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December 19, 2007

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Uganda: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

November 26, 2007

The following item is a Letter of Intent of the government of Uganda, which describes the policies that Uganda intends to implement in the context of its request for a policy support instrument from the IMF. The document, which is the property of Uganda, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

UGANDA: LETTER OF INTENT

Kampala, Uganda
November 26, 2007

Mr. Dominique Strauss Kahn
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Strauss Kahn:

On behalf of the Government of Uganda, I would like to inform you of the progress we have made under our economic program backed by the International Monetary Fund's Policy Support Instrument (PSI) and transmit the attached Memorandum of Economic and Financial policies (MEFP), which sets out the objectives and policies that the Government intends to pursue in the short and medium term. The policies outlined in the MEFP are based on addressing Uganda's infrastructure needs in an environment of continued fiscal consolidation and implementation of the broader policy agenda as envisaged in the Poverty Eradication Action Plan.

All assessment criteria for the first review under the PSI were observed, save for the non-observance of the ceiling on base money. The Government implemented vigorous measures to alleviate the electricity shortages, and macroeconomic performance and policies remained strong. Fiscal developments were broadly in line with the program objective of fiscal consolidation, and other monetary policy targets were met. The government requests a waiver of the missed assessment criterion, because the non-observance reflected unforeseen external factors. We have modified the program to limit such occurrences in the future.

The Government of Uganda believes that the policies set forth in the MEFP are adequate to achieve the objectives of our PSI program. Given our interest in macroeconomic stability, we stand ready to take additional measures as may be necessary to achieve needed objectives. Our PSI proposes assessment criteria for the performance target dates of end-December 2007 and end-June 2008 for the third and fourth reviews, which are expected to be completed by end-April and end-October 2008, respectively. We stand ready to work with the Fund and other development partners in the implementation of our program and will consult in advance should revisions be contemplated to the policies contained in the PSI.

The Government of Uganda authorizes the publication and distribution of this letter, its attachments, and all reports prepared by Fund staff regarding the current PSI review.

Sincerely yours,

/s/

Dr. Ezra Suruma
Minister of Finance, Planning, and Economic Development

ATTACHMENT I

UGANDA: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

UPDATE

1. **The Government of Uganda remains committed to sustained macroeconomic stability, economic growth, and poverty reduction.** This updated Memorandum of Economic and Financial Policies (MEFP), summarizes the Government's strategy to achieve these goals as set out in the Poverty Eradication Action Plan (PEAP). The Government and the International Monetary Fund (IMF) are cooperating on the economic program through a three-year Policy Support Instrument (PSI). This MEFP describes performance under the program through September 2007, specific policies and targets for 2007/08, and medium-term objectives.

I. Performance Under the PSI

2. **Most program targets have been met.** Fiscal performance in 2006/07 was better than programmed, with revenue collections exceeding the target, and, accordingly, the ceiling on net claims on government by the banking system was observed. Base money exceeded its end-June program ceiling following large portfolio inflows at the end of 2006/07. This overshoot was temporary, and by mid-August, base money was brought back to the targeted path. The floor on the stock of net international reserves of the BOU was exceeded by a substantial margin. The indicative targets on the stock of domestic budgetary arrears under the Commitment Control System (CCS) and on poverty alleviation expenditure were observed. Structural measures are on track, including the allocation of more than one percent of GDP to arrears repayment.

II. Objectives and Policies Looking Forward

A. Fiscal Policy

3. **Our budget for 2007/08 is guided by our medium-term expenditure framework and our prudent approach to fiscal policy.** Accordingly, we will aim to continue reducing the central government deficit (excluding grants) so that the private sector can lead economic growth and poverty reduction. At the same time, our 2007/08 budget will increase infrastructure spending and put emphasis on provisions for Government of Uganda counterpart funding for donor-financed infrastructure projects.

4. **Since the 2007/08 budget was approved, several immediate spending pressures have emerged.** These include (i) infrastructure and other projects related to the 2007 Commonwealth Heads of Government Meetings (CHOGM), (ii) recent flooding in the eastern and northern regions, and (iii) higher subsidies to the electricity sector due to unanticipated increases in global oil prices. The new costs are uncertain at this time and to prepare for these spending pressures within the budget envelope, we have frontloaded cash

releases for (i) and (ii) above in Q1 and Q2 of 2007/08.(but protecting the poverty action fund). However, we may need to increase our spending envelope later in the year.

5. The policy of annually increasing tax collections by 0.5 percent of GDP over the medium term remains in place. We were on track with this objective in 2006/07, raising the ratio by 0.3 percentage points despite the electricity crisis and plan to remain on track this year through the ongoing modernization at the Uganda Revenue Authority and a few changes in taxes that have been approved by Parliament. We also plan to produce a tax procedure code that will help individuals and businesses better understand their tax obligations.

6. The Government has announced the introduction of tax incentives for qualified exporters. Attracting investment to Uganda is a key part of the value addition strategy to bring more employment opportunities to Ugandans. The revenue loss due to tax incentives is expected to be modest, around 0.1 percent of GDP in 2007/08. We will avoid granting enterprise-based discretionary tax preferences, and implementation will take place as budgetary resources permit and taking into account the URA's capacity to monitor compliance. These tax holidays are consistent with tax policies in our EAC partners.

7. **We remain committed to limiting the accumulation of new domestic arrears and are making some adjustments to our strategy**.

a. The IFMS has been rolled out to all of central government and will be rolled out to selected local governments, where feasible, as a measure to control accumulation of arrears.

b. All commitments made against the Accounting warrant, including those not backed by cash, will be captured in the IFMS CCS module. Starting in March 2008, to control the accumulation of CCS arrears, expenditures committed outside the IFMS system for both IFMS and non-IFMS votes will not be recognized by the Accountant General as arrears and therefore will not be programmed for payment in future budgets by MoFPED. Efforts will be made to ensure that clearance of category B arrears takes the first call on resources availed on quarterly basis.

c. Long-term commitments (pension, rent, contributions to international organizations) or unplanned events (e.g. court awards) will be handled through realistic budgeting and review of policy.

d. The Ministry of Public Service will implement the new Integrated Personnel and Payroll System in three Commissions (Public Service Commission, Health Service Commission, Education Service Commission), Ministries (Ministry of Finance, Ministry of Health, Ministry of Public Service, Ministry of Education), and Local Governments (Lira and Jinja Districts) by May 2008. This should improve payroll and pension records and ensure accurate payroll and pension figures.

e. The Ministry of Finance, Planning and Economic Development, in conjunction with the Ministry of Foreign Affairs, will submit to Cabinet an updated list of international subscriptions and related host ministries to Cabinet for verification and approval. Further, the Ministry of Finance will advise all ministries that, starting with the 2007/08 financial year, subscription obligations will be met within their own budgets;

These steps should help contain arrears accumulation. We endeavor to adequately provide funding for statutory expenditures, and commitments for cofinancing of development projects in the upcoming budget.

8. **We will continue to move ahead with measures to improve fiscal policy and its implementation.** In addition to those outlined in the MEFP dated 17 May 2007, we will extend our medium-term planning period from three to five years, build our capacity to carry out debt sustainability analysis, move forward with public service pay reform (as resources permit), and look for ways of delivering government services more efficiently. These efforts should help us free resources for critical infrastructure investment and better target these within our debt strategy.

B. Monetary and Financial Sector Policies

9. **We remain committed to keeping annual average underlying inflation below five percent.** Our monetary policy will remain anchored by base money. However, flexibility in base money will be allowed in order to enable the BOU to address unanticipated currency inflows or other shifts in money demand. To implement this, the Net Domestic Assets (NDA) of the BOU will become an assessment criterion under the PSI, while the existing assessment criterion on base money will become an indicative target. We will strive to maintain the programmed path of base money barring any acute shocks. Deviations from the monthly average target will be limited to plus or minus five percent and only on account of external balance of payments shocks as evidenced by instability in the foreign exchange market.

10. **The BOU will continue to manage liquidity using an appropriate instrument mix.** Subject to the conditions in the foreign exchange market, BOU will continue to use sales of foreign exchange to sterilize shilling liquidity injections arising largely from government expenditure. However, the BOU will rely more heavily on open market operations for liquidity management if the interbank foreign exchange market conditions do not allow it to sell in full the programmed foreign exchange.

11. **Government and the BOU are taking steps to increase financial intermediation with the aim of reducing borrowing costs and boosting private investment.** Uganda's financial sector comprises financial market (mainly commercial banks and money and foreign exchange markets), non-deposit-taking institutions (pension funds, insurance companies), and microfinance institutions. Our strategy represents a comprehensive and concerted effort by both the BOU and the Government to enhance financial intermediation by developing all elements of the financial sector. The BOU is taking the lead in developing further the Uganda's financial market in order to enhance the

availability and affordability of its services. Government in turn is working on (i) mobilizing the resources of the non-deposit-taking institutions in order to enhance the provision of long-term credit and (ii) providing capacity building and proper supervision to the microfinance institutions in order to expand the access to the financial services to segments of the population that are currently outside of the formal financial sector. Specific measures by Government include:

a. Submit to Cabinet legislation to regulate pension and other non deposit taking financial institutions. This will help protect pensioners and investors and also bolster sources of longer-term savings for capital investment. Changes to the public pension system would be considered after this general legislation is in place, while safeguarding social security protection and promoting financial market deepening.

b. Issue a tender to select the provider for the national identity card system for the purpose of tracking individual borrowing and repayment records. These will help lower the risk of lending, especially to SMEs and individuals.

As part of the Monetary Affairs Committee (MAC) of the EAC, the BOU on its part has drafted a five-year financial market development plan and has received comments from the key stakeholders. These will soon be incorporated into the plan. The plan represents an approach to addressing the current limitations in the Uganda's financial markets by identifying gaps and constraints. It also sets a foundation for implementation of proposed recommendations and will incorporate the different roles the stakeholders will play.

12. **The BOU is moving forward with preparations for a possible move to inflation targeting.** A key impetus has been the recent instability in money demand. The BOU is pushing forward its research program and is working with UBOS to produce high frequency data. The BOU and Government will work together to ensure that both parties are able to meet their respective obligations for inflation targeting.

C. Energy and Infrastructure

13. **The Government attaches the utmost importance to addressing infrastructure deficiencies.** Reflecting this, agriculture, infrastructure development, including transportation, electricity, and water have been given priority in the 2007/08 budget and in the medium term.

14. **We are implementing our two stage strategy to boost electric power generating capacity.** In the near-term Government will continue to support the private sector by carrying some of the cost of temporary generators. For the medium term, the final agreements for Bujagali are expected to be signed and full scale construction will begin soon after. Government is planning additional dam projects. We will ensure that these are the least cost options to secure needed capacity, financing is in accordance with our debt strategy, and procurement is in line with Uganda law.

15. **We recognize that road projects are lagging behind our needs** and we are considering options to speed up repairs and new construction. One possibility is to utilize "turnkey" projects where one development partner would provide a completed road from planning, engineering, financing, and construction and ready for ribbon cutting. As with power sector projects, any work considered for this approach would be in compliance with our debt strategy and in compliance with our laws. We will also use the Road Fund to ring fence resources for road maintenance.

16. **Prospects for commercial oil production have improved significantly,** and production could begin in the next several years. We recognize the challenges associated with windfall oil revenues, including their potentially negative impact on macroeconomic stability, fiscal sustainability, and development of the non-oil economy. Government is developing a national strategy to ensure that the oil wealth is used wisely. This strategy will include our commitment to manage these resources transparently and to use them in a way consistent with macroeconomic stability. The IMF has committed to provide assistance in these areas. We anticipate having the strategy and accompanying legislation in place by end-June 2008.

D. Other Issues

17. **Together with our regional counterparts, we are taking steps to facilitate closer integration among the members of the East African Community.** On the agenda are closer economic ties, joint approach to customs policy and investment incentives, and eventual monetary union.

18. **The Government of Uganda has requested technical assistance in the following four areas:** oil (tax policy design); balance of payments (collection and analysis of data on informal cross-border trade and on offshore investments); national accounts; and inflation targeting. The IMF has committed to providing this assistance. The Government of Uganda has also requested TA on supervision of non-bank financial institutions, and the IMF may be able to accommodate this request.

Table 1. Uganda: Quantitative Assessment Criteria and Indicative Targets for December 2007-June 2009 [1]
(Cumulative change from the beginning of the fiscal year, unless otherwise stated) [2]

	Dec. 31 2007		Mar. 31 2008 [3]	June 30 2008	June 30 2009 [3]
	Prog.	Rev. prog.	Prog.	Prog.	Prog.
Assessment criteria			(U Sh billions)		
Ceiling on the increase in net domestic assets of the Bank of Uganda	…	211	261	125	186
Ceiling on the increase in net claims on the central government by the banking system	-360	324	393	31	-19
			(US$ millions)		
Ceiling on the stock of external payments arrears incurred by the government or the Bank of Uganda [4]	0	0	0	0	0
Ceiling on new nonconcessional external borrowing with maturities greater than one year contracted or guaranteed by the government or the Bank of Uganda [4, 5]					
Bujagali hydropower plant	400	400	400	400	400
JBIC loan guarantee to Phenix textile factory	6	6	6	6	6
Other	0	0	0	0	0
Ceiling on new external debt with maturity up to one year contracted or guaranteed by the government or the Bank of Uganda [5, 6]	0	0	0	0	0
Minimum increase in net international reserves of the Bank of Uganda	192	-3	-31	50	17
Indicative targets			(U Sh billions)		
Ceiling on the increase in base money liabilities of the Bank of Uganda [7]	207	206	211	208	214
Stock of domestic budgetary arrears under the Commitment Control System (CCS) [8]	60	60	…	30	20
Minimum expenditures under the Poverty Action Fund (including the Universal Primary Education component of development expenditure)	596	600	904	1,222	…

[1] The assessment criteria and indicative targets under the program, and their adjusters, are defined in the technical memorandum of understanding (TMU).
[2] Fiscal year begins on July 1.
[3] Indicative targets.
[4] Continuous performance criterion.
[5] Cumulative change from December 1, 2006.
[6] Excluding normal import-related credits.
[7] For December 2007, March 2008, and June 2008, cumulative changes from the average of June 2007, as defined in the TMU. For June 2009, cumulative changes from the average of June 2008.
[8] Arrears incurred after end-June 2004. The stock amounted to USh 43 billion at end-June 2007. The end-June 2008 target was changed from U Sh 10 billion to U Sh 30 billion to reflect the authorities' commitment to give priority to repayment of pension arrears.

Table 2. Uganda: Structural Assessment Criteria and Benchmarks[1]

Policy Measure	Date of Implementation
Structural Assessment Criteria	
1. Finalize and publish the Government of Uganda Debt Strategy	End-December 2007
2. Submit to cabinet a policy paper outlining the establishment of a new regulatory framework for financial institutions not under the statutory supervision of the BOU. These financial institutions will include private and public pension funds, and the Uganda Development Bank.	End-June 2008
3. Implement pilot Integrated Personnel and Payroll System in three Commissions (Public Service Commission, Health Service Commission, Education Service Commission), Ministries (Ministry of Finance, Ministry of Health, Ministry of Public Service, Ministry of Education), and Local Governments (Lira and Jinja Districts).	End-May 2008
4. For 2008/09 budget, allocate U Sh 300 billion for payments of verified group (A) domestic arrears, with priority given to pension arrears. [2]	End-June 2008
5. Issue a tender to select the provider for the national identity card system.	End-June 2008
Structural Benchmarks	
6. The BOU, in consultation with other members of the Monetary Affairs Committee of the EAC, will finalize a comprehensive draft financial market development strategy.	End-May 2008
7. The Ministry of Finance, in conjunction with the Ministry of Foreign Affairs, will submit to Cabinet the complete list of international subscriptions and the related payment obligations.	End-April 2008
8. Update national energy (Oil) policy to include macroeconomic policy options.	End-June 2008

[1] Assessment criteria also apply on a continuous basis to the standard provisions on the exchange and trade issues that apply to programs supported by the Fund's financial resources.

[2] Group (A) arrears comprise the stock of pre-CCS, non-CCS, and CCS arrears incurred before end-June 2004.

ATTACHMENT II

UGANDA: TECHNICAL MEMORANDUM OF UNDERSTANDING

A. Introduction

1. This memorandum defines the targets described in the memorandum of economic and financial policies (MEFP) for the July 2006–June 2009 financial program supported by the IMF Policy Support Instrument (PSI), and sets forth the reporting requirements under the instrument.

B. Net Foreign Assets (NFA) and Net Domestic Assets (NDA) of the Bank of Uganda (BOU)

2. The net foreign assets of the BOU are defined as the monthly average (based on daily data) of foreign assets minus foreign liabilities, and include all foreign claims and liabilities of the central bank. The monthly average values of all foreign assets and liabilities will be converted into U.S. dollars at each test date using the average cross exchange rates for June 2007 for the various currencies and then converted into Uganda shillings using the average U.S. dollar-Uganda shilling exchange rate for June 2007.

Program Exchange Rates (US$ per currency unit, unless indicated otherwise)	
Euro	1.3417
British pound	1.9843
Japanese Yen	0.0082
Kenya shilling	0.0150
Tanzania shilling	0.0008
SDR	1.5113
Uganda shilling (per US$1)	1,645.7

3. Net domestic assets (NDA) of the Bank of Uganda (BOU) are defined as the monthly average (based on daily data) of base money (defined below) less net foreign assets of the BOU (as defined in para. 2). Based on this definition, the NDA limits will be cumulative changes from the average of June 2007 to the average of December 2007, March 2008 and June 2008. The respective cumulative changes are increases of Shs210.6 billion, Shs261.2 billion and Shs125.6 billion.

(In billions of shillings)			
	Dec 2007	Mar 2008	Jun 2008
Cumulative change in base money	206.3	210.7	207.6
Cumulative change in NFA	-4.3	-50.5	82.3
Cumulative change in NDA	210.6	261.2	125.3

B. Base Money

4. Base money is defined as the sum of currency issued by Bank of Uganda (BOU) and the commercial banks' deposits in the BOU. The commercial bank deposits include the statutory required reserves and excess reserves held at the BOU and are net of the deposits of closed banks at the BOU and Development Finance Funds (DFF) contributed by commercial banks held at the BOU. The base money limits will be cumulative changes from the daily average of June 2007 to the daily average of December 2007, March 2008 and June 2008, and cumulative changes from the daily average of June 2008 to the daily average of June 2009.

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

5. Net claims on the central government (NCG) by the banking system is defined as the difference between the outstanding amount of bank credits to the central government and the central government's deposits with the banking system, excluding deposits in 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. Central government's deposits with the banking system include the full amount of IMF MDRI. NCG will be calculated based on data from balance sheets of the monetary authority and commercial banks as per the monetary survey. The quarterly limits on the change in NCG by the banking system will be cumulative beginning end-June in the previous fiscal year.

D. Net International Reserves of the Bank of Uganda

6. Net international reserves (NIR) of the BOU are defined for program monitoring purpose as reserve assets of the BOU net of short-term external liabilities of the BOU. Reserve assets are defined as external assets readily available to, and controlled by, the BOU and exclude pledged or otherwise encumbered external assets, including, but not limited to, assets used as collateral or guarantees for third-party liabilities. Short-term external liabilities are defined as liabilities to nonresidents, of 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 them from their original currency denomination at program exchange rates (as specified in para. 2).

E. Ceiling on Domestic Budgetary Arrears of the Central Government

8. The stock of domestic payment arrears under the Commitment Controls System (CCS) will be monitored on a quarterly basis. Domestic payments arrears under the CCS are defined as the sum of all bills that have been received by a central government spending unit or line ministry delivered in that quarter, and for which payment has not been made within 30 days under the recurrent expenditure budget (excluding court awards) or the development expenditure budget. For the purpose of program monitoring, the quarterly CCS reports, which will include arrears accumulated at IFMIS and non-IFMIS sites, prepared by the Internal Audit and Inspection Office will be used to monitor arrears. Arrears can be cleared in cash or through debt swaps.

9. The payments of pre-CCS, non-CCS, and CCS arrears accumulated up to end-June 2004 ("group A arrears") are covered by specific budget allocations for 2006/07 and 2007/08. The program ceiling on the stock of CCS arrears only covers accumulation of arrears after end-June 2004 ("group B arrears"). According to the verified report prepared by the Internal Audit and Inspection Office, this stock of arrears is estimated at U Sh 43 billion as of June 2007.

F. Adjusters

10. The NDA and NIR targets are based on program assumptions regarding budget support, assistance provided under the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI), external debt-service payments, and automatic access by commercial banks to the BOU's rediscount and discount window facilities. The NCG target, in addition to being based on the aforementioned assumptions, is also based on assumptions regarding domestic nonbank financing of central government fiscal operations. In addition, the NDA target depends on the legal reserve requirements on deposits in commercial banks.

The Uganda shilling equivalent of budget support (grants and loans) plus HIPC Initiative assistance in the form of grants on a cumulative basis from July 1 of the fiscal year is presented under Schedule A. The ceilings on the cumulative increase in NDA and NCG will be adjusted downward (upward), and the floor on the cumulative increase in NIR of the BOU will be adjusted upward (downward) by the amount by which budget support, grants and loans, plus HIPC Initiative and MDRI assistance, exceeds (falls short of) the projected amounts.

Schedule A: Budget Support Plus Total HIPC Initiative Assistance (Cumulative billions of Uganda shillings, beginning July 1 of the fiscal year)				
Quarter	Dec. 31, 2007	Mar.. 31, 2008	June 30, 2008	June 30, 2009
Budget support, including HIPC Initiative grants	237	321	672	669

11. The ceiling on the increases in NDA and NCG will be adjusted downward (upward) and the floor on the increase in NIR will be adjusted upward (downward) by the amount by which debt service due[1] plus payments of external debt arrears less deferred payments (exceptional financing) falls short of (exceeds) the projections presented in Schedule B. Deferred payments are defined to be (i) all debt service rescheduled under the HIPC Initiative; and (ii) payments falling due to all non-HIPC Initiative creditors that are not currently being serviced by the authorities (that is, gross new arrears being incurred).

Schedule B: Debt Service Due, Before HIPC Initiative Assistance (Cumulative billions of Uganda shillings, beginning July 1 of the fiscal year)				
Quarter	Dec. 31, 2007	Mar.. 31, 2008	June 30, 2008	June 30, 2009
Debt service due before HIPC, excluding exceptional financing	119	169	195	183

12. The ceiling on the increase in NCG will be adjusted downward (upward) by any excess (shortfall) in nonbank financing[2] less payment of domestic group A arrears relative to the programmed cumulative amounts presented in Schedule C. For the purpose of this adjuster, payment of domestic group A arrears cannot exceed the programmed amount by more than U Sh 45.0 billion.

[1] Debt service due is defined as pre-HIPC Initiative debt service due, but from 2003/04 onwards, this excludes HIPC Initiative debt rescheduling.

[2] Comprising the check float and the change in government securities and government promissory notes held by the nonbank sector. The change in government securities held by the nonbank sector will be calculated from the data provided by the Central Depository System (CDS).

Schedule C: Nonbank Financing Minus Repayment of Domestic Arrears (Cumulative billions of Uganda shillings, beginning July 1 of the fiscal year)				
Quarter	Dec. 31, 2007	Mar.. 31, 2008	June 30, 2008	June 30, 2009
(A) Nonbank financing	-13	28	31	150
(B) Domestic arrears repayment	112	210	280	330
(C) Total = (A) –(B)	-125	-182	-249	-180

13. The ceiling on NDA of the BOU for end-June will be adjusted upward by the daily average amount of commercial bank automatic access to the BOU discount window and rediscounting of government securities by commercial banks.

14. The ceiling on NDA of the BOU for every test date will be adjusted downward/upward to reflect decreases/increases in the legal reserve requirements on deposits in commercial banks. The adjuster will be calculated as the percent change in the reserve requirement multiplied by the actual amount of required reserves (Uganda shillings and foreign-currency denominated) at the end of the previous calendar month.

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

15. The assessment criterion on short-term debt refers to contracting or guaranteeing external debt with original maturity of one year or less by the government or the Bank of Uganda. Excluded from this assessment criterion are normal import-related credits. The definition of “debt” is set out in paragraph 17.

16. The program includes a ceiling on new nonconcessional borrowing with maturities greater than one year contracted or guaranteed by the government, statutory bodies, or the BOU.[3] Nonconcessional borrowing is defined as loans with a grant element of less than 35 percent, calculated using average commercial interest rates references (CIRRs) published by the Organization for Economic Cooperation and Development (OECD). In assessing the level of concessionality, the 10-year average CIRRs should be used to discount loans with maturities of at least 15 years, while the 6-month average CIRRs should be used for loans with shorter maturities. To both the 10-year and 6-month averages, the following margins for differing payment periods should be added: 0.75 percent for repayment periods of less than 15 years; 1 percent for 15–19 years; 1.15 percent for 20–25

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

years; and 1.25 percent for 30 years or more. The ceiling on nonconcessional 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, contingent or otherwise, on nonconcessional terms. Excluded from the limits are changes in indebtedness resulting from refinancing credits and rescheduling operations, and credits extended by the IMF. For the purposes of the program, arrangements to pay over time obligations arising from judicial awards to external creditors that have not complied with the HIPC Initiative do not constitute nonconcessional external borrowing. For the purposes of the program, the Bujagali project is defined as the hydroelectric dam and related equipment located at the dam site.

17. The definition of debt, for the purposes of the limit, is set out in point 9 of the Guidelines on Performance Criteria with Respect to External Debt (Executive Board's Decision No. 12274-(00/85), August 24, 2000). It not only applies to the debt as defined in Point 9 of the Executive Board decision, but also to commitments contracted or guaranteed for which value has not been received. The definition of debt set forth in No. 9 of the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements reads as follows:

> (a) For the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the 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.

18. The ceiling on the accumulation of new external payments arrears is zero. This limit, which is to be observed on a continuous basis, applies to the change in the stock of overdue payments on debt contracted or guaranteed by the government, the BOU, and statutory bodies[4] from their level at end-June 2006. It comprises those external arrears reported by the Trade and External Debt Department of the BOU, the Macro Department of the Ministry of Finance that cannot be rescheduled because they were disbursed after the Paris Club cutoff date.

H. Monitoring and Reporting Requirements

19. The authorities will inform the IMF staff in writing at least ten business days (excluding legal holidays in Uganda or in the United States) prior to making any changes in economic and financial policies that could affect the outcome of the financial program. Such policies include but are not limited to customs and tax laws (including tax rates, exemptions, allowances, and thresholds), wage policy, and financial support to public and private enterprises. The authorities will similarly inform the IMF staff of any nonconcessional external debt contracted or guaranteed by the government, the BOU, or any statutory bodies, and any accumulation of new external payments arrears on the debt contracted or guaranteed by these entities. The authorities will furnish an official communication to the IMF describing program performance of quantitative and structural assessment criteria and benchmarks within 8 weeks of a test date. The authorities will on a regular basis submit information to IMF staff with the frequency and submission time lag as indicated in Table 1. The information should be mailed electronically to AFRUGA746@IMF.ORG .

[4] This definition is consistent with the coverage of public sector borrowing defined by the Fund (includes the debt of the general government, monetary authorities, and entities that are public corporations which are subject to the control by government units, defined as the ability to determine general corporate policy or by at least 50 percent government ownership).

Table 1. Summary of Reporting Requirements

Reporting institution	Report/Table	Frequency	Submission lag
I. Bank of Uganda	Issuance of government securities.	Weekly	5 working days
	Interest rates on government securities.	Weekly	5 working days
	Operations in the foreign exchange market and daily average exchange rates.	Weekly	5 working days
	Consumer price index.	Monthly	2 weeks
	Balance sheet of the BOU, consolidated accounts of the commercial banks, and monetary survey. The Internal Audit Department (IAD) of the BOU will review the reconciliations of monetary survey data with the financial records and the audited financial statements. Any revisions to monetary survey data, in line with the recommendations of the IMF safeguards mission, will be documented and reconciled with the previous presentation to ensure accurate reporting.	Monthly	4 weeks
	Composition of foreign assets and liabilities of the BOU by currency of denomination.	Monthly	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.	Monthly	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, disaggregated into grants, flow rescheduling, and stock-of-debt reduction by creditor.	Monthly	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 monthly outcome with adjusted program targets for (i) base money; (ii) net claims on central government by the banking system; (iii) stock of external arrears; (iv) new nonconcessional external borrowing; and (v) net international reserves	Quarterly	5 weeks
	Daily average amount of commercial bank automatic access to the BOU discount window and rediscounting of government securities by commercial banks.	Quarterly	4 weeks

Table 1. Summary of Reporting Requirements

Reporting institution	Report/Table	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, cash transfers to districts, and externally funded development expenditures. Expenditures on domestic interest will be recorded on an accrual basis and external debt service will be recorded on a commitment basis (i.e., when payment is due). Cash transfers to districts will be recorded as expenditures of the central government when the transfer is effected by the BOU. Expenditures on externally funded development programs will be recorded as the sum of estimated disbursements of project loans and grants by donors, less the change in the stock of government project accounts held at the BOU and domestic commercial banks.	Monthly	6 weeks
	Summary of outstanding stock of group (B) domestic arrears. Group (B) arrears comprise the stock of CCS/IFMS arrears incurred after end-June 2004.	Quarterly	6 weeks
	Summary of contingent liabilities of the central government. 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 central government account of disbursed budget support grants and loans, HIPC support, and external debt service due and paid.	Monthly	4 weeks
	Detailed central government account of disbursed donor project support grants and loans.	Monthly	6 weeks
	Statement on new loans contracted 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	4 weeks