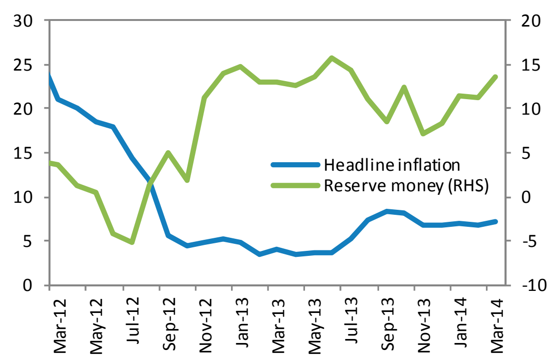
Core inflation forecasts are aligned to the medium-term target...

Core inflation forecast
(annual y-o-y percentage change)



...with no correlation between inflation and changes in reserve money.

Reserve Money and Inflation Growth
(percent change, y-o-y)



Sources: Bank of Uganda and IMF staff calculations.

Table 1. Uganda: Selected Economic and Financial Indicators, FY2010/11–2018/19[1]

	2010/11	2011/12	2012/13	2013/14		2014/15		2015/16	2016/17	2017/18	2018/19
			Est.	1st Rev	Proj.	1st Rev	Proj.	Proj.	Proj.	Proj.	Proj
GDP and prices (percent change)											
Real GDP	6.6	3.4	5.8	6.2	5.7	6.5	6.1	6.4	6.6	6.8	7.0
GDP Deflator	5.0	24.1	4.7	7.8	7.3	6.9	7.2	5.0	4.4	4.4	4.4
CPI (end of period)	15.7	18.0	3.6	7.6	6.0	6.3	6.4	5.2	5.1	5.0	5.0
CPI (average)	6.5	23.5	5.8	7.9	6.9	6.9	6.9	5.4	5.2	5.0	5.0
Core inflation (average)	6.3	24.6	6.6	6.9	5.4	5.7	5.7	5.3	5.2	5.0	5.0
Core inflation (end of period)	12.1	19.6	5.7	6.7	5.1	5.3	5.9	5.2	5.1	5.0	5.0
External sector (percent change)											
Terms of trade (based on all exports, deterioration -)	4.3	1.6	0.9	-3.7	-0.7	-3.3	-1.5	-0.3	-0.3	-0.1	0.1
Real effective exchange rate (depreciation –)	-0.9	4.5	5.4	...	...	...	...	...	...	...	...
Money and credit (percent change)											
Broad money (M3)	25.7	7.2	6.6	11.3	13.4	16.3	16.3	14.3	13.8	14.0	14.4
Private sector credit	43.6	11.5	6.4	15.4	10.6	14.4	14.7	14.3	14.6	13.3	13.0
Bank of Uganda's policy rate[2]	...	20.0	11.0	...	...	...	...	...	...	...	
Savings and investment gap (excluding grants, percent of GDP)	-13.1	-14.5	-9.1	-13.8	-10.0	-12.7	-11.6	-9.9	-10.4	-9.2	-10.0
Gross Domestic Savings	11.9	10.1	15.4	14.4	13.6	14.2	15.5	16.0	16.4	17.7	17.1
Domestic investment	25.0	24.6	24.5	28.1	23.6	26.9	27.1	25.8	26.8	26.9	27.1
Public	5.9	5.7	6.1	9.2	6.8	7.9	9.3	7.6	7.8	7.6	7.3
Private	19.1	18.8	18.4	19.0	16.8	19.1	17.8	18.3	18.9	19.3	19.8
External sector (percent of GDP)											
Current account balance (including grants)	-11.8	-13.3	-8.8	-13.4	-9.7	-12.4	-11.2	-9.6	-10.1	-8.9	-9.8
Current account balance (excluding grants)	-13.1	-14.5	-9.1	-13.8	-10.0	-12.7	-11.6	-9.9	-10.4	-9.2	-10.0
Public external debt (including IMF)	17.3	16.2	17.5	20.2	17.5	22.6	20.5	23.6	25.3	26.9	27.9
External debt-service ratio[3]	1.4	1.4	1.5	1.6	1.9	1.9	2.0	2.3	2.7	3.2	3.4
Government budget and debt (percent of GDP)											
Revenue	16.2	13.2	13.2	13.7	13.1	14.3	13.6	14.2	14.7	15.2	15.7
Grants	2.3	2.3	1.7	1.4	1.4	1.5	1.7	1.1	1.0	0.9	0.8
Total expenditure and net lending	22.8	18.5	18.9	22.2	19.5	21.0	22.6	20.7	21.2	20.9	20.5
Overall balance (including grants)	-4.3	-3.0	-4.1	-7.1	-5.0	-5.1	-7.2	-5.4	-5.5	-4.7	-4.1
Overall balance (excluding grants)	-6.6	-5.3	-5.8	-8.5	-6.4	-6.7	-8.9	-6.5	-6.5	-5.6	-4.9
Overall balance (excluding one-off spending)	-6.1	-3.9	-3.4	-3.6	-4.8	-3.0	-3.7	-2.8	-2.4	-2.2	-2.0
Net Domestic Financing	3.4	0.0	1.2	2.9	2.6	1.3	3.6	1.8	2.1	1.4	0.7
Public Domestic Debt	13.7	13.4	15.4	14.7	16.1	14.3	16.4	16.6	16.6	16.0	15.0
Memorandum items:											
Nominal GDP (Ush billions)	39,086	50,172	55,574	63,679	62,999	72,474	71,650	80,098	89,095	99,358	111,006
Nominal GDP (US$ millions)	16,822	19,620	21,448	...	...	...	...	...	...	...	...
Average exchange rate (Ush/US$)	2,323	2,557	2,591	...	...	...	...	...	...	...	...
End of period exchange rate (Ush/US$)	2,623	2,472	2,593	...	...	...	...	...	...	...	...
Gross foreign exchange reserves (US$ millions)	2,044	2,644	2,912	2,772	3,092	3,102	2,984	3,284	3,534	3,884	4,261
(months of next year's imports of goods and services)	3.2	4.2	4.6	3.5	4.2	3.6	4.0	4.1	4.3	4.2	4.2
Social and poverty indicators	Population: 34.1 million in 2012; GDP per capita of US$487 in 2011; Population below poverty line of 24.5 percent										

Sources: Ugandan authorities and IMF staff estimates and projections.

[1] Fiscal year runs from July 1 to June 30.

[2] The CBR was introduced following the start of Inflation Targeting Lite in July 2011. End of year CBR.

[3] Percent of exports of goods and nonfactor services.

Table 2a. Uganda: Fiscal Operations of the Central Government, FY2010/11–2018/19[1]
(Billions of Ugandan Shillings)

	2010/11	2011/12	2012/13	2013/14		2014/15		2015/16	2016/17	2017/18	2018/19
			Est.	1st Rev	Proj.	1st Rev	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	7,208	7,771	8,245	9,608	9,130	11,455	10,999	12,251	13,979	16,023	18,285
Revenue	6,317	6,634	7,309	8,727	8,252	10,343	9,777	11,399	13,102	15,120	17,385
Tax	4,958	5,983	7,005	8,314	7,914	9,866	9,372	10,905	12,553	14,500	16,674
International trade taxes	455	503	599	731	765	862	893	1,049	1,193	1,347	1,581
Income taxes	1,750	2,112	2,588	3,053	2,809	3,666	3,318	3,866	4,457	5,217	6,192
Excises	1,186	1,446	1,466	1,746	1,739	2,046	2,094	2,427	2,836	3,211	3,543
Value-added tax	1,567	1,921	2,353	2,784	2,600	3,292	3,066	3,563	4,067	4,724	5,358
Nontax	251	259	304	413	339	477	405	493	549	621	711
Oil revenue	1,108	392	0	0	0	0	0	0	0	0	0
Grants	891	1,137	936	881	877	1,112	1,222	853	878	903	900
Budget support[2]	515	581	199	206	218	227	257	248	255	259	258
Project grants	375	556	738	675	660	886	964	604	622	644	642
Expenditures and net lending[3]	8,900	9,281	10,523	14,132	12,281	15,183	16,177	16,580	18,915	20,724	22,809
Current expenditures	5,963	5,585	5,813	6,510	6,713	7,668	7,491	8,631	9,635	10,966	12,382
Wages and salaries	1,664	1,832	2,160	2,440	2,422	2,890	2,913	3,266	3,525	4,004	4,521
Interest payments	424	603	890	1,047	1,055	1,156	1,291	1,587	1,846	2,119	2,354
Other current	3,875	3,150	2,763	3,022	3,236	3,622	3,287	3,778	4,265	4,843	5,508
Development expenditures	2,774	3,458	4,237	5,348	5,448	5,835	5,894	5,564	6,129	6,779	7,262
Externally-financed projects	1,042	1,701	2,163	2,468	2,412	2,668	2,664	1,966	2,108	2,266	2,193
Government of Uganda investment	1,732	1,756	2,074	2,880	3,036	3,167	3,230	3,598	4,021	4,513	5,068
Net lending and investment[4]	-30	-39	409	2,225	120	1,530	2,512	2,055	2,771	2,549	2,735
Of which: HPP projects		0	0	2,225	120	1,205	2,262	1,855	2,421	2,449	2,635
Of which: Bank of Uganda recapitalization		0	410	0	0	325	250	200	350	100	100
Other spending	194	278	63	50	0	150	280	330	380	430	430
Clearance of domestic arrears	194	278	63	50	0	0	80	80	80	80	80
Contingency	0	0	0	0	0	150	200	250	300	350	350
Overall balance	-1,692	-1,510	-2,277	-4,524	-3,152	-3,728	-5,178	-4,329	-4,936	-4,700	-4,524
Overall balance, excl. one-off spending	-2,377	-1,942	-1,868	-2,299	-3,032	-2,198	-2,666	-2,274	-2,165	-2,152	-2,171
Financing	1,863	1,192	2,096	4,524	3,152	3,728	5,178	4,329	4,936	4,700	4,524
External financing (net)	546	1,172	1,418	2,661	1,505	2,811	2,578	2,925	3,061	3,357	3,790
Disbursement	707	1,372	1,628	2,916	1,752	3,092	2,859	3,217	3,381	3,727	4,186
Budget support	229	124	324	0	0	104	0	0	0	0	0
Concessional project loans	478	1,056	1,303	1,793	1,496	1,782	1,699	1,362	1,484	1,622	1,552
Non-concessional borrowing	0	192	0	1,123	256	1,205	1,160	1,855	1,897	2,104	2,635
Amortization (–)	-152	-191	-200	-224	-217	-280	-275	-292	-323	-373	-397
Exceptional financing	-8	-10	-10	-31	-30	0	-7	0	3	3	0
Domestic financing (net)	1,316	20	678	1,862	1,647	917	2,600	1,404	1,875	1,344	735
Bank financing	622	-1,242	496	1,238	881	340	1,550	535	1,269	777	366
Bank of Uganda[5]	270	-1,182	-77	822	-72	14	1,214	200	875	445	100
Of which: Petroleum fund withdrawals	0	0	0	327	0	0	448	0	525	345	0
Of which: Energy fund withdrawals	0	122	0	783	120	0	654	0	0	0	0
Of which: Government Securities[4]	0	0	410	0	0	325	250	200	350	100	100
Commercial banks	351	-60	573	416	953	326	336	335	394	333	266
Nonbank financing	694	1,262	182	624	766	576	1,050	868	605	567	369
Errors and omissions/financing gap (- is gap, + is surplus)	170	-318	-181	0	0	0	0	0	0	0	0
Memorandum Items:											
Petroleum revenues (Ush billions)											
Inflows (including interest)	1,108	405	16	16	16	14	14	14	14	9	6
Valuation adjustment	52	20	71	32	-17	83	109	67	43	27	1
Withdrawals	0	0	0	327	0	0	448	0	525	345	0
Stock at end period	1,128	1,553	1,640	1,362	1,639	1,458	1,314	1,395	927	619	626
Public domestic debt	5,356	6,705	8,534	9,387	10,170	10,397	11,783	13,311	14,794	15,938	16,673

Sources: Ugandan authorities and IMF staff estimates and projections.

[1] Fiscal year runs from July 1 to June 30.

[2] Include mainly HIPC-related grants from FY 2013/14 onwards.

[3] Expenditure categories in FY2013/14 expenditure categories include clearance of arrears totaling Shs. 53.5 billion in the following categories: Wages and salaries (Sh. 46 billion), other current (Shs. 2.7 billion) and Government of Uganda investment (Shs. 4.8 billion). include clearance of arrears totaling Shs. 53.5 billion in the following categories: Wages and salaries (Sh. 46 billion), other current (Shs. 2.7 billion) and Government of Uganda investment (Shs. 4.8 billion).

[4] Reflects actual and projected issuances for the recapitalization of Bank of Uganda.

[5] Net financing from the Bank of Uganda includes resources freed by MDRI relief.

Table 2b. Uganda: Fiscal Operations of the Central Government, FY2010/11–2018/19[1]
(Percent of GDP)

	2010/11	2011/12	2012/13	2013/14		2014/15		2015/16	2016/17	2017/18	2018/19
			Est.	1st Rev	Proj.	1st Rev	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	18.4	15.5	14.8	15.1	14.5	15.8	15.4	15.3	15.7	16.1	16.5
Revenue	16.2	13.2	13.2	13.7	13.1	14.3	13.6	14.2	14.7	15.2	15.7
Tax	12.7	11.9	12.6	13.1	12.6	13.6	13.1	13.6	14.1	14.6	15.0
International trade taxes	1.2	1.0	1.1	1.1	1.2	1.2	1.2	1.3	1.3	1.4	1.4
Income taxes	4.5	4.2	4.7	4.8	4.5	5.1	4.6	4.8	5.0	5.3	5.6
Excises	3.0	2.9	2.6	2.7	2.8	2.8	2.9	3.0	3.2	3.2	3.2
Value-added tax	4.0	3.8	4.2	4.4	4.1	4.5	4.3	4.4	4.6	4.8	4.8
Nontax	0.6	0.5	0.5	0.6	0.5	0.7	0.6	0.6	0.6	0.6	0.6
Oil revenue	2.8	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	2.3	2.3	1.7	1.4	1.4	1.5	1.7	1.1	1.0	0.9	0.8
Budget support[2]	1.3	1.2	0.4	0.3	0.3	0.3	0.4	0.3	0.3	0.3	0.2
Project grants	1.0	1.1	1.3	1.1	1.0	1.2	1.3	0.8	0.7	0.6	0.6
Expenditures and net lending[3]	22.8	18.5	18.9	22.2	19.5	21.0	22.6	20.7	21.2	20.9	20.5
Current expenditures	15.3	11.1	10.5	10.2	10.7	10.6	10.5	10.8	10.8	11.0	11.2
Wages and salaries	4.3	3.7	3.9	3.8	3.8	4.0	4.1	4.1	4.0	4.0	4.1
Interest payments	1.1	1.2	1.6	1.6	1.7	1.6	1.8	2.0	2.1	2.1	2.1
Other current	9.9	6.3	5.0	4.7	5.1	5.0	4.6	4.7	4.8	4.9	5.0
Development expenditures	7.1	6.9	7.6	8.4	8.6	8.1	8.2	6.9	6.9	6.8	6.5
Externally-financed projects	2.7	3.4	3.9	3.9	3.8	3.7	3.7	2.5	2.4	2.3	2.0
Government of Uganda investment	4.4	3.5	3.7	4.5	4.8	4.4	4.5	4.5	4.5	4.5	4.6
Net lending and investment	-0.1	-0.1	0.7	3.5	0.2	2.1	3.5	2.6	3.1	2.6	2.5
Of which: HPP projects		0.0	0.0	3.5	0.2	1.7	3.2	2.3	2.7	2.5	2.4
Of which: Bank of Uganda recapitalization[4]		0.0	0.7	0.0	0.0	0.4	0.3	0.2	0.4	0.1	0.1
Other spending	0.5	0.6	0.1	0.1	0.0	0.2	0.4	0.4	0.4	0.4	0.4
Clearance of domestic arrears	0.5	0.6	0.1	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Contingency	0.0	0.0	0.0	0.0	0.0	0.2	0.3	0.3	0.3	0.4	0.3
Overall balance	-4.3	-3.0	-4.1	-7.1	-5.0	-5.1	-7.2	-5.4	-5.5	-4.7	-4.1
Overall balance, excl. one-off spending	-6.1	-3.9	-3.4	-3.6	-4.8	-3.0	-3.7	-2.8	-2.4	-2.2	-2.0
Financing	4.8	2.4	3.8	7.1	5.0	5.1	7.2	5.4	5.5	4.7	4.1
External financing (net)	1.4	2.3	2.6	4.2	2.4	3.9	3.6	3.7	3.4	3.4	3.4
Disbursement	1.8	2.7	2.9	4.6	2.8	4.3	4.0	4.0	3.8	3.8	3.8
Budget support	0.6	0.2	0.6	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Concessional project loans	1.2	2.1	2.3	2.8	2.4	2.5	2.4	1.7	1.7	1.6	1.4
Non-concessional borrowing	0.0	0.4	0.0	1.8	0.4	1.7	1.6	2.3	2.1	2.1	2.4
Amortization (–)	-0.4	-0.4	-0.4	-0.4	-0.3	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
Exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing (net)	3.4	0.0	1.2	2.9	2.6	1.3	3.6	1.8	2.1	1.4	0.7
Bank financing	1.6	-2.5	0.9	1.9	1.4	0.5	2.2	0.7	1.4	0.8	0.3
Bank of Uganda[5]	0.7	-2.4	-0.1	1.3	-0.1	0.0	1.7	0.2	1.0	0.4	0.1
Of which: Petroleum fund withdrawals	0.0	0.0	0.0	0.5	0.0	0.0	0.6	0.0	0.6	0.3	0.0
Of which: Energy fund withdrawals	0.0	0.2	0.0	1.2	0.2	0.0	0.9	0.0	0.0	0.0	0.0
Of which: Government Securities[4]	0.0	0.0	0.7	0.0	0.0	0.4	0.3	0.2	0.4	0.1	0.1
Commercial banks	0.9	-0.1	1.0	0.7	1.5	0.4	0.5	0.4	0.4	0.3	0.2
Nonbank financing	1.8	2.5	0.3	1.0	1.2	0.8	1.5	1.1	0.7	0.6	0.3
Errors and omissions/financing gap (- is gap, + is surplus)	0.4	-0.6	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items:											
Petroleum revenues (Ush billions)											
Inflows (including interest)	2.8	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation adjustment	0.1	0.0	0.1	0.1	0.0	0.1	0.2	0.1	0.0	0.0	0.0
Withdrawals	0.0	0.0	0.0	0.5	0.0	0.0	0.6	0.0	0.6	0.3	0.0
Stock at end period	2.9	3.1	3.0	2.1	2.6	2.0	1.8	1.7	1.0	0.6	0.6
Public domestic debt	13.7	13.4	15.4	14.7	16.1	14.3	16.4	16.6	16.6	16.0	15.0

Sources: Ugandan authorities and IMF staff estimates and projections.

[1] Fiscal year runs from July 1 to June 30.

[2] Include mainly HIPC-related grants from FY 2013/14 onwards.

[3] Expenditure categories in FY2013/14 expenditure categories include clearance of arrears totaling Shs. 53.5 billion in the following categories: Wages and salaries (Sh. 46 billion), other current (Shs. 2.7 billion) and Government of Uganda investment (Shs. 4.8 billion). include clearance of arrears totaling Shs. 53.5 billion in the following categories: Wages and salaries (Sh. 46 billion), other current (Shs. 2.7 billion) and Government of Uganda investment (Shs. 4.8 billion).

[4] Reflects actual and projected issuances for the recapitalization of Bank of Uganda.

[5] Net financing from the Bank of Uganda includes resources freed by MDRI relief.

Table 2c: Uganda: Quarterly Fiscal Operations of the Central Government, 2013/14–2014/15[1]
(Billions of Ugandan Shillings)

	2013/14					2014/15				
	Q1 Proj.	Q2 Proj.	Q3 Proj.	Q4 Proj.	Annual Proj.	Q1 Proj.	Q2 Proj.	Q3 Proj.	Q4 Proj.	Annual Proj.
Total revenue and grants	1,971	2,422	2,089	2,647	9,130	2,406	2,970	2,606	3,017	10,999
Revenue	1,860	2,064	1,999	2,329	8,252	2,174	2,451	2,412	2,739	9,777
Tax	1,778	1,987	1,914	2,234	7,914	2,078	2,344	2,314	2,636	9,372
International trade taxes	184	199	172	210	765	212	216	211	255	893
Income taxes	540	762	626	882	2,809	660	874	750	1,034	3,318
Excises	428	411	458	443	1,739	490	512	569	524	2,094
Value-added tax	626	616	658	700	2,600	716	742	785	823	3,066
Nontax	82	77	85	95	339	97	107	98	104	405
Oil revenue	0	0	0	0	0	0	0	0	0	0
Grants	111	358	90	318	877	232	519	193	277	1,222
Budget support[2]	45	74	45	54	218	67	80	72	38	257
Project grants	66	284	46	264	660	165	439	121	239	964
Expenditures and net lending	2,690	2,989	2,750	3,853	12,281	4,475	4,263	3,616	3,823	16,177
Current expenditures	1,581	1,689	1,726	1,717	6,713	1,688	1,905	1,988	1,911	7,491
Wages and salaries	615	592	641	574	2,422	697	724	735	758	2,913
Interest payments	260	260	287	248	1,055	305	331	337	318	1,291
Other current	706	837	798	895	3,236	686	849	916	835	3,287
Development expenditures	1,108	1,300	1,025	2,015	5,448	1,332	1,702	1,223	1,636	5,894
Externally-financed projects	344	545	365	1,157	2,412	550	857	475	781	2,664
Government of Uganda investment	764	755	659	858	3,036	782	845	748	856	3,230
Net lending and investment	0	0	0	120	120	1,355	526	380	251	2,512
Other spending	0	0	0	0	0	99	131	25	25	280
Overall balance	-719	-567	-661	-1,205	-3,152	-2,068	-1,293	-1,010	-806	-5,178
Overall balance, excl. one-off spending	-719	-567	-661	-1,085	-3,032	-713	-768	-630	-555	-2,666
Financing	719	567	661	1,205	3,152	2,068	1,294	1,010	806	5,178
External financing (net)	155	278	399	672	1,505	530	637	664	747	2,578
Disbursement	210	350	462	730	1,752	639	694	734	793	2,859
Of which: Budget support	0	0	0	0	0	0	0	0	0	0
Amortization (–)	-55	-72	-57	-33	-217	-106	-58	-66	-45	-275
Exceptional financing	0	0	-6	-24	-30	-3	0	-4	0	-7
Domestic financing (net)	564	288	262	533	1,647	1,539	657	346	58	2,600
Bank financing	291	177	-37	449	881	1,314	447	172	-383	1,550
Bank of Uganda	43	-43	-337	264	-72	1,102	250	0	-138	1,214
Commercial banks	248	220	300	185	953	212	197	172	-245	336
Nonbank financing	273	111	299	84	766	225	210	174	441	1,050
Errors and omissions/financing gap (- is gap, + is surplus)	0	0	0	0	0	0	0	0	0	0

Sources: Ugandan authorities and IMF staff estimates and projections.

[1] Fiscal year runs from July 1 to June 30.

[2] Include mainly HIPC-related grants from FY 2013/14 onwards.

Table 3. Uganda: Monetary Accounts, FY2010/11–2018/19[1]
(Billions of Ugandan Shillings unless otherwise indicated)

	2010/11	2011/12	2012/13	2013/14		2014/15		2015/16	2016/17	2017/18	2018/19
			Est.	1st Rev	Proj.	1st Rev	Proj.	Proj.	Proj.	Proj.	Proj.
				Depository Corporations Survey[2]							
Net foreign assets	6,669	7,901	8,427	7,907	8,357	9,475	8,211	9,354	9,867	10,854	12,502
Bank of Uganda	6,177	6,845	8,305	7,388	8,852	8,853	8,637	9,803	10,385	11,396	12,776
Commercial banks	491	1,056	122	519	-494	622	-426	-448	-518	-542	-274
Net domestic assets	3,857	3,379	3,600	5,500	5,294	6,112	7,660	8,791	10,781	12,680	14,430
Claims on public sector (net)[3]	772	-496	-17	1,245	877	1,595	2,427	2,962	4,232	5,009	5,375
Claims on central government (net)	692	-569	-105	1,166	788	1,516	2,338	2,874	4,143	4,920	5,286
Claims on the private sector	6,756	7,532	8,011	9,240	8,858	10,570	10,160	11,615	13,315	15,085	17,049
Other items (net)[4,5]	-3,671	-3,657	-4,394	-4,980	-4,436	-6,048	-4,922	-5,782	-6,761	-7,409	-7,989
Money and quasi-money (M3)	10,542	11,296	12,047	13,412	13,657	15,593	15,876	18,150	20,653	23,539	26,937
Broad money (M2)	8,056	7,721	8,932	9,602	9,780	11,195	11,401	13,006	14,847	17,359	20,389
Foreign exchange deposits	2,486	3,575	3,115	3,810	3,877	4,397	4,475	5,144	5,805	6,180	6,548
					Bank of Uganda						
Net foreign assets	6,177	6,845	8,305	7,388	8,852	8,853	8,637	9,803	10,385	11,396	12,776
Net domestic assets	-3,209	-3,996	-4,980	-3,255	-5,057	-4,056	-4,284	-4,833	-4,737	-4,968	-5,431
Claims on public sector (net)[3]	-1,561	-2,749	-2,858	-2,003	-2,931	-1,989	-1,717	-1,517	-642	-198	-98
Claims on central government (net)	-1,561	-2,750	-2,858	-2,003	-2,931	-1,989	-1,717	-1,517	-642	-198	-98
Claims on commercial banks	225	87	-438	213	11	267	114	-149	-223	-530	-800
Other items (net)[4,5]	-1,883	-1,339	-1,688	-1,471	-2,142	-2,339	-2,685	-3,171	-3,877	-4,246	-4,538
Base money	2,968	2,849	3,325	4,133	3,795	4,798	4,353	4,970	5,647	6,428	7,346
Currency in circulation	2,190	2,204	2,453	2,697	2,722	3,038	3,065	3,487	3,980	4,653	5,466
Commercial bank deposits	778	644	872	1,436	1,073	1,759	1,288	1,483	1,667	1,775	1,880
					Other Depository Corporations						
Net foreign assets	491	1,056	122	519	-494	622	-426	-448	-518	-542	-274
Net domestic assets	8,163	8,301	9,784	10,582	11,807	12,388	13,684	15,622	17,772	20,107	22,544
o/w Claims on central government (net)	2,228	2,168	2,753	3,169	3,719	3,505	4,056	4,391	4,785	5,118	5,383
o/w Claims on private sector	6,720	7,471	7,964	9,191	8,812	10,521	10,114	11,569	13,269	15,039	17,003
Deposit liabilities to the non-bank public	8,654	9,357	9,906	11,100	11,313	13,010	13,257	15,173	17,254	19,565	22,270
Shilling deposits	6,168	5,781	6,791	7,291	7,435	8,612	8,782	10,029	11,449	13,385	15,722
Foreign exchange accounts	2,486	3,575	3,115	3,810	3,877	4,397	4,475	5,144	5,805	6,180	6,548
Memorandum items:											
(Annual percentage change)											
Base money	21.9	-4.0	16.7	16.7	14.1	16.1	14.7	14.2	13.6	13.8	14.3
M3	25.7	7.2	6.6	11.3	13.4	16.3	16.3	14.3	13.8	14.0	14.4
Credit to the private sector	43.6	11.5	6.4	15.4	10.6	14.4	14.7	14.3	14.6	13.3	13.0
Memorandum items:											
Base money-to-GDP ratio (percent)	7.6	5.7	6.0	6.5	6.0	6.6	6.1	6.2	6.3	6.5	6.6
M3-to-GDP ratio (percent)	27.0	22.5	21.7	21.1	21.7	21.5	22.2	22.7	23.2	23.7	24.3
Base money multiplier (M2/base money)	2.7	2.7	2.7	2.3	2.6	2.3	2.6	2.6	2.6	2.7	2.8
Credit to the private sector (percent of GDP)	17.3	15.0	14.4	14.5	14.1	14.6	14.2	14.5	14.9	15.2	15.4
Gross reserves of BOU (US$ millions)	2,044	2,644	2,912	2,772	3,092	3,102	2,984	3,284	3,534	3,884	4,261
Velocity (M3)	3.7	4.4	4.6	4.7	4.6	4.6	4.5	4.4	4.3	4.2	4.1
Exchange rate (Ush/US$, eop)	2,623	2,472	2,593	…	…	…	…	…	…	…	…

Sources: Uganda authorities and IMF staff estimates and projections.

[1] Fiscal year runs from July 1 to June 30.

[2] Starting on June 2013, the Bank of Uganda expanded the reporting coverage from Monetary Survey to Depository Corporations Survey.

[3] The public sector includes the central government, public enterprises, and local governments.

[4] Including valuation effects and the Bank of Uganda's claims on the private sector.

[5] Reflects actual and projected issuances for the recapitalization of Bank of Uganda.

Table 4. Uganda: Balance of Payments, FY2010/11–2018/19[1]
(Millions of US Dollars unless otherwise indicated)

	2010/11	2011/12	2012/13	2013/14		2014/15		2015/16	2016/17	2017/18	2018/19
			Est.	1st Rev	Proj.	1st Rev	Proj.	Proj.	Proj.	Proj.	Proj.
Current account	-1,984	-2,611	-1,879	-3,292	-2,396	-3,284	-2,998	-2,646	-3,004	-2,873	-3,466
Trade balance	-2,383	-2,604	-2,087	-2,765	-2,368	-2,834	-2,742	-2,592	-2,700	-2,544	-2,566
Exports, f.o.b.	2,298	2,660	2,955	3,132	2,758	3,330	3,099	3,330	3,558	3,814	4,312
Of which: coffee	371	444	423	388	404	356	415	432	435	444	461
Imports, f.o.b.	-4,680	-5,264	-5,041	-5,897	-5,126	-6,163	-5,841	-5,923	-6,259	-6,358	-6,877
Of which: oil	-679	-947	-1,028	-1,094	-993	-1,175	-1,060	-1,141	-1,226	-1,316	-1,414
Of which: government, infrastructure related	-173	-304	-359	-601	-464	-556	-748	-518	-601	-457	-471
Services (net)	-691	-437	-353	-811	-357	-790	-617	-400	-575	-553	-546
Income (net)	-341	-808	-721	-1,051	-753	-1,085	-811	-873	-1,056	-1,186	-1,891
Of which: interest on public debt	-36	-35	-39	-68	-53	-76	-69	-99	-130	-164	-203
Transfers	1,430	1,238	1,282	1,336	1,082	1,425	1,172	1,220	1,327	1,410	1,537
Private transfers	756	838	1,203	1,256	996	1,342	1,076	1,134	1,242	1,326	1,455
Of which: workers' remittances (inflows)	751	792	1,059	1,110	879	1,189	950	1,011	1,113	1,184	1,300
Official transfers	675	400	79	79	86	83	96	86	86	84	82
Of which: budget support (including HIPC)	225	224	71	79	86	83	96	86	86	84	82
capital gains tax	449	176	7	0	0	0	0	0	0	0	0
Capital and financial account	1,081	2,722	2,350	3,144	2,579	3,613	2,895	2,946	3,253	3,222	3,842
Capital account	160	194	330	259	259	323	359	209	209	209	204
Of which: project grants	160	194	330	259	259	323	359	209	209	209	204
Financial account	921	2,528	2,020	2,885	2,319	3,290	2,536	2,737	3,045	3,013	3,638
Foreign direct investment	719	1,398	1,009	1,066	980	1,484	1,390	1,651	2,085	2,172	1,636
Portfolio investment	-29	270	29	0	140	50	50	50	70	197	214
Other investment	230	860	982	1,819	1,199	1,755	1,096	1,036	890	644	1,787
Of which:											
Public sector (net)	-211	745	534	1,209	604	1,026	1,133	1,057	1,024	1,086	1,207
SDR allocation	0	0	0	0	0	0	0	0	0	0	0
Build-up (-)/drawdown (+) of petroleum fund	-449	273	-7	171	0	0	171	48	0	0	0
Loan disbursements	304	546	617	1,121	689	1,129	1,064	1,110	1,133	1,207	1,333
Project support (loans)	206	396	617	689	588	651	632	470	497	525	494
Budget support (loans)	98	45	0	0	0	38	0	0	0	0	0
Non-concessional borrowing	0	105	0	432	101	440	432	640	635	681	839
Amortization due	-66	-75	-76	-83	-86	-102	-102	-101	-108	-121	-126
Commercial banks (net)	66	-240	380	21	234	-23	-37	3	18	3	-87
Other private (net)	375	625	68	589	362	753	0	-24	-152	-445	668
Errors and omissions	306	648	184	0	0	0	0	0	0	0	0
Overall balance	-598	759	654	-147	183	329	-103	300	249	349	377
Financing	598	-759	-654	147	-183	-329	103	-300	-249	-349	-377
Of which:											
Central bank net reserves (increase = –)	601	-755	-650	142	-178	-329	109	-300	-250	-350	-377
Of which: SDR allocation	0	0	0	0	0	0	0	0	0	0	0
Use of Fund credit	-2	-2	-2	-2	-2	-1	-1	0	0	0	0
Memorandum items:											
Gross offical reserves	2,044	2,644	2,912	2,772	3,092	3,102	2,984	3,284	3,534	3,884	4,261
Months of imports of goods and services	3.2	4.2	4.6	3.5	4.2	3.6	4.0	4.1	4.3	4.2	4.2
Net donor support	584	746	900	889	798	917	913	564	554	534	0.0
Of which: Budget support (loans and grants)	324	270	71	79	86	121	96	86	86	84	82.1
Project support (loans and grants)	366	590	947	949	848	974	991	678	706	734	698
Current account balance (percent of GDP)	-11.8	-13.3	-8.8	-13.4	-9.7	-12.4	-11.2	-9.6	-10.1	-8.9	-9.8
Current account balance (excluding grants)	-13.1	-14.5	-9.1	-13.8	-10.0	-12.7	-11.6	-9.9	-10.4	-9.2	-10.0
Trade balance (percent of GDP)	-14.2	-13.3	-9.7	-11.3	-9.6	-10.7	-10.3	-9.4	-9.0	-7.9	-7.3
Exports (percent of GDP)	13.7	13.6	13.8	12.8	11.1	12.6	11.6	12.1	11.9	11.9	12.2
Imports (percent of GDP)	27.8	26.8	23.5	24.1	20.7	23.3	21.9	21.4	21.0	19.8	19.5

Sources: Ugandan authorities and IMF staff estimates and projections.

[1] Fiscal year runs from July 1 to June 30.

Table 5. Uganda: Banking Sector Indicators, March 2010–December 2013
(In percent)

	2010				2011				2012				2013			
	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13
Capital adequacy																
Regulatory capital to risk-weighted assets	22.7	21.7	21.2	20.2	21.2	19.3	18.3	20.3	21.8	20.7	20.9	21.9	24.5	24.3	23.1	22.1
Regulatory tier 1 capital to risk-weighted assets	19.9	19.2	18.8	17.5	18.9	17.3	16.2	17.9	19.0	18.3	18.5	18.8	21.4	21.2	20.3	19.1
Asset quality																
NPLs to total gross loans	3.7	3.3	2.8	2.1	2.5	1.6	1.8	2.2	3.4	3.9	4.7	4.2	4.7	4.0	4.4	6.0
NPLs to total deposits	2.5	2.1	1.8	1.4	1.7	1.1	1.4	1.7	2.6	2.9	3.4	3.1	3.5	2.9	3.2	4.3
Specific provisions to NPLs	65.4	58.9	70.6	65.0	59.7	64.4	58.1	51.0	45.2	48.7	49.0	45.9	55.1	53.1	47.3	64.8
Earning assets to total assets	82.4	74.9	76.7	77.1	73.6	74.8	74.3	74.0	74.7	72.0	71.9	71.3	69.6	70.0	70.7	69.6
Large exposures to gross loans	41.0	35.4	35.5	35.7	38.6	41.7	38.3	34.6	33.7	34.6	34.6	34.6	34.8	36.0	35.4	37.9
Large exposures to total capital	123.9	112.8	116.1	124.4	129.8	156.2	145.4	120.8	109.4	111.5	104.2	104.7	95.4	103.4	102.2	113.6
Earnings and profitability																
Return on assets	2.4	2.3	2.4	2.7	2.9	3.1	3.6	4.0	4.4	4.4	4.3	3.9	3.6	3.3	3.2	2.0
Return on equity	15.5	16.1	16.2	18.0	19.6	22.4	25.4	27.4	28.1	29.5	27.9	24.2	21.0	20.4	18.9	12.4
Net interest margin	10.0	9.9	10.0	10.0	10.1	10.5	11.0	11.7	12.5	12.8	12.9	12.8	12.5	12.2	11.8	11.6
Cost of deposits	3.5	3.3	3.2	2.9	2.7	2.5	2.8	3.2	3.4	3.6	4.0	4.1	4.3	4.1	3.9	3.7
Cost to income	78.9	79.2	78.7	75.7	73.5	71.2	68.8	68.2	67.5	68.1	68.8	70.9	72.0	72.4	73.2	80.1
Overhead to income	53.0	53.7	54.0	53.1	52.5	50.4	47.5	43.9	40.9	39.6	38.5	40.1	41.9	43.2	45.3	46.7
Liquidity																
Liquid assets to total deposits	45.5	41.6	40.5	39.8	40.5	35.6	36.2	37.6	37.5	38.9	42.5	42.0	42.7	41.1	40.6	42.5
Market sensitivity																
Foreign currency exposure to regulatory tier 1 capital	-3.0	-3.5	-11.8	-1.6	-2.1	-0.9	-3.4	-3.6	-4.1	-5.2	-5.2	-0.6	-5.1	-6.7	-8.2	-3.2
Foreign currency loans to foreign currency deposits	59.2	52.1	54.4	65.2	63.4	68.6	66.8	67.9	74.7	67.1	74.8	87.0	72.3	72.8	63.0	57.6
Foreign currency assets to foreign currency liabilities	101.1	98.4	96.3	98.0	98.1	100.1	98.1	100.2	103.2	103.4	100.7	105.0	104.8	104.9	100.6	97.3

Source: Bank of Uganda.

Annex 1. Fiscal Risks to Successful EAC Integration

To ensure successful economic harmonization and stability of the envisaged monetary union, EAC partner countries are expected to meet convergence criteria on the fiscal stance and the debt position, among other variables, in addition to effectively implementing the customs union and common market protocols. Staff envisages short-term and medium-term risks to the objective of achieving a deficit target of 3 percent of GDP in the steady state and a floor of 25 percent in the tax-to-GDP ratio. Some of these risks may be transitory and could be corrected by short-term policies, while others may be related to long-standing structural issues that will need politically-backed substantial action. As Uganda moves toward the EAC monetary union, monitoring and managing these risks becomes especially important.

Growth impact of shocks. Growth in nominal GDP, the broadest measure of the tax base, has experienced substantial fluctuations in the last few years. For the current fiscal year, for instance, a slowdown in growth and potential overestimation of the tax base are putting downward pressure on tax revenues, resulting in higher deficits and worsening debt dynamics. *These risks highlight the importance of contingency fiscal planning. Beginning with the FY2014/15 budget, the authorities will include a contingency reserve which will help mitigate these shocks and allow for better implementation of countercyclical policy.*

Low revenue collection. Revenue as a share of GDP in Uganda is low compared to other countries in the region with similar level of income and economic structure, and needs to be strengthened. The authorities' economic program aimed at raising tax revenue by ½ percent of GDP a year in the next three years through policy refinements and administration improvements. Recent developments suggest however that this target will not be met despite efforts to improve revenue collection. *Positive steps in addressing the revenue gap have been taken with a significant number of exemptions expected to be eliminated in FY2014/15, but many company-specific exemptions remain, and tax administration efforts could be strengthened further.*

Insufficient budget credibility. Despite recent improvements, budgets are generally not credible owing to underestimation of expenditures at the time of budgeting, which later results in large spending overruns through supplementary budgets and large reallocation of spending throughout the fiscal year. During this fiscal year, spending pressures reflecting the upcoming elections led to the request for relatively large supplementary budgets. *Approval and implementation of the PFM Bill is expected to enhance budget credibility, build contingency balances, improve cash management, and prepare for efficient oil revenue management.*

Weak implementation capacity of capital expenditure. There is a clear need for infrastructure and service delivery improvements. The planned construction of hydropower plants is viewed as commercially viable, consistent with debt sustainability, and necessary to close the current electricity deficit—a critical bottleneck to growth. Furthermore, these investments are estimated to have a positive growth impact during the construction phase in addition to increasing potential growth in the medium term. The procurement process for implementation of these projects was delayed for several years, and the start of construction expected for the end of this fiscal year has been postponed. *It is important to adhere to the implementation calendar to avoid cost increases, strengthen institutional arrangements to limit fiscal liabilities, and ensure efficiency and transparency in project management.*

Arrears accumulation. The government has incurred arrears, mainly on payments under contracts with the private sector, but also on wages and other current spending, and on payments to the Uganda Revenue Authority (URA) on behalf of exempted taxpayers. Recent implementation of a system of pre-paying for utilities should help reduce the accumulation of arrears in these categories. The government is committed to improving monitoring of arrears and has embarked on a credible plan to reduce arrears by at least 0.1 percent of GDP per year. *The repayment and reduction in accumulation of arrears helps create a system that treats everyone, including the government, the same way, which should have a positive impact on compliance in the future.*

Challenges with external financing. Uganda's relationship with development partners was challenged last year by corruption scandals related to misappropriation of public funds and more recently by the enactment of legislation that increases penalties for homosexuality. While Uganda has become less dependent on foreign assistance, with grants decreasing from 8.5 percent of GDP in FY2003/04 to 1.7 percent in FY2012/13, uncertainty regarding grant and loan disbursements has complicated fiscal planning. If aid to Uganda is further reduced, there is a risk that government expenditures will have to increase to close the funding gap or important programs will no longer be funded. *There is merit in exploring different financing modalities aimed at reducing volatility. Moreover, the government's interest in reducing aid needs to be complemented with credible action to strengthen domestic revenue mobilization.*

Spending by sub-national governments. A significant portion of general government expenditures occurs at the local government level. Not all this expenditure is accounted for, as fiscal action of local governments is not always authorized by the Ministry of Finance. This situation poses significant risks at the local government level both on the spending and on the revenue sides. *Since risks are not directly identifiable within the financial statements of the central government, which are the ones used for monitoring, a move to public sector consolidated accounts in warranted. Meanwhile intensified screening of these risks is recommended.*

Contingent liabilities. Explicit or implicit guarantees to public enterprises could arise with the upcoming infrastructure projects. Regarding the hydropower dams, for instance, the central government will assume the debt and be responsible for paying it, but the projects will be managed by the electricity generation and transmission companies. The ongoing road construction and envisaged PPP contracts could also create contingent liabilities to the government. *Efficiency in operations and transparency in accounts is critical in assessing and monitoring these fiscal risks.*

Appendix I. Letter of Intent

Kampala, Uganda,
June 10, 2014

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, DC 20431, USA

Dear Ms. Lagarde:

On behalf of the Government of Uganda, we would like to provide you with an update on the progress we have achieved under our economic program supported by the IMF's Policy Support Instrument (PSI). Economic growth has been resilient despite the adverse impact of a drought and the ongoing regional conflict on agricultural production, trade, and remittances. In the context of our inflation targeting framework, we have successfully kept inflation under control despite a significant food price shock. On account of a benign current account outlook and strong capital inflows, we have maintained our international reserves at healthy levels.

Under the PSI-supported program, we observed all December 2013 quantitative assessment criteria (QAC) except for the increase in government net domestic financing (missed by a small margin). The indicative target on tax revenue was unfortunately missed. We met some of our key structural benchmarks; however, timely completion of other benchmarks proved challenging, and we request postponing their implementation. We are committed to implementing corrective measures to address shortfalls, notably on the tax revenue side. Moreover, we have also taken remedial action and remain committed to speeding up the implementation of the structural reform agenda. These and other details of our policy program are set out in the attached Memorandum of Economic and Financial Policies (MEFP), which extends our commitments to end-June 2015.

In light of this performance and our continued commitment to the program, we request completion of the second review under our PSI-supported program, based on corrective measures being taken on the revenue and expenditure fronts. On account of our strong reserve build-up, partly due to a postponement in implementation of the Karuma and Isimba hydropower projects, we are formally requesting an increase in the end-June 2014 QAC on net international reserves of Bank of Uganda (BoU). We also request modification of the June 2014 quantitative assessment criteria and indicative targets in line with recent developments.

Going forward, we will continue to conduct policies that maintain economic stability and support sustainable and inclusive growth by generating employment and reducing poverty levels. Monetary policy is designed to support the 5 percent medium-term core inflation target. A program of infrastructure investment in electricity and road projects to address the infrastructure gap is at the center of our growth and development strategy, and we will ensure that this program is consistent with debt sustainability and the absorption capacity of the economy. We are also advancing integration efforts with other Eastern African countries, set to ultimately culminate in a monetary union, to boost trade and improve competiveness. We have made significant progress on enhancing public financial management and will continue to take steps to advance further. To assist us in carrying out this ambitious reform agenda, the government of Uganda wishes to continue to benefit from technical assistance from the IMF in areas included in the program.

Government believes that the policies set out in the attached MEFP will be sufficient to achieve the objectives of our PSI-supported program but, as always, we stand ready to take any further measures that may become appropriate for this purpose.

We intend to work with the IMF and other development partners on the implementation of our program, and will consult with the Fund on the adoption of any such further measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation. We will provide the IMF with such information as the Fund requests in connection with our progress implementing the policies and reaching the objectives of the program. We also consent to publication of the documents for the second review under the PSI.

Sincerely yours

/S/

Maria Kiwanuka
Minister of Finance, Planning
and Economic Development

/S/

Prof. E. Tumusiime Mutebile
Governor
Bank of Uganda

Attachments
Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

A. Introduction

1. This Memorandum of Economic and Financial Policies complements the previously agreed policies under the June and December 2013 Memoranda of Economic and Financial Policies. It presents an update on the economic performance in the first half of FY2013/14, and provides details of the policies Government intends to implement over the period ahead to preserve fiscal sustainability and achieve Uganda's macroeconomic objectives. The memorandum proposes extension of quantitative targets, structural benchmarks, and other reform commitments to end-December 2014, and setting of indicative targets for March and June 2015.

B. Recent Economic and Policy Developments

2. Economic growth has slowed, mainly reflecting a drought-related decline in agricultural output and the adverse impact of the regional conflict. We expect growth of 5¾ percent in FY2013/14, somewhat lower than anticipated under the program. In the context of the inflation targeting framework, our vigilant monetary policy stance has been successful in maintaining inflation under control and safely within the PSI consultation clause.

3. Despite a decline in exports and remittances, the current account deficit is expected to be sharply lower than projected under the program, mainly reflecting lower imports resulting from a delay in the implementation of the Karuma and Isimba hydroelectric projects, but also due to a contraction in oil imports. The projects were delayed because of longer-than-anticipated negotiations with the contractor and financier, but we are now ready for a successful start. Oil import savings are attributed to reduced reliance on thermal power plants now that the Bujagaali hydropower plant is in full operation. The current account deficit is expected to continue to be financed by loans, FDI and other inflows, and will keep our international reserve coverage at 4.2 months of imports, a level considered adequate for Uganda.

4. Fiscal performance has been more expansionary than expected. Notwithstanding our commitment to raise revenue, a significant shortfall has emerged. Weak VAT collections and lower corporate income tax returns by key taxpayers, including banks and telecommunication companies, partly attributed to lower economic activity, explained the shortfall. Our improvements in tax compliance and enforcement also fell short of expectations. Moreover, we had to seek approval of supplementary budgets mainly to support issuance of national IDs (already included in the PSI) to comply with the EAC directive and security related spending.

5. Consequently, the overall deficit (excluding the Karuma and Isimba projects) is expected to widen by about 1.2 percent of GDP compared to the program this fiscal year, despite our efforts to strengthen tax administration and to limit spending to essential outlays in the last quarter of the year. The fiscal deficit expansion is a matter of serious concern for us, as it led to an unplanned increase in issuance of government securities in the domestic market, now expected to exceed by about Shs680 billion the level envisaged in the program.

6. The monetary policy stance remained cautious because of upside risks to inflation. Despite low core inflation, economic activity below capacity, and still sluggish credit growth, the Bank of Uganda kept the central bank rate at 11.5 percent since December until May to achieve the 5 percent inflation target, and lowered it to 11 percent only in June.

7. While the banking system remained profitable, the quality of assets deteriorated reflecting the lagged effect of the economic slowdown in FY2011/12. Nevertheless, the banking sector remains well capitalized and able to absorb losses. Our supervisory efforts focused on more stringent supervision of banks due to a decline in asset quality.

C. Performance Under the PSI

8. As of end-December 2013, we successfully observed the quantitative assessment criteria (QAC) on inflation and net international reserves as well as indicative targets on base money and social spending. However, we missed the QAC on government net domestic financing by a small percentage and the indicative target on tax revenue. We unfortunately did not produce the arrears report for end-December, because of capacity constraints, but the end-March arrears indicative target was met and we have taken action to generate regular reports in future.

9. Significant progress has been made on achieving the structural benchmarks. The rollout of the payroll system, expansion of the IFMS treasury system, and start of the Treasury Single Account (TSA) were all met. The VAT-gap analysis was concluded and published with a slight delay. The FY2014/15 budget framework paper includes an appropriation to recapitalize the Bank of Uganda for the second time, and an analysis of PPP programs will be submitted to Parliament with the budget document. The issuance of cards under the new national identification system was not completed but good progress has been made.

D. Macroeconomic Outlook

10. We expect that growth would accelerate from 5¾ percent in FY2013/14 to 6¼ percent in FY2014/15, supported by scaling up of public investment in infrastructure (particularly roads and energy) and a recovery in exports. Fiscal consolidation, excluding the spending related to Karuma and Isimba, would create space for higher private sector credit growth. Core inflation is expected to remain broadly stable at 5¾ percent in FY2014/15 on account of a stable exchange rate and the reversal of the drought-related spike in food prices in FY2013/14. The current account balance will widen from 9¾ percent of GDP this year to 11¼ percent of GDP in FY2014/15, mainly reflecting imports for the large projects. On account of strong external inflows we project to keep reserves at a comfortable level of 4 months of imports despite the expected withdrawal of government deposits from the energy and petroleum funds to finance Uganda’s share of the hydropower projects.

E. Economic Policies

Fiscal Policy

11. Government is undertaking corrective measures to bring the fiscal position, which deteriorated in FY2013/14, back on track. In FY2013/14 we have identified unused balances that will produce savings of Shs100 billion and enhanced revenue mobilization that will yield an additional Shs20 billion helping to contain the fiscal deficit this year. Despite these efforts, the fiscal deficit was too large to be financed by the planned issuance of Shs1.7 trillion in domestic debt. Rather than issue debt beyond this level, we chose to reduce the planned savings at the Bank of Uganda by Shs90 billion.

12. Initial difficulties related to the Karuma and Isimba projects have been overcome and spending should now proceed at a fast pace. Compensation payments to landowners ––an important milestone for the project—commenced in the last quarter of FY2013/14. Looking ahead, the objective is to complete these projects by FY2018/19 allowing us to address a major infrastructure gap.

13. In accordance with the Memorandum of Understanding between Government and the Bank of Uganda (BOU), we will gradually complete the recapitalization of the BOU with marketable securities over the medium term. Following the recapitalization payment of Shs410 billion in May 2013, further payments are expected to be Shs250 billion for FY2014/15, Shs200 billion for FY2015/16, and Shs350 billion for FY2016/17.

14. We intend to significantly reduce the FY2014/15 deficit—excluding expenses related to Karuma and Isimba and the recapitalization of the BoU. For this purpose, we are strengthening tax administration, proposing to parliament important tax measures and establishing a contingency reserve in the budget. The budget presented to Parliament on June 12 contains a package of measures yielding Shs551 billion to increase tax collections by Shs1.5 trillion (an increase in the tax-to-GDP ratio of 0.5 percentage points). It will also contain an expenditure envelope that is only Shs842 billion larger than in FY2013/14, resulting in a decline of the spending-to-GDP ratio, net of the large hydroelectric projects and recapitalization of BOU, of 0.6 percent of GDP.

15. The program is designed on the assumption that financing of the deficit will restrict withdrawals from the Energy and Petroleum Funds solely to co-financing Karuma and Isimba projects with China Eximbank (Government's share amounting to US$424 million) in FY2014/15 due to macroeconomic considerations, including the impact on domestic demand and liquidity management. We are committed to maintaining this principle. In the medium term we will allocate the remaining resources in the petroleum fund only to key infrastructure projects, taking into consideration the need to preserve macroeconomic stability and debt sustainability.

16. On the revenue side, we will implement a comprehensive package of measures attached in Annex I. These measures will eliminate a large number of VAT exemptions that include exemptions on the supply of new computers, desktop printers, computer parts and accessories, and on bank charges. We will also remove several items from the zero-rated VAT list, including processed milk

and milk products. Corporate income taxes will now be charged on several activities, including initial allowances on eligible property, interest earned by banks on loans to the agricultural sector, and educational institutions. Excise duties will be increased on fuel, sugar and money transfers.

17. We request removing from the PSI the structural benchmark related to the government's intention to eliminate the tax exemption on income derived from agro-processing, as on further reflection we believe that this exemption encourages production in the sector. Instead, we are committed to eliminating exemptions on supply of specialized vehicles, plant and machinery, feasibility studies, engineering designs, consultancy services and civil works related to hydro-electric power, roads and bridges (structural benchmark). Moreover we will eliminate the existing tax exemption on interest on loans granted for the purpose of agriculture including farming, forestry, fish farming, bee keeping, animal husbandry or similar operations (structural benchmark).

18. Government is committed to phasing out taxpayer-specific exemptions in order to increase fairness in the tax system while at the same time preserving the rule of law regarding existing contracts. Any tax exemptions that expire will not be renewed. We will endeavor to renegotiate existing contracts, where possible, with the objective of reducing the exempted period.

19. The VAT gap analysis was completed with technical assistance of the IMF to quantify the revenues foregone because of policy and compliance reasons. The findings of this analysis have been published on the websites of the Uganda Revenue Authority and the Ministry of Finance, and an action plan has been developed to improve tax administration and compliance in line with its recommendations. The plan aims at taking action to collaborate with public agencies and the private sector to enhance tax collection by enhancing income tax management, including rental income and international taxation, and conducting several customs initiatives. The tax administration agency will register, assess, and collect revenues in collaboration with local governments in at least 3 municipalities (structural benchmark). The tax administration agency will also conduct 6 document reviews and conclude 2 international tax audits by December 2014 and another 6 document reviews and 2 international tax audits by June 2015.

20. The pace of spending in FY2014/15 is expected to be significantly slower than in previous years, as we intend to lower the domestic borrowing requirements while maintaining the necessary space for infrastructure investment. Other investments and current spending, aside from wages and interest payments, will grow by 2.8% compared to 8.7% for total spending. Salary payments to teachers and other lowest paid public servants, which were kept constant in the last two years, will be increased to compensate for past inflation. Salary increases and interest payments on debt are the two largest components in the increase in spending.

21. Macroeconomic stability has been key to Uganda's economic recovery over the last three decades. The unraveling of the macroeconomic environment in FY2011/12 and the fiscal slippage observed in FY2013/14 suggest that the economy remains vulnerable to fiscal shocks. To address this risk we are committed to formulating a charter of fiscal responsibility by May 2015, once the Public Financial Management Bill that allows its formulation is approved (structural benchmark). The charter will set the objectives and principles for fiscal policy. In the interim, we will (i) align the budget to the PSI-supported program; (ii) accommodate any negative shocks on domestic revenues

by reductions in expenditures; (iii) finance any additional expenditure by virements within the approved budget of the government entity. We remain committed to macroeconomic stability and to this extent we shall ensure that fiscal policy and debt management are aligned to our macroeconomic objectives as set out in the PSI program.

22. In line with the Public Financial Management Bill currently before Parliament, we have also included a contingency reserve in the FY2014/15 budget. This will improve our budget credibility. This contingency reserve will be used for the following purposes in order of importance 1) compensating for revenue shortfalls that could not be accommodated with spending cuts (revenue projections will be reviewed before the start of every quarter for this purpose); 2) overruns in fixed costs, such as salaries, pension obligations, and utility bills, that if not executed would lead to arrears (also to be carefully reviewed at the start of each quarter), and 3) expenses that are deemed critically necessary but that were unexpected at the time of budget formulation and could not be accommodated through reallocations within the budget. To make this possible, release of the contingency funds and corresponding financing would not occur unless there is clear justification for it and it is approved by the Minister of Finance. In order to preserve the importance of the consultative process that underlies the budget, no vote will use more than 10% of the contingency reserve without approval by Parliament. Unspent balances in the contingency reserve will result in lower amounts of domestic debt issuance and repayment of arrears. The implementation of a contingency reserve will help us achieve our objective of eliminating the use of supplementary budgets.

23. We have streamlined institutional arrangements to deal with reporting mechanisms for arrears. In FY2014/15 a provision of Shs80 billion has been made in the budget, but going forward a strategy to deal with the elimination of arrears will be published by end of June 2014. We will be publishing the stock of unpaid bills by all government entities on a quarterly basis within 6 weeks of the end of the quarter. We will also publish the stock of domestic arrears of all government entities at end-June 2014 by September 30, 2014 (structural benchmarks). We attach to this memorandum the understandings reached with the IMF on management of arrears (Annex II).

24. Issuance of domestic debt in the market will be capped at Shs1.4 trillion which includes a contingency reserve of Shs200 billion. Deposits in the BoU will increase by Shs138 billion. Any issuance of debt above Shs1.4 billion or an accumulation of deposits lower than Shs138 billion would be inconsistent with the PSI program because it will lead to nonobservance of the government net domestic financing ceiling.

Monetary and Financial Policies

25. Consistent with the inflation targeting framework, monetary policy will continue to center on achieving the 5 percent medium-term inflation target by using the central bank rate to adequately signal its stance. The BoU will stand ready to adapt its policies to changing domestic and external developments.

26. The BoU will also adapt the announced daily purchases of foreign exchange to evolving conditions, with a view to maintaining international reserves at adequate levels. It is committed to

fully sterilize these purchases. Intervention will continue to be limited to contain excessive exchange rate volatility.

27. The BoU is closely monitoring financial sector developments to ensure banks are well capitalized and the system is stable. The BoU constantly ensures that banks adequately provide for nonperforming loans and use strong risk management practices, while also encouraging them to restructure viable loans. Looking ahead, a well capitalized and liquid financial sector will support the expected credit recovery and contribute to growth and economic development.

F. Structural Reforms

28. We completed a wide range of PFM-related reforms. We successfully introduced the first phase of the TSA for IFMS related transactions, included all central government entities in the Integrated Personnel and Payroll System (IPPS), improved controls, and cleaned the payroll. We will now proceed with the second phase by including donor accounts, and eliminating movements of cash by giving votes appropriate level of spending authority within cash limits consistent with the macro-framework (structural benchmark). So far, salaries of two local governments are already being processed on the IPPS, and our medium-term objective is to roll out the IPPS and IFMS to all local governments and government agencies.

29. Consultations with Parliament on the Public Financial Management Bill have been completed. The bill, which aims to improve public financial management, is now before the plenary of Parliament for consideration and approval. Work on regulations to operationalize the act on a range of issues, among others the charter of fiscal responsibility and oil revenue management (by conducting oil expenditure through the budget and holding financial investments abroad) will commence after the bill has been enacted by Parliament. Completion of the regulations is scheduled for May 2015 (structural benchmark).

30. Albeit with delays, the government has initiated the issuance of identity cards. The registration phase started in April 2014, and our target is to register 18 million Ugandan citizens. For this purpose the production and personalization centre has been fully set up. We expect to issue 1 million identity cards by December 2014, 3 million by July 2015 (structural benchmark), and 18 million by June 2016.

31. The Public Private Partnership (PPP) bill is before Parliament. Enacting this bill will establish the legal framework for the needed institutional, investment, monitoring and regulatory arrangements for implementing PPPs in the country. The legislation will govern the relationship between Government and the private party by establishing structured mechanisms for PPP agreements, including on management of processes, procurement rules and methods, confidentiality, and disclosure of interests. Under this PPP bill, a contracting authority shall not borrow, guarantee, or raise a loan for PPPs except as authorized by Article 159 of the Constitution of Uganda. We will continue to include in the annual budget framework paper and budget speech a status report of all ongoing PPP programs, including individual estimates of each project's contingent liability.

32. The amendments to the Bank of Uganda Act will be finalized and submitted to Parliament by April 2015 (structural benchmark). Our objective of aligning the act to international best practices has delayed the process, originally expected to be completed by May, 2014. These amendments will include provisions for raising the BoU's capital to an adequate share of its monetary liabilities. In line with the MoU signed with the MOFPED, the BoU will contain its non-monetary policy related costs as detailed in its business plan (structural benchmark).

33. The BoU will continue to improve its monetary policy formulation and adapt its processes and organization to meet requirements under inflation targeting. As part of this effort, the BOU will continue to train staff with a view to ensuring that the monetary policy decision-making process incorporates recent developments in the economy and economic modeling and forecasting.

34. We achieved a key milestone in fostering the ongoing process of regional integration. On November 30, 2013 we signed the joint protocol setting out the process and convergence criteria for East African Community (EAC) monetary union with other Heads of States of the EAC. The protocol envisages the introduction of the common currency in 2024 and an institutional framework to monitor and enforce convergence.

35. We remain committed to addressing constraints affecting the business climate by stepping up infrastructure development mainly on energy and roads, and redoubling our efforts to fight corruption and improve governance.

G. Risks to the Program

36. Being a fully open economy, Uganda is subject to risks, including from developments in neighboring countries and policies in advanced economies that could affect trade, FDI, and portfolio inflows. We remain committed to prudent fiscal management despite the potential vulnerability to domestic shocks—but recognize that unpredictable weather conditions and implementation capacity constraints are risks to the program.

H. Program Monitoring

37. Progress in the implementation of the policies under this program will be monitored through quantitative assessment criteria (QACs), indicative targets (ITs), and structural benchmarks (SBs) detailed in the attached Tables 1 and 2B and through semi-annual reviews. Two quantitative assessment criteria (net domestic financing and net international reserves) are proposed to be modified for end-June 2014 and quantitative assessment criteria is proposed to be established for end-December 2014, to be monitored respectively at the third and fourth reviews. Indicative targets are proposed for September 2014 and March and June 2015. The third review is expected to be completed by end-December 2014 and the fourth review by end-June 2015. The attached Technical Memorandum of Understanding—which is an integral part of this memorandum—contains definitions and adjustors.

Annex I. Tax Measures to be Adopted in FY2014/15

A	**Excise Duties**
1	Impose excise duty of Shs200 per liter on kerosene.
2	Increase excise duty on petrol by Shs50 per liter.
3	Increase excise duty on diesel by Shs50 per liter.
4	Reinstate excise duty on sugar to Shs50 per kilo from the current Shs25 per kilo.
5	Impose excise duty on mobile money withdrawal fees at 10%.
6	Increase excise duty on soft cup and other soft cup cigarettes to Shs40,000 per 1000 sticks.
B	**Value Added Tax – Removal of exempt goods and services**
7	Remove exemption on supply of new computers, desktop printers, computer parts and accessories.
8	Remove exemption on supply of computer software and software licenses.
9	Remove exemption on supply of accommodation in tourist lodges and hotels outside Kampala District.
10	Remove exemption on supply of liquefied petroleum gas.
11	Remove exemption on supply of salt.
12	Remove exemption on supply of property and causality insurance services (keep exemption for life insurance).
13	Add VAT tax on bank charges.
14	Remove exemption on the supply of specialized vehicles, plant and machinery, feasibility studies, engineering designs, consultancy services and civil works related to hydroelectric power, roads and bridges construction, public water works, agriculture, education and health sectors.
C	**Value Added Tax – End zero-rating of goods and services**
15	End zero rate on supply of printing services for education materials.
16	End zero rate on the supply of seeds, fertilizers, pesticides and hoes.
17	End zero rate on supply of cereals, where the cereals are grown, milled or produced in Uganda.
18	End zero rate on the supply of processed milk and milk products.
D	**Income tax**
19	Eliminate initial allowances on eligible property.
20	Eliminate the exemption of income tax of educational institutions.
21	Separate rental income from business income for non individuals.
22	Impose income tax on gamblers and designate gambling houses to withhold tax (15%).
23	Increase the presumptive tax.
24	Eliminate the exemption from tax of interest earned on loans granted for the purpose of agriculture including farming, forestry, fish farming, bee keeping, animal husbandry or similar operations.
25	Add capital gains tax on the disposal of commercial buildings by individuals.
26	Amend the thin capitalization rule to limit excessive use of related party-debt.
E	**Government taxes**
27	Pay government taxes related to industry and company-specific exemptions in the amount of UGX 70 billion.
F	**East Africa Community Common External Tariffs Adjustments**
28	Increase duty on aerosols made from non- pyrethrum based insecticides to 25%.
29	Increase duty on towers and lattice masts to 10%.
30	Increase duty on welding electrodes to 25%.
31	Increase duty on used clothing to 15%.
G	**Removal of industry-specific exemptions**
32	The textile sector exemption that expires on June 30 2014 shall not be renewed.

Annex II. Memorandum of Understanding on Arrears

Context

The accumulation of unpaid bills and expenditure arrears by governments can have a serious negative effect on the domestic economy. Specifically, large and persistent unpaid bills and arrears accumulation imply expenditures are underreported and the repayment of these bills and arrears could impair future budget planning and result in undue costs. As a result, the control and clearance of unpaid bills and arrears have been important components in many IMF-supported programs. In Uganda, the current PSI contains structural benchmarks on unpaid bills and arrears as well as an indicative target to reduce the stock of cumulated unpaid bills and arrears. Unfortunately the structural benchmark has not been met to date.

The purpose of this memorandum is to formalize our common understanding of the definition of unpaid bills and arrears, and the reporting requirements of government officials. It will form the basis of the new structural benchmark and technical memorandum of understanding (TMU) on arrears in the IMF Staff Report.

Definitions

Unpaid Bill - Any verified outstanding payment owed by a Government entity for the following: utilities, rent, employee costs, other recurrent, court awards, compensation, contributions to international organizations, development, taxes and other deductions.

Arrear – The total stock of unpaid bills as of June 30 of the fiscal year as reported in the consolidated financial statements of the Government of Uganda.

Government entity – Government entities shall include all entities listed in Annex A as well as any other entity that forms part of the central government votes.

Verification

The accounting officer of each Government entity will be responsible for reporting the stock of unpaid bills and arrears.

On this basis the Accountant General will produce a report which will be signed and certified as true by the Accountant General and the PS/ST.

Reporting

A report verified by internal audit and approved by the PS/ST, containing the stock of unpaid bills as defined above shall be provided for quarters ending September 30, December 31, March 31 within 4 weeks of the end of the quarter. The report will be published within 6 weeks of the end of the quarter. The report shall contain all unpaid bill and repayment categories as shown in Annex B.
A report verified by internal audit and approved by the PS/ST containing the stock of domestic arrears, as defined above, shall be provided and published, as at June 30 by September 30 of the same year. This report shall be consistent with the consolidated financial statements of the

Government of Uganda. The report shall contain all unpaid bill and repayment categories as shown in Annex B. The report verified by the Auditor General shall be provided when it is released.

Measurement of Indicative Target

The indicative target included in the PSI will be the reduction in the stock of domestic arrears by UGX 80 billion in each of the next two fiscal years (FY2014/15 and FY2015/16).

"Taxes (VAT and PAYE)" will be excluded from the stock of domestic arrears for the purpose of evaluating the indicative target on arrears.

For quarters other than the quarter ending June 30, the stock of unpaid bills will be used to evaluate the indicative target.

Institutional Arrangements

Role of Accounting Officers

- Enter into the IFMS system all commitments when they are generated and invoices when they are received.
- Submit quarterly reports on unpaid bills to the Internal Audit Department.
- Submit an annual report on domestic arrears to the Internal Audit Department.

Role of Internal Audit Department

- Verifies unpaid bills and domestic arrears on a quarterly basis.
- Reports the verified positions to the PST/ST through the Accountant General on a quarterly basis.
- Drafts the Cabinet Memos on unpaid bills and arrears on a quarterly basis.

Role of Accountant General

- Consolidates reports on verified unpaid bills and domestic arrears provided by the Internal Audit Department.
- Publishes quarterly reports on verified unpaid bills and arrears as part of the Consolidated Financial Statements of the Government of Uganda.
- Provides quarterly reports on unpaid bills and arrears to the Auditor General to be incorporated into the annual audit process.

Role of Director of Budget

- Ensures that the fixed costs (e.g. rent, utilities, salaries, pensions, subscription to international organisations) of each Government entity are adequately budgeted in the Budget Framework Paper as a first call on resources.

- Ensures unpaid bills are paid as a first call on cash releases of the next quarter.

Role of Director of Economic Affairs

- Formulates an arrears strategy as part of the Public Debt Strategy.

Role of Permanent Secretary

- Approves reports of unpaid bills and domestic arrears produced by the Accountant General.

- Ensures roles and responsibilities of all participants in the process are executed as described above.

Assessment of Structural Benchmark

The structural benchmark in the PSI is redefined to include all Government entities as defined above (rather than the nine ministries currently used). Therefore the new benchmark will read:

Ministry of Finance to publish quarterly reports signed by the PS/ST on the stock of unpaid bills of all government entities contained in the central government votes for the previous quarter of the fiscal year.

November 15, 2014 for the quarter ending September 30, 2014.

February 15, 2015 for the quarter ending December 31, 2014.

May 15, 2015 for the quarter ending March 31, 2015.

Ministry of Finance to publish a report signed by the PS/ST on the stock of domestic arrears of all government entities contained in the central government votes.

September 31, 2014 for the quarter ending June 30, 2014.

Annex A. Government Entities to be Included in Stock of Unpaid Bills and Arrears

1	Office of the President
	Internal Security Organization
	Minister of Security
	Senior Presidential Advisor/Co-ordination of Intelligence Service
2	State House
3	Office of the Prime Minister
4	Ministry of Defense
5	Ministry of Public Service
6	Ministry of Foreign Affairs
7	Ministry of Justice and Constitutional Affairs
8	Ministry of Finance, Planning and Economic Development
9	Ministry of Internal Affairs
10	Ministry of Agriculture Animal Industry and Fisheries
11	Ministry of Local Government
12	Ministry of Lands, Housing and Urban Development
13	Ministry of Education and Sports
14	Ministry of Health
15	Ministry of Trade Industry and Co-operatives
16	Ministry of Works and Transport
17	Ministry of Energy and Mineral Development
18	Ministry of Gender, Labor and Social Development
19	Ministry of Water and Environment
20	Ministry of Information and Communication Technology
21	Ministry of East African Community Affairs
22	Ministry of Tourism, Wildlife and Heritage
101	Judiciary
104	Parliamentary Commission
105	Uganda Law Reform Commission
107	Uganda AIDS Commission Secretariat
108	National Planning Authority
112	Directorate of Ethics and Integrity
113	Uganda National Roads Authority (UNRA)
115	Uganda Heart Institute

120	National Citizenship and Immigration Control
122	Kampala Capital City Authority
133	Directorate of Public Prosecutions
132	Education Service Commission
134	Health Service Commission
142	National Agricultural Research Organization (NARO)
144	Uganda Police Force
145	Uganda Prisons
146	Public Service Commission
147	Local Government Finance Commission
148	Judicial Service Commission
149	Gulu University
151	Uganda Blood Transfusion Service
152	National Agriculture Advisory Services (NAADS) Secretariat
155	Cotton Development Organization
156	Uganda Land Commission
159	External Security Organization
161	Mulago Hospital Complex
162	Butabika Hospital
137	Mbarara University
163	Arua Regional Referral Hospital
165	Gulu Regional Referral Hospital
170	Mbale Regional Referral Hospital
167	Jinja Referral Hospital
169	Masaka Regional Referral Hospital
164	Fort Portal Regional Referral Hospital
168	Kabale Regional Referral Hospital
166	Hoima Regional Referral Hospital
171	Soroti Regional Referral Hospital
172	Lira Regional Referral Hospital
173	Mbarara Regional Referral Hospital
202	Uganda High Commission in London, United Kingdom
208	Uganda High Commission in Abuja Nigeria
211	Ugandan Embassy in Addis Ababa Ethiopia
212	Uganda Embassy in Guangzhou China
219	Uganda Embassy in Brussels, Belgium

220	Uganda Embassy in Rome, Italy
227	Uganda Embassy in Moscow Russia
699	Makerere University Business School
682	Makerere University
703	Kyambogo University
	Uganda Broadcasting Corporation

Annex B. Sample Report of Unpaid Bills

(Ush millions)

Code	Vote Name	Utilities	Rent	Employee Costs	Other Recurrent	Court Awards	Compensation	Contributions to International Organizations	Taxes and Other Deductions (VAT, PAYE, NSSF)	Sub-totals	Paid during FY
1	Office of the President										
	Internal Security Organisation										
	Minister of Security										
	Senior Presidential Advisor/Co-ordination of Intelligence Service										
2	State House										
3	Office of the Prime Minister										
4	Ministry of Defence										
5	Ministry of Public Service										
6	Ministry of Foreign Affairs										
7	Ministry of Justice and Constitutional Affairs										
8	Ministry of Finance, Planning and Economic Development										
9	Ministry of Internal Affairs										
10	Ministry of Agriculture Animal Industry and Fisheries										
11	Ministry of Local Government										
12	Ministry of Lands, Housing and Urban Development										
13	Ministry of Education and Sports										
14	Ministry of Health										
15	Ministry of Trade Industry and Co-operatives										
16	Ministry of Works and Transport										
17	Ministry of Energy and Mineral Development										
18	Ministry of Gender, Labour and Social Development										
19	Ministry of Water and Environment										
20	Mnistry of Information and Communication Technology										
21	Ministry of East African Community Affairs										

Table 1. Uganda: Quantitative Assessment Criteria and Indicative Targets for September 2013–June 2015[1]
(Cumulative change from the beginning of the fiscal year, unless otherwise stated)

	September 30, 2013 [2]				December 31, 2013 [2]				March 31, 2014 [2] (Preliminary)				June 30, 2014 [2]		September 30, 2014 [3]	December 31, 2014 [3]	March 31, 2015 [3]	June 30, 2015 [3]
	Program	Adjusted target	Outturn	Result	Program	Adjusted target	Outturn	Result	Program	Adjusted target	Outturn	Result	Program	Revised Program	Program	Program	Program	Program
(Billions of Ugandan shillings)																		
Assessment criteria																		
Ceiling on the increase in net domestic financing of the central government	257	262	363	Not met	736	706	718	Not met	1,053	1,024	n.a	n.a	1,862	1,647	1,539	2,196	2,542	2,600
(Millions of US dollars)																		
Ceiling on the stock of external payments arrears incurred by the public sector [4]	0		0	Met	0		0	Met	0		0	Met	0	0	0	0	0	0
Ceiling on the contracting or guaranteeing of new nonconcessional external debt with maturities greater than one year by the public sector [4, 5]	1,500		0	Met	2,200		101 [9]	Met	2,200		101	Met	2,200	2,200	2,200	2,200	2,200	2,200
Ceiling on new external debt with maturity up to one year contracted or guaranteed by the public sector [4, 6]	0		0	Met	0		0	Met	0		0	Met	0	0	0	0	0	0
Minimum increase in net international reserves of the Bank of Uganda (US$mn)	16	14	-8	Not met	42	54	117	Met	2	13	314	Met	-140	178	-250	-275	-175	-109
Share of oil revenue placed in the Petroleum Fund [7]	100		100	Met	100		100	Met	100		100	Met	100	100	100	100	100	100
(Billions of Ugandan shillings)																		
Indicative targets																		
Ceiling on the increase in base money liabilities of the Bank of Uganda	239		87	Met	434		331	Met	541		479	Met	593	570	236	377	519	659
Floor on tax revenue	1,813		1,778	Not met	3,988		3,765	Not met	5,972		5,679	Not Met	8,314	7,914	2,078	4,625	7,038	9,777
Expenditures on poverty alleviating sectors	607		660	Met	1,246		1,330	Met	1,745		2,109	Met	2,612	2,731	701	1,403	2,104	2,806
Ceiling on the issuance of guarantees by the Government/Bank of Uganda	0		0	Met	0		0	Met	0		0	Met	0	0	0	0	0	0
Net change in the stock of domestic arrears					0		n.a.	Not met	-24		280	Met	-50	-50	-20	-40	-60	-80
Withdrawals from energy and petroleum funds														120	1,102	1,102	1,102	1,102
(Annual percentage change)																		
Inflation consultation clause																		
Outer band (upper limit)	9.0				9.7				9.6				9.3	9.3	9.0	8.7	8.3	8.0
Inner band (upper limit)	8.0				8.7				8.6				8.3	8.3	8.0	7.7	7.3	7.0
Core inflation target [8]	6.0		5.7	Met	6.7		6.3	Met	6.6		5.8	Met	6.3	6.3	6.0	5.7	5.3	5.0
Inner band (lower limit)	4.0				4.7				4.6				4.3	4.3	4.0	3.7	3.3	3.0
Outer band (lower limit)	3.0				3.7				3.6				3.3	3.3	3.0	2.7	2.3	2.0

[1] Defined in the Technical Memorandum of Understanding (TMU). Values for December 2013, June 2014 and December 2014 are quantitative assessment criteria. Values for September 2013, March 2014, September 2014, March 2015 and June 2015 are indicative targets.

[2] Proposed targets are measured as the change from June 2013, except as marked.

[3] Proposed targets are measured as the change from June 2014, except as marked.

[4] Continuous assessment criterion.

[5] Cumulative change from June 28, 2013. To be used exclusively for infrastructure investment projects.

[6] Excluding normal import-related credits.

[7] To ensure full and transparent transfer of oil revenues to the fiscal accounts.

[8] Annual percentage change, twelve-month period average core inflation. Calculated as stipulated in the TMU.

[9] Two loans from the Islamic Development Bank, carrying grant elements of 22.1 and 26.5 percent, were contracted in December to finance development projects.

Table 2A. PSI Structural Benchmarks

Policy Measure	Macroeconomic Rationale	Date	Status
1. Government to carry out the first stage of recapitalization of the Bank of Uganda with marketable securities to the amount stipulated by law.	To enhance monetary policy independence and central bank credibility.	July 2013	Met
2. Ministry of Finance to submit to cabinet regular quarterly reports on unpaid bills of nine ministries based on data in the Commitment Control System (CCS) for the previous quarter of the fiscal year.	To facilitate control and elimination of expenditure arrears.	October 1, 2013, for quarter ending June 30, 2013; January 1, 2014, for quarter ending September 30, 2013; April 1, 2014, for quarter ending December 31, 2013.	Not met Not met Not met (proposed to be redefined – Table 2B, SB 2)
3. Government to carry out a VAT gap analysis in consultation with IMF staff and to publish such analysis.	To make transparent the costs of VAT tax expenditures.	March 2014	Not met Published in May, 2014
4. Government to complete the rollout of the IPPS to cover management of the payroll of all entities within central government.	To improve both governance and transparency of budget execution.	April 15, 2014	Met
5. Government to complete the expansion of the treasury system (IFMS) to all of central government votes.	To improve both governance and transparency of budget execution.	April 15, 2014	Met
6. Ministry of Finance to submit to cabinet amendments to the Bank of Uganda Act including a provision for capital adequacy of BoU as an adequate percent of monetary liabilities, as well as other provisions to support implementation of inflation targeting.	To enable full monetary policy independence and credibility of the central bank.	May 2014	Not met (proposed to be rescheduled– (Table 2B; SB 1)
7. Government to start introducing a treasury single account for IFMS related transactions, including for the TGAs, salaries, and IFMS projects.	To improve both governance and transparency of budget execution.	March 2014	Met
8. Government to present to cabinet within the budget framework paper an action plan to implement the recommendations on addressing tax exemptions that come out of the VAT gap analysis.	To improve tax efficiency.	May 2014	Not met (measures included in the budget speech in June)

Policy Measure	Macroeconomic Rationale	Date	Status
9. Government to include in the Budget Framework Paper a status report of all ongoing PPP programs, including individual estimates of each project's contingent liability.	To enhance fiscal transparency.	March 2014	Not met (sent with budget speech in June)
10. Government to have issued a minimum of 1 million ID cards under the new national identification system.	To support efforts to strengthen revenue collection, promote the unique identification of financial sector clients, and combat money laundering and the financing of terrorism.	May 2014	Not met (proposed to be rescheduled Table 2B; SB
11. Government to eliminate the income tax exemption on income derived from agro-processing.	To increase revenue and tax administration efficiency.	July 2014	Not met (proposed to be replaced by SBs 3 and 4 (Table 2).
12. Government to continue with annual recapitalizations of the Bank of Uganda with marketable securities to bring capital to the statutory level until amendments to the Bank of Uganda act come into force, on the basis of the BoU's implementation of its commitment to contain operational and administrative costs.	To enhance central bank efficiency. To enhance central bank discipline and monetary policy independence.	June 2014 June 2015	Not met (proposed to be rescheduled to Table 2)

Table 2B. Redefined and New Structural Benchmarks

Policy Measure	Macroeconomic Rationale	Date	Status
1. Ministry of Finance to submit to Parliament amendments to the Bank of Uganda Act including a provision for capital adequacy of BoU as an adequate percent of monetary liabilities, as well as other provisions to support implementation of inflation targeting in line with international best practices.	To enable monetary policy independence and credibility of the central bank.	April 2015	Proposed to be rescheduled (SB 6 in Table 12A).
2. Government to continue with annual recapitalizations of the Bank of Uganda with marketable securities to bring capital to the statutory level until amendments to the Bank of Uganda act come into force, on the basis of the BoU's commitment to implement its business plan to contain operational and administrative costs.	To enhance central bank efficiency. To enhance central bank discipline and monetary policy independence.	October 2014 October 2015	Proposed to be rescheduled (SB 12 in Table 2A)
3. Ministry of Finance to publish quarterly reports signed by the PS/ST on the stock of unpaid bills of all government entities contained in the central government votes.	To facilitate control and reduction of unpaid bills.	November 15, 2014 for the quarter ending September 30, 2014. February 15, 2015 for the quarter ending December 31, 2014. May 15, 2015 for the quarter ending March 31, 2015.	Proposed to be redefined (SB 2 in Table 2A)
4. Ministry of Finance to publish a report signed by the PS/ST on the stock of domestic arrears of all government entities contained in the central government votes.	To facilitate control and reduction of expenditure arrears.	September 30, 2014 for the quarter ending June 30, 2014.	Proposed to be redefined (SB 2 in Table 2A)
5. Government to have issued a minimum of 3 million ID cards under the new national identification system.	To support efforts to strengthen revenue collection, promote the unique identification of financial sector clients, and combat money laundering and the financing of terrorism.	July 2015	Proposed to be rescheduled (SB 10 in Table 2A)

Policy Measure	Macroeconomic Rationale	Date	Status
6. Government to eliminate exemptions on supply of specialized vehicles, plant and machinery, feasibility studies, engineering designs, consultancy services and civil works related to hydroelectric power, roads and bridges.	To increase revenue and tax administration efficiency.	July 2014	Proposed new
7. Government to eliminate exemption from tax of interest earned on loans granted for the purpose of agriculture including farming, forestry, fish farming, bee keeping, animal husbandry or similar operations.	To increase revenue and tax administration efficiency.	July 2014	Proposed new
8. URA to register, assess, and collect revenue using the trading license regime in at least three municipalities.	To enhance revenue collections.	December 2014	Proposed new
9. Ministry of Finance to complete the second phase of the TSA introduction, by including donor accounts, and eliminating movements of cash by giving votes appropriate level of spending authority within cash limits consistent with the macro-framework.	Complete the process of improving cash management and controls.	March 2015	Proposed new
10. Ministry of Finance to issue regulations for implementation of the PFM bill.	Ensure efficient PFM implementation and oil revenue management by providing guidelines, clarifying and making specific those aspects that are general in the law.	May 2015	Proposed new
11. Ministry of Finance to issue the charter of fiscal responsibility.	To improve fiscal and macroeconomic management.	May 2015	Proposed new

Attachment II. Technical Memorandum of Understanding

A. Introduction

1. This memorandum defines the quarterly assessment criteria and indicative targets described in the Memorandum of Economic and Financial Policies (MEFP) for the financial program supported by the IMF Policy Support Instrument (PSI) over the period of June 30, 2014—June 30, 2015, and sets forth the reporting requirements under the instrument. For the second year of the PSI-supported program, the stock of all foreign assets and liabilities will be converted into U.S. dollars at each test date using the cross exchange rates referred to in the table below for the various currencies and then converted into Uganda shillings using the program U.S. dollar-Uganda shilling exchange rate for end-March 2014.

Program Exchange Rates (end-March 2014)	
US Dollar (US$)	1.0
British Pound/US$	0.6
Japanese Yen/US$	102.9
SDR/US$	0.6
Kenyan Shillings/US$	86.3
Tanzania Shillingss/US$	1630.7
Euro/US$	0.7
Ugandan Shillings/US$	2549.5

B. Consultation Mechanism on Inflation (QAC)

2. The quarterly consultation bands for the twelve-month average rate of consumer price inflation (as measured by the core consumer price index (CCPI) published by the Uganda Bureau of Statistics (UBOS)) are specified in Text Table 1. Projected CCPI inflation for end-June 2014, end-December 2014 and end-June 2015 will be subject to the consultation mechanism, while those for end-September 2014 and end-March 2014 are indicative targets.

Text Table 1. Inflation Targets					
	Jun. 2014	Sep. 2014	Dec. 2014	Mar. 2015	Jun. 2015
Outer band (upper limit)	9.3	9.0	8.7	8.3	8.0
Inner band (upper limit)	8.3	8.0	7.7	7.3	7.0
Core inflation target	6.3	6.0	5.7	5.3	5.0
Inner band (lower limit)	4.3	4.0	3.7	3.3	3.0
Outer band (lower limit)	3.3	3.0	2.7	2.3	2.0

3. Should the observed average CCPI inflation for the test date linked to a PSI program review (i.e., end-June 2014 for the third review and end-December 2014 for the fourth review) fall outside the outer band as specified in the above table, the authorities will complete a consultation with the

Executive Board of the Fund on their proposed policy response before requesting completion of the review under the program. The authorities will not be able to request completing a review under the PSI-supported program if the average CCPI inflation has moved outside of the outer band as of the test date linked to such review, until the consultation with the Executive Board has taken place. In line with the accountability principles, the BoU will report to the public the reasons for any breach of the outer bands, and its policy response. In addition, the BoU will conduct discussions with the Fund staff when the observed average CCPI inflation falls outside the inner band as specified for the end of each quarter in the above table.

C. Base Money (IT)

4. Base money is defined as the sum of currency issued by the 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. The base money limit for June 2014 will be a ceiling on the cumulative change from the monthly average based on daily data for June 2013 to the same monthly average for June 2014. The base money limits for September 2014, December 2014, March 2015, and June 2015 will be ceilings on the cumulative change from the monthly average based on daily data for June 2014 to the same monthly averages for September 2014, December 2014, March 2015, and June 2015, respectively. Base money limits for June, September, and December 2014, March and June 2015 will be indicative targets under the PSI-supported program.

D. Ceiling on the Cumulative Increase in Net Domestic Financing of the central Government[1] (QAC)

5. Definition. The cumulative increase in net domestic financing of the central government (NDF) is defined from below the line on a cash basis as the sum of:

a. *the change in net claims on the central government by the banking system:* Net claims on the central government by the banking system is defined as the difference between the outstanding amount of bank credits to the central government and the central government's deposits with deposit corporations, excluding deposits in administered accounts and project accounts with the banking system, including the central bank. Credits comprise bank loans and advances to the government and holdings of government securities and promissory notes. NDF by deposit corporations will be calculated based on data from balance sheets of the monetary authority and deposit corporations as per the deposit corporations' survey.

b. *the change in net claims on the central government of domestic nonbank institutions and households*: net claims on the general government of domestic nonbank institutions and

[1] The central government comprises the treasury and line ministries.

households are defined as treasury bills, bonds or other government securities held by nonbank institutions and households (including nonresidents and nonresident financial institutions), plus any other liabilities of the central government to domestic nonbank institutions or households.

All changes will be calculated as the difference between end-of-period stocks, net of any valuation changes resulting from currency movements.

E. Floor on Net International Reserves of the Bank of Uganda (QAC)

6. Net international reserves (NIR) of the BoU are defined for program-monitoring purposes 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 original maturities less than one year, contracted by the BoU and include outstanding IMF purchases and loans.

7. For program-monitoring purposes, reserve assets and short-term liabilities at the end of each test period will be calculated in U.S. dollars by converting the stock from their original currency denomination at program exchange rates (as specified in paragraph 1). The NIR limit for June 2014 will be a floor on the change of the NIR stock from June 2013 to June 2014. The NIR limits for September 2014, December 2014, March 2015 and June 2015 will be floors on the change of the NIR stock from June 2014 to September 2014, December 2014, March 2015 and June 2015, respectively. The NIR limits for June and December 2014 will be quantitative assessment criteria under the PSI-supported program; the floor for September 2014, March and June 2015 will be indicative targets.

F. Expenditures on Poverty Alleviating Sectors (IT)

8. The indicative target on poverty alleviating expenditures includes domestic expenditures inclusive of wages and salaries in the Health, Education, Water and Environment and Agriculture sectors, as defined by the Government of Uganda's functional budget classification, excluding those which are externally financed. Compliance with the indicative floor for poverty alleviating expenditures will be verified on the basis of releases.

G. Ceiling on Issuance of Guarantees by the Government or Bank of Uganda (IT)

9. The indicative target on issuance of guarantees by the Government or Bank of Uganda aims to prevent accumulation of contingent liabilities by the Government (including Government entities such as ministries, agencies and authorities). Included against the ceiling are any direct, contingent liabilities of Government (including entities that are part of Government such as ministries, agencies

and authorities) issued after June 28, 2013, and including any guarantees issued prior to this date but which are extended after June 28, 2013. This excludes guarantee programs which have explicit budget appropriations.

H. Share of Oil Revenue Placed in Petroleum Fund (QAC)

10. The purpose of this assessment criterion is to avoid a situation whereby petroleum revenues bypass the Ugandan budget framework. A petroleum fund will be created upon passage of the revised PFMB; in the meantime, government has established a petroleum revenue account in the Bank of Uganda. This QAC will be deemed satisfied if 100 percent of petroleum revenues are transferred to this account upon collection by URA. These resources may then be spent or saved as governed by the organic budget law in force at the time (PFAA 2003 until the new PFMB is enacted).

I. Tax Revenue (IT)

11. A floor applies on tax revenue of central government measured cumulatively from the beginning of the fiscal year. For program monitoring purposes, tax revenue is defined as the sum of direct domestic taxes (PAYE, corporate tax, presumptive tax, other direct taxes, withholding tax, rental income tax, tax on bank interest, casino tax and unallocated receipts), excise duty and value-added taxes net of refunds and taxes on international trade minus temporary road licenses, and fees to hides and skins, as defined by the Government of Uganda's revenue classification.

J. Net Accumulation of Domestic Arrears of the Government (IT)

12. A ceiling applies to net accumulation of domestic arrears of the central government as an indicative target.[2] The ceiling for each test date until June 30th 2014 is measured cumulatively from July 1, 2013 and the ceiling for each test date until June 30th 2015 is measured cumulatively from July 1, 2014.

13. Definition. An unpaid bill is any verified outstanding payment owed by any entity that forms part of the central government votes for the following: utilities, rent, employee costs, other recurrent, court awards, compensation, contributions to international organizations, development, taxes and other deductions. Domestic arrears are the total stock of unpaid bills as of June 30 of the fiscal year as reported in the consolidated financial statements of the Government of Uganda.

14. For quarters other than the one ending June 30, the net change in the stock of unpaid bills will be used as the indicative target. For the quarter ending in June 30, the change in the total stock of unpaid bills as reported in the consolidated financial statements of the Government of Uganda will be used as the indicative target.

[2] A negative target thus represents a floor on net repayment.

K. Withdrawals from the GoU Deposits from the Petroleum and Energy Funds (IT)

15. The indicative target on withdrawals from the GoU deposits from the Petroleum Fund and the Energy Fund aims at channeling these resources to key infrastructure projects while ensuring coordination on accompanying impact on liquidity. A ceiling applies on withdrawals from the GoU deposits from the Petroleum Fund and the Energy Fund measured cumulatively from the beginning of the fiscal year. Withdrawals will be restricted to meet the following uses (i) spending on Karuma and Isimba hydro-power projects and the associated industrial substations, specifically related to the loan agreement between the Government of Uganda and China Eximbank (the Government of Uganda share adds up to US$424 million covering 15 percent of total costs of projects, loan insurance, and management fees); and (ii) spending on land acquisition for Karuma and Isimba HPPs (Ush120 billion).

L. Adjusters

16. The NIR target is based on program assumptions regarding budget support, assistance provided under the Heavily Indebted Poor Countries (HIPC) Initiative and the MDRI, external debt-service payments. The NIR target is based on program assumptions regarding automatic access by commercial banks to the BoU's rediscount and discount window facilities.

17. The Uganda shilling equivalent of projected budget support (grants and loans) excluding HIPC Initiative and MDRI assistance in the form of grants on a cumulative basis from July 1 of the relevant fiscal year is presented under Schedule A. The ceilings on the cumulative increase in NDF 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 budget support, grants and loans, excluding HIPC Initiative and MDRI assistance, exceeds (falls short of) the projected amounts.

Schedule A: Budget Support[1]
(Ush billions)

	Jun-14	Sept-14	Dec-14	Mar-15	Jun-15
Cumulative from July 1 of respective fiscal year	218	67	147	219	257

[1]Debt service is defined as pre-HIPC Initiative debt service.

18. The ceilings on the cumulative increase in NDF and the cumulative withdrawals from the GoU deposits from the Petroleum Fund and the Energy Fund will be adjusted for (i) spending on Karuma and Isimba hydro-power projects and the associated industrial substations, specifically related to the loan agreement between the Government of Uganda and China Eximbank (the Government of Uganda share adds up to US$424 million covering 15 percent of total costs of projects, loan insurance, and management fees); and (ii) spending on land acquisition for Karuma and Isimba HPPs (Ush120 billion). The ceilings on the cumulative increase in NDF and the cumulative withdrawals from the GoU deposits from the Petroleum Fund and the Energy Fund will be adjusted

downward by the amount by which the domestic currency equivalent of the aforementioned spending (i) and (ii) financed by withdrawals from the Petroleum Fund and the Energy Fund (using the market exchange rate) falls short of the projected amounts as set out in Schedule B. The ceilings on the cumulative increase in NDF and the cumulative withdrawals from the GoU deposits from the Petroleum Fund and the Energy Fund will be adjusted upward by the amount by which the domestic currency equivalent of the spending to meet higher-than-expected Government of Uganda share associated with the aforementioned China Eximbank loan and financed by withdrawals from the Petroleum Fund and the Energy Fund (using the market exchange rate) exceeds the projected amounts as set out in Schedule B up to a cap of the domestic currency equivalent of US$64 million. Spending on these projects financed by external borrowing are not included in this adjustor.

Schedule B: Expenditures on hydropower projects
(Ush billions)

	Jun-14	Sept-14	Dec-14	Mar-15	Jun-15
Cumulative from July 1 of respective fiscal year					
Land acquisition for Karuma and Isimba HPPs	120	0	0	0	0
Government share associated with the China Eximbank loan	0	1,102	1,102	1,102	1,102

19. The ceiling on the cumulative increase in NDF will be adjusted upward (downward) by the amount by which inflows into the petroleum fund falls short of (exceeds) the projected amounts as set out in Schedule C.

Schedule C: Inflows into Petroleum Fund
(Ush billions)

	Jun-14	Sept-14	Dec-14	Mar-15	Jun-15
Cumulative from November 1, 2013	0	0	0	0	0

20. The floor on the increase in NIR will be adjusted upward (downward) by the amount by which withdrawals from the Ush denominated deposits of the GoU in the Energy Fund and the Petroleum Fund (using the market exchange rate) to cofinance spending on Karuma and Isimba hydropower projects and the associated industrial substations, specifically related to the loan agreement between the Government of Uganda and China Eximbank (the Government of Uganda share covers 15 percent of total costs of projects, loan insurance, and management fees) and required to be contributed in US$ according to the loan agreement, falls short of (exceeds) the projected amounts as set out in Schedule D. The GoU will first withdraw the foreign currency denominated portion of its deposits in the BoU, including any new foreign currency inflows to the

Petroleum Fund and the Energy Fund compared to the projected amounts as set out in Schedule D. The downward adjustment to the change in NIR will be capped at US$64 million earmarked only to meet higher-than-expected Government of Uganda share that will be required to be contributed in US$ according to the loan agreement between the GoU and the China Eximbank financing these three projects.

Schedule D: Withdrawals from the Energy and Petroleum Funds to Finance HPP
(US$ millions)

	Jun-14	Sept-14	Dec-14	Mar-15	Jun-15
Cumulative from November 1, 2013	0	252	252	252	252

21. The currency composition of the Energy Fund and the Petroleum Fund are given below. The foreign currency denominated deposits of the Petroleum Fund and the Energy Fund do not constitute part of the BoU's international reserves and as such are recorded under other foreign assets of the BoU. Any further foreign currency denominated inflows to these Funds will continue to be recorded outside of the reserves and under other foreign assets of the Bank of Uganda.

Stock of the Oil and Energy Fund at May 6, 2014
(Ush billions and USD millions)

	Ush	USD	
Energy Fund	300	181	(BoU reserves)
Petroleum Fund	1162	172	(BoU other assets)

22. The ceiling on NDF will be adjusted upward (downward) by the amount by which the recapitalization of the Bank of Uganda exceeds (falls short of) the projected amounts as set out in Schedule E.

Schedule E: Recapitalization of the Bank of Uganda
(Ush billions)

	Jun-14	Sept-14	Dec-14	Mar-15	Jun-15
Cumulative from July 1 of respective fiscal year	0	0	250	250	250

M. Ceiling on the Contracting or Guaranteeing of New Non-concessional External Debt by the Public Sector, and Ceiling on the Stock of External Payments Arrears Incurred by the Public Sector[3]

23. The assessment criterion on short-term debt refers to contracting or guaranteeing external debt with original maturity of one year or less by the public sector. Excluded from this assessment criterion are normal import-related credits and non-resident holdings of government securities and government promissory notes. The definition of "debt" is set out in paragraph 20.

24. The program includes a ceiling on new non-concessional borrowing with maturities greater than one year contracted or guaranteed by the public sector.[4] Non-concessional borrowing is defined as loans with a grant element of less than 35 percent. The discount rate used for this purpose is 5 percent. The ceiling on non-concessional external borrowing or guarantees is to be observed on a continuous basis. The coverage of borrowing includes financial leases and other instruments giving rise to external liabilities, not only current as defined below, but also contingent, on non-concessional terms. External debt for the purpose of this assessment criterion means borrowing giving rise to liabilities to non-residents. Excluded from the limits are changes in indebtedness resulting from non-resident holdings of government securities and government promissory notes, 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 awards to external creditors that have not participated in the HIPC Initiative do not constitute non-concessional external borrowing. Excluded from these limits are also non-concessional borrowing within the limits specified in Table 1 of the MEFP. The ceiling also excludes non-concessional borrowing by one state-owned bank, Housing Finance Bank, which poses limited fiscal risk and is in a position to borrow without a government guarantee.

25. 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. 6230-(79/140), as amended by Decision No 14416-(09/91), effective December 1, 2009). 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

[3] Public sector comprises the general government (which includes the central government, local governments, and monetary authorities), and entities that are public corporations which are subject to 'control by the government', defined as the ability to determine general corporate policy or by at least 50 percent government ownership.

[4] Contracting and guaranteeing is defined as approval by a resolution of Parliament as required in Section 20(3) and 25(3) of the Public Finance and Accountability Act, 2003.

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 sometime 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 lesser 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.

26. 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 payments on debt contracted or guaranteed by the public sector from their level at end-June 2013. External debt payment arrears consist of external debt service obligations (reported by the Statistics Department of the BoU, the Macro Department of the Ministry of Finance) that have not been paid at the time they are due as specified in the contractual agreements but shall exclude arrears on obligations subject to rescheduling.

N. Monitoring and Reporting Requirements

27. The Government of Uganda will submit information to IMF staff with the frequency and submission time lag as indicated in Table 1. The quality and timeliness of the data submission will be tracked and reported by IMF staff. The information should be mailed electronically to afruga@imf.org.

Attachment II. Table 1. Summary of Reporting Requirements			
Reporting institution	**Report/Table**	**Submission Frequency**	**Submission Lag**
I. Bank of Uganda	Issuance of government securities, repurchase operations and reverse repurchase operations.	Weekly	5 working days
	Operations in the foreign exchange market.	Weekly	5 working days
	Interest rates (7 day interbank, commercial bank prime lending rate, government securities).	Weekly	5 working days
	Private sector credit growth by shilling and forex, and excess reserves of commercial banks.	Weekly	5 working days
	Disaggregated consumer price index.	Monthly	2 weeks
	Balance sheet of the BoU, consolidated accounts of the commercial banks, and depository corporations' survey.	Monthly	4 weeks
	Daily balances of net foreign assets, net domestic assets, and base money of the BoU.	Monthly	4 weeks
	Monthly foreign exchange cash flow table of BoU.	Quarterly	4 weeks
	Statement of (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.	Quarterly	6 weeks
	Summary of (i) monthly commodity and direction of trade statistics; (ii) disbursements, principal and interest, flows of debt rescheduling and debt cancellation, arrears, and committed undisbursed balances—by creditor category; and (iii) composition of nominal HIPC Initiative assistance.	Quarterly	6 weeks
	Summary of stock of external debt, external arrears, and committed undisbursed loan balances by creditor.	Quarterly	6 weeks
	Standard off-site bank supervision indicators for deposit money banks.	Quarterly	4 weeks
	Summary table of preliminary program performance comparing actual outcome with adjusted program targets for (i) base money; (ii) net claims on central government by the banking system; (iv) new non-concessional external borrowing; and (v) net international reserves.	Quarterly	6 weeks

Attachment II. Table 1. Summary of Reporting Requirements			
Reporting institution	**Report/Table**	**Submission Frequency**	**Submission Lag**
II. Ministry of Finance	Summary of central government accounts. Revenues shall be recorded on a cash basis. Expenditures shall be recorded when checks are issued, except for domestic and external debt-service payments[5], 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).	Monthly	4 weeks
	Summary of the stock of unpaid bills by government entities contained in the central government votes as reported by the Accountant General and signed by the PS/ST.	Quarterly	6 weeks
	Summary of the stock of arrears by government entities contained in the central government votes as reported by the Accountant General and signed by the PS/ST.	Annual	3 months
	Summary of contingent liabilities of the central government and the Bank of Uganda. For the purpose of the program, contingent liabilities include all borrowings by statutory bodies, government guarantees, claims against the government in court cases that are pending, or court awards that the government has appealed.	Quarterly	6 weeks
	Detailed monthly central government account of disbursed budget support and project grants and loans (less change in the stock of project accounts held at the BoU and commercial banks), HIPC support, and external debt service due and paid.	Quarterly	4 weeks
	Detailed central government account of disbursed donor project support grants and loans.	Monthly	6 weeks
	Statement on new external loans contracted or guaranteed by the central government and the Bank of Uganda during the period according to loan agreements.	Quarterly	6 weeks
	Updated national accounts statistics (real and nominal) according to UBOS and medium-term projections.	Quarterly	12 weeks

[5] The budget records domestic interest payments on cash-basis while for program purposes this entry will be reported on an accrual basis.

UGANDA

June 16, 2014

SECOND REVIEW UNDER THE POLICY SUPPORT INSTRUMENT AND REQUEST FOR MODIFICATION OF ASSESSMENT CRITERIA—INFORMATIONAL ANNEX

Prepared By

The African Department
(In Consultation with other departments

CONTENTS

FUND RELATIONS

Membership Status: Joined: September 27, 1963; Article VIII

General Resources Account:	**SDR Million**	**%Quota**
Quota	180.50	100.00
Fund holdings of currency (Exchange Rate)	180.51	100.00
Reserve Tranche Position	0.00	0.00
SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	173.06	100.00
Holdings	139.17	80.41
Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
ECF Arrangements	1.80	1.00

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF [1/]	Sep 13, 2002	Jan 31, 2006	13.50	13.50
ECF [1/]	Nov 10, 1997	Mar 31, 2001	100.43	100.43
ECF [1/]	Sep 06, 1994	Nov 09, 1997	120.51	120.51

[1/] Formerly PRGF.

Projected Payments to Fund [2/]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2014	2015	2016	2016	2017
Principal	0.60	1.00	0.20		
Charges/Interest	0.03	0.05	0.05	0.05	0.05
Total	0.63	1.05	0.25	0.05	0.05

[2/] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative:

I. Commitment of HIPC assistance	Original Framework	Enhanced Framework	Total
Decision point date	Apr 1997	Feb 2000	
Assistance committed			
by all creditors (US$ Million) [1/]	347.00	656.00	
Of which: IMF assistance (US$ million)	68.90	91.00	
(SDR equivalent in millions)	51.51	68.10	
Completion point date	Apr 1998	May 2000	
II. Disbursement of IMF assistance (SDR Million)			
Assistance disbursed to the member	51.51	68.10	119.61
Interim assistance	--	8.20	8.20
Completion point balance	51.51	59.90	111.41
Additional disbursement of interest income [2/]	--	2.06	2.06
Total disbursements	51.51	70.16	121.67

[1/] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts cannot be added.

[2/] Under the enhanced framework, 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.

Implementation of Multilateral Debt Relief Initiative (MDRI):

I. MDRI-eligible debt (SDR Million)[1/]	87.73
Financed by: MDRI Trust	75.85
Remaining HIPC resources	11.88

II. Debt Relief by Facility (SDR Million)

	Eligible Debt		
Delivery Date	**GRA**	**PRGT**	**Total**
January 2006	N/A	87.73	87.73

[1/] The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

Implementation of Post-Catastrophe Debt Relief (PCDR): Not Applicable

Decision point

Point at which the IMF and the World Bank determine whether a country qualifies for assistance under the HIPC Initiative and decide on the amount of assistance to be committed.

Interim assistance

Amount disbursed to a country during the period between decision and completion points, up to 20 percent annually and 60 percent in total of the assistance committed at the decision point (or 25 percent and 75 percent, respectively, in exceptional circumstances).

Completion point

Point at which a country receives the remaining balance of its assistance committed at the decision point, together with an additional disbursement of interest income as defined in footnote 2 above. The timing of the completion point is linked to the implementation of pre-agreed key structural reforms (i.e., floating completion point).

Safeguards Assessments:

Under the Fund's safeguards policy, assessments with respect to the PSI are voluntary. An update assessment of the Bank of Uganda (BOU) was completed on April 10, 2007 and concluded that the BOU had strengthened its safeguards framework since the 2003 assessment. The main developments included implementation of International Financial Reporting Standards, publication of financial statements, establishment of an audit committee, and strengthening of the internal audit function. Staff made recommendations to address remaining vulnerabilities in the legal and internal control areas.

Exchange Rate Arrangement:

The official exchange rate is determined on the interbank market for foreign exchange. Uganda’s de jure exchange rate arrangement is free floating, and its de facto is floating. As of end-March, 2014 the official exchange rate was USh 2549.55 per U.S. dollar. The exchange system is free of restrictions on the making of payments and transfers for current international transactions.

Article IV Consultation:

The Executive Board concluded the last Article IV consultation on June 28, 2013. The next Article IV consultation with Uganda will be held in accordance with the decision on consultation cycles adopted September 28, 2010, as amended.

Technical Assistance:

In the first half of 2014, Uganda has continued to receive extensive technical assistances from both IMF and AFRITAC East (regional technical assistance center).1 FAD provided TA missions on PFM Bill reform and VAT gap estimate, followed by AFRITAC East missions focusing on financial regulation, financial asset reporting, and forecasting capacity building. The latter is a follow-up mission of output budget tools provided in 2013. Missions to draft PFM Bill regulations and on oil resource management and tax policies are planned for this fiscal year.

MCM and AFRITAC East have been providing a series of missions focusing on financial stability since the beginning of 2014, covering a wide range of areas including insurance company supervision, mobile payment regulation, payment system and oversight policy. A joint MCM/LEG follow-up mission on amendments to the BoU Act is planned for this fiscal year.

AFRITAC East provided a mission for harmonizing monetary data in a currency union. Backstopped by STA, technical assistance on CPI rebase was also provided. Missions on revenue administration, public financial management, financial sector regulation and supervision, monetary policy operations and economic and financial statistics (including a mission to rebase the national accounts) are planned for this fiscal year.

Residential Representative

The Fund has maintained a resident representative in Uganda since July 1982. Currently, the Senior Resident Representative, Ms. Ana Lucía Coronel, is also Mission Chief for Uganda.

[1] For a description of technical assistance provided prior to June 2013, see the staff report for Uganda: 2013 Article IV Consultation and Sixth Review Under the Policy Support Instrument (IMF Country Report No. 13/215). Also, refer to the staff report for Uganda First Review Under the Policy Support Instrument (IMF Country Report No. 13/375) for the details of technical assistance for the second half of 2013.

JOINT WORLD BANK-FUND WORK PROGRAM

(June 2014–June 2015)

Title	Products	Provisional timing of missions (if relevant)	Expected delivery date
1. World Bank Work Program	The current IDA portfolio consists of 16 operations with net commitments of US$1.96 billion, and 4 regional projects with net commitments of US$94 million. Over 60% of the portfolio is financing transport and energy infrastructure investments, whereas other key sectors of support include agriculture, water, urban development, education, health, and private sector competitiveness. Recently approved projects include the Albertine Region Sustainable Development Project, Second Kampala Infrastructure and Institutional Development Project, and the North-eastern Corridor Road Asset Over 60% of the portfolio is financing infrastructure investments Management.		
	The Bank suspended PRSCs in 2013, but has remained open to negotiating new modalities and approaches to delivering budget support. In addition, a development policy loan (DPL) is under consideration to support pension reforms.		
	Public Investment Management (with support with DFID trust fund).		Project became effective in July 2013 and is expected to have delivered some outputs by June 2014

Title	**Products**	**Provisional timing of missions (if relevant)**	**Expected delivery date**
	Economic Update series (FY14) Edition 3 - Special focus – decentralization Edition 4 - Special focus – pension reform		 December 2013 May 2014
	Country Economic Memorandum (FY14) focusing on Uganda's sources of growth accounting for the linkages of the new natural resources economy.	Concept note: November 2013	June 2014
	First review of the PSI	October 2013	December 2013
2. Fund Work Program	Second review of the PSI	May 2014	June 2014
	TA priorities: • VAT gap analysis; • Extractive Industries and general tax policy; • PFM reform implementation • Monetary policy and transition to inflation targeting; Review of the BoU Act, Review of MoU between Bank of Uganda and the MoFPED, BoU recapitalization, foreign exchange intervention in the context of inflation targeting, refining macroeconomic forecasting model. Enhancing macroeconomic statistics, including national accounts, BoP data, and GFS.	 January 2014 TBD TBD February 2014	 TBD TBD TBD TBD
3. Joint Work Program	• Joint DSA update	May 2014	June 2014

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance
General: Overall data provision is adequate for surveillance purposes, although some shortcomings remain.
Real Sector Statistics: Since 2004 Uganda has been receiving technical assistance (TA) from the East African Technical Assistance Center (AFRITAC East) on the compilation of annual and quarterly national accounts. In late 2011 the authorities started to disseminate quarterly GDP estimates at 2002 constant prices by economic activity. With assistance from AFRITAC East and an external consultant, the Uganda Bureau of Statistics (UBOS) developed supply and use tables (SUT) that include preliminary product balances for 155 activities by 161 products. An AFRITAC East mission in May 2014 is assisting in finalizing the SUT and compiling the rebased GDP estimates. The rebased (2009/10) GDP estimates are expected to be released by September 2014. **Labor market indicators** such as employment, unemployment, and wages/earnings are infrequently compiled and disseminated. UBOS aims to compile and disseminate these data categories on an annual basis, but due to resource and data unavailability, these data are compiled with a two year lag. The current **consumer price index** (CPI) series released in January 2010 is expected to be replaced in June 2014 by the new CPI series that uses the expenditure weights from the *2009/2010 Uganda National Household Survey*. Its coverage includes eight urban areas, and the index methodology uses, at the elementary level, a geometric average, and at the higher-level, a modified Laspeyres-type formula to facilitate incorporation of replacement items and better imputations. An AFRITAC East mission will review the new CPI during June 2014 prior to its release. UBOS compiles and disseminates a Producer Price Index (PPI) for Manufacturing (separately for imports and domestic output) and for hotels. AFRITAC East has been providing TA to rebase and expand the Manufacturing PPI to include the output of the mining and quarrying, electricity and water industries. An AFRITAC East mission in July 2014 will assist in finalizing the PPI for release and commence development of export and import price indices.
Government Finance Statistics: The Ministry of Finance, Planning and Economic Development (MoFPED) compiles fiscal statistics following the Government Finance Statistics Manual 2001 (GFSM 2001), but for budgetary central government and local governments only, with balance sheet data restricted to the budgetary central government. MoFPED has recently been given official responsibility for compiling and disseminating these statistics and AFRITAC East will be providing assistance to UBOS over FY2015 in expanding coverage and improving the quality of these statistics.
Monetary, Financial and External Sector Statistics (MFS): TA in FY2014 will aim at improving the institutional coverage and classification of other depository corporation (ODCs) and initiation of the collection and compilation of data for other financial corporations, mainly insurance companies and pension funds. This would build on previous missions financed by the Department for International Development (DFID) on the standardized report forms (SRFs). Uganda began publishing SRF-based monetary data from 2002 in *IFS* beginning in early 2009. The Bank of Uganda, with the assistance of AFRITAC East missions in December 2011 and February 2013, has improved the quality of external sector statistics and implemented *Balance of Payments and International Investment Position Manual (BPM6)* standards.

INTERNATIONAL MONETARY FUND
COMMUNICATIONS DEPARTMENT

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International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Second PSI Review for Uganda

The Executive Board of the International Monetary Fund (IMF) today completed the second review of Uganda's economic performance under the program supported by the Policy Support Instrument (PSI).

The PSI for Uganda was approved by the Executive Board on June 28, 2013 (see Press Release No. 13/78). The IMF's framework for PSIs is designed for low-income countries that may not need, or want, IMF financial assistance, but still seek IMF advice, monitoring and endorsement of their policies. PSIs are voluntary and demand driven (see Factsheet on the PSI).

Following the Board discussion, Mr. David Lipton, Deputy Managing Director and Acting Chair, made the following statement:

"Uganda's recent economic performance has been broadly satisfactory, with robust growth, low inflation, and strong international reserves. However, the government net domestic financing has expanded beyond the program ceiling, and private sector credit growth has remained constrained.

"Economic policies will remain centered on achieving the growth and inflation objectives. In the short term, the authorities' fiscal policy is expected to focus on offsetting the recent tax revenue shortfall by significantly strengthening collection. Resisting spending pressures, limiting domestic borrowing to programmed levels, and curbing the use of supplementary budgets will allow implementation of important infrastructure projects and social programs. The envisaged fiscal stance would also facilitate further monetary easing, although monetary policy should remain attuned to evolving domestic and external conditions.

"Significant progress has been achieved on institutional reform. The authorities have implemented sound public financial management reforms and adopted a new methodology to manage unpaid bills. Completing the introduction of the treasury single account, making efficient use of the upgraded payments and payroll systems, and adopting the Public Financial Management bill promptly are paramount steps to further improve governance, strengthen the budget process, and ensure sound oil revenue management. Legal amendments to further strengthen the central bank's independence will further refine the inflation targeting regime.

"Ensuring timely implementation, transparent management, and appropriate cost-recovery of the upcoming infrastructure projects, and making further progress on the commitments within the East Africa Community integration process are welcome actions to achieve the authorities' objectives of attaining medium-term inclusive growth and advancing poverty reduction."

Statement by Mr. Saho
Executive Director for Uganda
June 27, 2014

The Ugandan authorities appreciate the continued engagement and support of the Executive Board and Management. The authorities agree with the thrust of the report and remain committed to the on-going macroeconomic reforms under the Policy Support Instrument (PSI).

Program performance

In spite of several challenges, the authorities maintained their commitment to pursuing prudent macroeconomic and structural policies for sustained broad-based economic growth and poverty reduction supported by the IMF program. All December 2013 quantitative criteria were met except on government net domestic financing, which was missed by a small margin. The indicative target on domestic revenue was also not met. Significant progress was made on structural benchmarks however timely completion of some of the benchmarks proved challenging while others faced capacity constraints. As a result, a request has been made to postpone their implementation to allow the corrective measures put in place by the authorities to come on stream. The authorities remain committed to speeding up the implementation of the structural reform agenda. In light of this performance and the continued commitment to the program, the authorities request for Executive Directors' support for completion of the second review under the PSI and request for modification of assessment criteria.

Recent economic developments

Uganda's economy continued to grow in the Financial Year 2013/14 but more modestly than the 6.2 percent that was projected a year ago. This was a result of a drought-related decline in agricultural output and the adverse impact of regional conflict.

Nevertheless, Uganda's rapid economic expansion over the years has simultaneously translated into a significant reduction in poverty. The proportion of people living below the poverty line declined from 56.4 percent in 1992/3 to 19.7 percent in 2012/13, surpassing the first and most important Millennium Development Goal (MDG) target of halving the proportion of the population living in extreme poverty by 2015.

Annual and core inflation remained low throughout the year and dropped to 5.5 percent and 3.3 percent respectively in May 2014 mainly on account of a reduction in food prices, after an increase earlier in the year due to drought related price hikes. The vigilant monetary policy stance under the inflation targeting framework was successful in maintaining inflation under control and comfortably within the PSI consultation clause.

Fiscal performance has been more expansionary than expected following significant revenue shortfalls partly attributable to lower economic activity. Additional spending was required for security related spending and to support issuance of national identity cards (IDs) to comply with the East Africa Community (EAC) integration directive. The overall deficit is expected to widen by about 1.2 percentage points from the program target to about 4.8 percent of GDP.

The current account deficit remained weak as a result of the widening trade imbalances and low transfers. However, it was still significantly lower than projected in the first PSI review, reflecting lower imports from a delay in the implementation of the Karuma and Isimba hydroelectric projects and a contraction in oil imports attributed to the reduced reliance on thermal power plants now that the Bujagali hydropower plant is in full operation. The current account deficit is expected to be financed by loans, FDI and other inflows should keep international reserve coverage at about 4.2 months of imports.

Medium-term outlook and policies

The outlook over the medium term remains favorable supported by the scaling up of public investment in infrastructure, particularly roads and energy, and a recovery in exports. Real GDP growth is projected to increase from 5.7 percent to 6.1 percent in the next fiscal year driven by agricultural productivity, manufacturing, mining and exports. GDP growth is projected to rebound to 7 percent in the medium term. Core inflation is expected to remain broadly stable at 5.7 percent in FY2013/14 on account of a stable exchange rate and the reversal of the drought-related spike in food prices. Over the medium-term, core inflation is expected to average 5 percent. The current account balance is projected to widen to 11.2 percent of GDP in FY2014/15 from about 9.7 percent of GDP in FY2013/14, reflecting imports for the large infrastructure projects. On account of strong external flows, reserves are expected to be maintained at a comfortable level of about 4.2 months on imports despite the expected withdrawal of government deposits from the energy and petroleum funds to finance Uganda's share of the hydropower projects. The downside risks are limited and well- managed.

Fiscal policy

To sustain socio-economic stability, prudent management of public finances remains an important aspect of Uganda's fiscal policy. In this regard, the authorities are committed to undertaking corrective measures to bring the fiscal position, which deteriorated in FY2013/14, back on track while at the same time significantly reduce the FY2014/15 deficit. The authorities intend to boost revenue by a combination of strengthening tax collection administration, vigorous identification and collection of taxes already due from entities and some new revenue enhancement measures. The VAT gap analysis to quantify the revenues foregone because of policy and compliance reasons was completed and an action plan has been developed in line with its recommendations. To this end, the authorities appreciate the technical assistance provided by the Fiscal Affairs Department of the IMF.

The pace of spending in FY 2014/15 is expected to be significantly slower than in previous years and domestic borrowing requirements lowered while maintaining the necessary space for infrastructure investment. Expenditure is projected to amount to 19.7 percent of GDP, compared to 18.8 percent in FY2013/14, resulting in a decline of the spending-to-GDP ratio, net of the hydroelectric projects and recapitalization of the central bank, of 0.6 percent of GDP.

While macroeconomic stability has been key to Uganda's economic recovery, the economy still remains vulnerable to fiscal shocks. To this end, the authorities are committed to formulating a charter of fiscal responsibility that will set out the objectives and principles of fiscal policy once the Public Financial Management (PFM) bill, which is currently before parliament is approved. In the interim, a number of PFM related reforms have been completed such as the introduction of the Treasury Single Account (TSA) for IFMS related transactions, inclusion of all central government entities in the Integrated Personnel and Payroll System (IPPS) to improve controls and a cleanup of the payroll. Furthermore, to improve budget credibility, a contingency reserve in line with the PFM has been included in the budget for FY 2014/15. The use of the contingency will be under specific guidelines and its implementation will assist in elimination the use of supplementary budgets.

The authorities are committed to their growth and development strategy with emphasis on a program of infrastructure investment in electricity and road projects to address the infrastructure gap. In implementing this program, they are mindful of the absorption capacity and the need to maintain debt sustainability. Infrastructure financing takes into account the option of Public Private Partnerships (PPP) hence the PPP bill currently before parliament that will establish the legal framework for the needed institutional, investment, monitoring and regulatory arrangements for implementing PPPs in the country.

The authorities noted the concerns of staff with respect to the fiscal risks to successful EAC integration. Staff, in Annex 1, highlighted risks related to meeting convergence criteria on the fiscal stance and the debt position. However, the passage and implementation of the PFM bill as well as the current corrective measures on the revenue and expenditure fronts are expected to ameliorate these risks. Furthermore, institutional arrangements to deal with reporting mechanisms for arrears have been streamlined and a memorandum of understanding reached with the IMF on the management of arrears.

Monetary and financial policies

Monetary policy will continue to be centered on achieving the medium term inflation target of 5 percent and the authorities stand ready to adapt policies in line with domestic and external developments. The Bank of Uganda (BOU) will continue to strengthen the current inflation targeting framework regime by improving its monetary policy formulation and organizational structure. As part of this effort, amendments to the Bank of Uganda Act, including provisions for raising BOU's capital to an adequate share of its monetary liabilities, will be finalized and submitted to Parliament by April 2015. The authorities' objective to align the act with international best practices delayed the process originally expected to be completed by May 2014.

The authorities endeavor to achieve a well capitalized and liquid financial sector that will support the expected credit recovery. As part of its supervisory role, the BOU closely monitors financial sector developments to ensure banks are well capitalized and the system is stable. This includes ensuring that banks adequately provide for nonperforming loans and risk management practices are applied, while encouraging them to restructure viable loans.
The authorities are working to further deepen the financial sector by accommodating alternative banking approaches such as regulations to govern mobile banking. In addition to amendments to the financial institutions bill, amendments to also strengthen the non-bank financial institutions and improve the capital markets act will be submitted to parliament.
Furthermore, the central bank has launched a strategy for financial literacy as part of the project for financial inclusion.

Conclusion

The authorities remain dedicated to maintaining economic stability and supporting sustainable and inclusive growth by generating employment and reducing poverty. In this regard, they will continue with the implementation of sound macroeconomic policies, financial sector reforms and the removal of impediments to private sector development and competitiveness. The Fund and other development partners' policy advice and technical support are critical to successfully overcoming the challenges involved to achieving these goals.