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June 20, 2008

UGANDA: LETTER OF INTENT

Kampala, Uganda
June 20, 2008

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 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 drawn from the Government's initiatives to promote employment and rapid economic growth in the context of a stable macroeconomic environment.

Despite a less favorable global economic environment and the disruptions caused by the recent turmoil in Kenya, the economy continues to grow at high rates, partly taking advantage of the improved trading environment in the region. Fiscal developments in 2007/08 are also set to be in line with the our objectives.

Most assessment criteria for the third review under the PSI were observed. We did, however, introduce changes to some of the structural measures in our program—(i) establishment of new framework for financial institutions not supervised by the BOU, (ii) implementation of the Integrated Personnel and Payroll System pilot, (iii) issuing a tender to select the provider for the national ID card system, and (iv) allocation of budgetary resources to arrears clearance—in light of new information and reassessment of costs and priorities. Taking into account the progress achieved in the implementation of the program and the clarifications provided below, the Government of Uganda requests waivers for nonobservance of the relevant assessment criteria.

The Government of Uganda believes that the policies set forth in the MEFP are adequate to achieve the objectives of our PSI-supported 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-June and end-December 2008 for the fourth and fifth reviews, which are expected to be completed by end- November 2008 and end-April 2009. 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

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 May 2008, specific policies and targets through the first half of 2008/09, and medium-term objectives.

I. Performance Under the PSI

2. All assessment criteria have been met. Fiscal performance in the first half of 2007/08 was well within the program limits and, accordingly, the ceiling on net claims on government by the banking system was observed. The ceiling on net domestic assets of the Bank of Uganda (BOU) and the floor on the stock of net international reserves of the BOU were also comfortably observed. Base money exceeded only marginally the allowed 5 percent band with respect to the indicative target. The indicative target for poverty related spending performed at 94 percent of programmed amounts, marginally below the 95 percent target. The debt strategy was published in December 2007; and U Sh 300 billion has been allocated for arrears clearance in 2008/09 budget. The other structural measures are being modified as outlined below.

II. Objectives and Policies Looking Forward

3. The central objective of our economic policies is to raise economic growth to achieve rapid and sustained poverty reduction. Without this higher rate of growth, job creation will not keep pace with the half million new entrants into the labor market each year. Supported by macroeconomic stability and sound public finances, our policies will continue to focus on addressing the key constraints to higher private investment. An improved security situation in northern Uganda and peace and stability in the broader east and central Africa region are also expected to give the economy a fillip. Recent macroeconomic developments have been heavily influenced by strong balance of payments performance, including capital inflows, with attendant appreciation pressures on the Uganda shilling. Our near-term financial policies are being calibrated with a view to addressing these pressures.

A. Fiscal Policy

4. The outlook for the remainder of the 2007/08 fiscal year ending in June is in line with the Medium-Term Fiscal Framework (MTFF) and program objectives set out in the previous MEFP.

- The turmoil in Kenya has not had a significant impact on fiscal aggregates. Better than expected tax collection in the first half of 2007/08, has fully offset the negative impact of the crisis on customs revenues in January. And when calm returned, the flow of goods through Kenya reverted back to normal levels. For the full year, we expect revenues to be some U Sh 70 billion better than targeted.

- Despite significant unexpected pressures, total spending has been kept within the budget envelope. In the first half of the fiscal year, the successfully concluded Commonwealth Heads of Government Meeting required greater resources than originally allocated in the budget. Responses to emergencies, including floods and an Ebola outbreak, required additional spending. The decision to invest in a new government aircraft for use by the President also entailed additional outlays. Cumulatively, spending on these items amounted to 0.3 percent of GDP, and was financed from a combination of cuts in non-priority spending and higher-than-expected revenues. The Presidential Affairs Committee of Parliament has been briefed about the acquisition of the new aircraft, and the old one will be sold consistent with national regulations to ensure transparency and highest return to the government. Overall, we expect to remain within the program's fiscal targets for 2007/08.

5. The 2008/09 budget will significantly increase agriculture and infrastructure spending to address bottlenecks to economic growth and poverty reduction. While ongoing measures to strengthen tax collection and reduction in current spending will help to create most of the required fiscal space, we will also increase domestic borrowing modestly. However, given the sizeable fiscal consolidation of recent years, fiscal sustainability will not be put at risk. The areas that will receive significantly more funding are:

- *Agriculture*. With a view to increasing farm productivity, we are working on improving the value chain including research and extension services to farmers. We are also reviewing policies to provide to farmers better access to inputs, financing and marketing services.

- *Infrastructure*. The government will sustain the increase in allocation towards infrastructure initiated in the last two budgets, with a focus on energy and transportation.

- *Energy*. With the help of a US$75 million bridge loan by the GOU, construction of the hydroelectric dam and power plant at Bujagali has been underway for close to a year. Financing for the project was secured by the project sponsor in December, and the bridge loan has been repaid. In the event, only US$115 of the borrowing room under the non-concessional borrowing limit of US$400 million has been used. We are now turning our attention to the Karuma hydro project, which has been identified as the next least cost option and will be financed by a mix of public and private resources (the former including the moneys from the government's energy fund). We are working with the project developers on financing modalities. In the event concessional financing cannot be secured, we intend to use non-concessional borrowing for the project and are requesting a US$400 million limit on nonconcessional borrowing in the PSI-supported program.

- *Roads*. With respect to transportation projects, we are actively looking at ways to facilitate the flow of goods in and out of the country by using turnkey projects and improving implementation through the formation of the National Roads Authority and creation of Road Fund. Specifically, the government over the next three years plans to spend an additional US$200 million per year to upgrade the key transport corridors linking our country to South Sudan, Kenya, and Rwanda, consistent with national procurement regulations. The appropriation under the line item "transport corridor project" will be ring-fenced and only used for the construction of these key road corridors, with any additional funds needed beyond US$200 million being financed from reallocations within the budget envelope.

- *Railway.* We are reviewing the concession agreement with Rift Valley Railway to ensure its implementation.

- *Human resource development*. The 2008/09 budget will also increase investment in human capital development, with a particular emphasis on (i) expanding Universal Primary and Secondary Education access and (ii) better basic health service delivery with a view to reducing high maternal and infant mortality rates.

- *Private sector development*. The problem of limited value addition is a result of coordination and market failures and we plan to address this through the following initiatives:

  - The construction of industrial parks where concentrated infrastructure services can be better provided;

  - Gradual recapitalization of the Uganda Development Bank (UDB) to ensure that it can provide long-term financing—the absence of which we have identified as a major impediment to the growth of small and medium scale enterprises. Government intends to issue an Industrialization Bond in 2008/09 of U Sh 20 billion to be managed by UDB, with the possibility of more resources being allocated to the bank in the medium term providing the resources are used effectively. UDB will extend term loans on a basis that ensures full cost recovery, and the performance of the loans will be judged against internationally accepted best practices for development banks. Should the Bank's non-performing loan (NPL) ratio exceed 10 percent, additional resources will not be provided to the Bank until it brings the ratio back below this level. Annual independent audits will be required on the quality of UDB's risk assessment before additional resources are provided to recapitalize UDB.

- Government intends to introduce a credit guarantee scheme, to underwrite risk to encourage commercial banks to lend to the agricultural sector. Under the scheme, the government will provide a guarantee for up to 50 percent of the credit risk associated with loans by commercial banks for certain sectors. By using the banks superior credit assessment capacity, the scheme ensures that resources will be directed to the most viable projects. The 2008/09 budget will allocate U Sh 20 billion for this scheme.

6. The Government remains committed to increasing tax collection in the medium term. Revenue collections in 2007/08 were strong reflecting administrative improvements in the Uganda Revenue Authority following the reforms that have been undertaken. But there is still more scope to mobilize more tax resources through further improvements in tax administration. Accordingly we plan to:

- Produce a tax procedure code that will help individuals and businesses better understand their tax obligations and improve tax compliance.

- Introduce amendments to the Income Tax Act for petroleum taxation.

- Update the excise tax law and take steps to address the tax revenue loss as a result of smuggling.

- Take measures to increase the efficiency of the tax tribunal by appointing members with adequate qualifications by end-June 2008.

- Consider the merits of introducing an electronic tax registry, to improve the VAT collection.

7. Parliament has recently approved tax incentives for qualified investors to take effect starting July 1, 2008. Revenue losses are expected to be very modest (not exceeding 0.1 percent of GDP), with the incentives only being granted to companies exporting more than 80 percent of their production. Coupled with the other initiatives noted above, this

implies that the budget is altogether allocating some U Sh 60 billion (1/4 percent of GDP) for private sector development. Going forward, these initiatives will be the modalities through which the government will provide sector-specific support. Other government resources will be directed towards the other priorities noted above.

8. The Government remains committed to reducing arrears, notwithstanding the increase in new arrears in 2006/07 to U Sh 100 billion from some U Sh 60 billion in the previous two fiscal years. Moreover, two thirds of the arrears incurred in 2006/07 was in areas covered by the commitment control system. This suggests that the system is not working as effectively as envisaged. The problem for some spending categories (such as utilities) is partly due to insufficient budgetary allocations. But failure by line ministries and agencies to observe public financial management rules also plays a role. To address the challenge, we are undertaking the following initiatives:

- For 2008/09, we will ensure sufficient allocation of resources and minimize cuts once spending limits have been allocated.

- Given the weakness evident in the control mechanisms under IFMS, we are launching a comprehensive audit of the system which will *inter alia* review the effectiveness of the system, including with respect to access, compliance, and the system's integrity. This review is expected to be completed by end-September, 2008.

- Starting in July 2008 to coincide with the new fiscal year, 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 available on a quarterly basis.

- Consistent with repeated notifications by Cabinet and MOFPED to spending agencies that arrears would be cleared out of future budgetary allocations, starting with the 2008/09 budget, up to 15 percent of quarterly cash releases to spending agencies will be withheld and used to clear verified arrears, until the cumulative CCS arrears incurred by the relevant spending agency since the start of the 2004/05 fiscal year has been cleared.

- 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), four Ministries (Ministry of Finance, Ministry of Health, Ministry of Public Service, Ministry of Education), and two local governments (Lira and Jinja Districts) by January 2009. This should improve payroll and pension records and ensure accurate payroll and pension figures. The implementation deadline is being extended from May 2008 due to delays in the procurement process.

- To address the arrears to international organizations, the Ministry of Finance, together with the Ministry of Foreign Affairs, have submitted to cabinet the complete list of international subscriptions and the related payment obligations. The individual memberships will be reviewed and sufficient budgetary provisions ensured.

B. Monetary and Financial Sector Policies

9. We remain committed to keeping annual average core inflation below five percent guided by our reserve money target. In 2007/08, inflation is likely to trend higher than this on account of strong increases in international fuel, food, and commodity prices and effects of the turmoil in Kenya. Given higher economic growth and an increase in money demand, the Bank of Uganda (BOU) will increase the targeted stock of base money for June 2008 by an additional 3 percent. For 2008/09, base money growth will target core inflation of 5 percent.

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 donor inflows. In view of the persistent inflows, we will keep under review the instrument mix with a view to avoiding undue upward pressure on interest rates.

11. The BOU is pursuing the tools needed for a future inflation targeting framework. In June 2007, UBOS rolled out a new measure of core inflation that would more accurately capture inflationary trends and is expected to roll out a quarterly GDP index by October 2008.

C. Other Structural Reforms

12. The government has decided on specialized regulatory agencies for the non-bank financial entities. There is already an insurance commission which regulates the insurance industry. For pensions, we have decided to establish a specific regulatory agency for existing (including NSSF) and new entities. Draft legislation establishing the new body will be submitted to parliament by end-December, 2008. An appropriate entity will be found to supervise the non-deposit taking financial service providers, such as leasing companies, Savings and Credit Cooperatives (SACCOs), and other microfinance institutions. The Government recognizes the need to supervise the Uganda Development Bank (UDB), but at this stage does not wish to establish a dedicated regulatory body to supervise a single relatively small institution (its balance sheet is approximately US$30 million). At this stage, the UDB's activities are being monitored closely by its newly reconstituted and independent board. As the UDB's portfolio expands, however, the Government will find an appropriate regulatory solution.

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

14. The introduction of a national identity card system is now expected to take somewhat longer than previously envisaged, partly due to limited resources to cover its high cost. In the interim, the government is taking a number of steps to enhance existing databases (for passports, driving licenses, tax identification numbers, etc) including by supplementing them with biometric information. In the financial sector, the challenge of minimizing identity fraud-related loses will now be addressed through the issuance of financial cards, which will include biometric information of the individual bank customers, that will be issued by the Credit Reference Bureau (CRB).

15. The government has reached an agreement on the principles guiding the operation of the energy fund and will issue appropriate regulations. The Ministry of Finance will have the authority to decide on using the energy fund. Like the general government account, the energy fund will be subject to the review by the Auditor General.

16. Commercial oil production is expected to start soon. We recognize the challenges associated with the increased revenues, including their potentially negative impact on macroeconomic stability, fiscal sustainability, and development of the non-oil economy. To ensure that the oil wealth is used wisely, Government has finalized the national energy policy and is updating it to include macroeconomic policy options. Government will ensure that prudent policies, transparency and accountability of operations are in place.

Table 1. Uganda: Quantitative Assessment Criteria and Indicative Targets for June 2008 - June 2009 [1]
(Cumulative change from the beginning of the fiscal year, unless otherwise stated) [2]

	June 30 2008 Prog.	June 30 2008 Rev. prog.	Sept. 30 2008 [3] Prog.	Dec. 31 2008 Prog.	June 30 2009 [3] Prog.
Assessment criteria			(U Sh billions)		
Ceiling on the increase in net domestic assets of the Bank of Uganda [4]	125	-504	100	174	270
Ceiling on the increase in net claims on the central government by the banking system [4]	31	-308	34	-23	188
			(US$ millions)		
Ceiling on the stock of external payments arrears incurred by the government or the Bank of Uganda [5]	0	0	0	0	0
Ceiling on new nonconcessional external borrowing with maturities greater than one year contracted or guaranteed by the government or the Bank of Uganda [5,6]					
Karuma hydropower plant	…	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 [5,7]	0	0	0	0	0
Minimum increase in net international reserves of the Bank of Uganda	50	449	28	35	-10
Indicative target			(U Sh billions)		
Ceiling on the increase in base money liabilities of the Bank of Uganda [4]	208	252	147	233	254
Stock of domestic budgetary arrears under the Commitment Control System (CCS) [8]	30	125	…	…	…
Minimum expenditures under the Poverty Action Fund (including the Universal Primary Education component of development expenditure)	1,222	1,222	298	596	1,192

[1] The assessment criteria and indicative targets under the program, and their adjusters, are defined in the TMU.
[2] Fiscal year begins on July 1.
[3] Indicative target.
[4] For June 2008, cumulative changes from the average of June 2007. For September and December 2008, and for June 2009, cumulative changes from average of June 2008, as defined in the TMU.
[5] Continuous performance criterion.
[6] Cumulative change from December 1, 2006.
[7] Excluding normal import-related credits.
[8] Arrears incurred after end-June 2004. Excludes new arrears accumulated during the current fiscal year.

Table 2. Uganda: Structural Assessment Criterion and Benchmark[1]

Policy Measure	Date of Implementation	Implementation Status
Structural Assessment Criterion		
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-January 2009	
Structural Benchmark		
Submit to Parliament draft regulatory framework for pension funds.	End-December 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.

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 March 2008 for the various currencies and then converted into Uganda shillings using the average U.S. dollar-Uganda shilling exchange rate for March 2008.

Program Exchange Rates (US$ per currency unit, unless indicated otherwise)	
Euro	1.5500
British pound	2.0033
Japanese Yen	0.0099
Kenya shilling	0.0153
Tanzania shilling	0.0008
SDR	1.6304
Uganda shilling (per US$1)	1,684.26

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 June 2008, and cumulative changes from the average of June 2008 to the average of September and December 2008, and June

2009. The respective cumulative changes are increases of U Sh -504 billion, U Sh 100 billion, U Sh 174 billion, and U Sh 270 billion.

(In billions of shillings)				
	June 2008	Sept 2008	Dec 2008	June 2009
Cumulative change in base money	252	147	233	254
Cumulative change in NFA	756	47	59	-16
Cumulative change in NDA	-504	100	174	270

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 June 2008, and cumulative changes from the daily average of June 2008 to the daily average of September and December 2008, [and 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 prior to the beginning of the current fiscal year, 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 147 billion as of June 2007.

F. Expenditures Under The Poverty Action Fund (PAF).

10. The compliance with the indicative target on minimum expenditures under the PAF will be verified on the basis of releases (PAF resources made available to spending agencies).

G. Adjusters

11. 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	June 30, 2008	September 30, 2008	December 31, 2008	June 30, 2009
Budget support, including HIPC Initiative grants	915	238	384	681

12. 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	June 30, 2008	September 30, 2008	December 31, 2008	June 30, 2009
Debt service due before HIPC, excluding exceptional financing	165	88	133	185

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

13. 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.

Schedule C: Nonbank Financing Minus Repayment of Domestic Arrears
(Cumulative billions of Uganda shillings, beginning July 1 of the fiscal year)

Quarter	June 30, 2008	September 30, 2008	December 31, 2008	June 30, 2009
(A) Nonbank financing	31	-22	14	200
(B) Domestic arrears repayment	280	20	137	300
(C) Total = (A) –(B)	-249	-41	-123	-100

14. 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.

15. 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.

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

16. 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 18.

[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).

17. 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 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.

18. 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

[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

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.

19. 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.

I. Monitoring and Reporting Requirements

20. 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

[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).

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 .

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 (concluded)			
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