International Monetary Fund

Uganda and the IMF

IMF Executive Board Completes Sixth Review and Extends the Policy Support Instrument for Uganda for One Year
December 22, 2009

Country's Policy Intentions Documents

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

December 1, 2009

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 financial support 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.

LETTER OF INTENT

Kampala, Uganda
December 1, 2009

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

Dear Mr. Strauss Kahn:

On behalf of the Government of Uganda, I wish to provide you with an update on the progress we have made under our program backed by the IMF's Policy Support Instrument (PSI). I would also like to transmit the attached Memorandum of Economic and Financial Policies (MEFP), which sets out the Government's objectives and policies for the period ahead.

The policies outlined in the MEFP derive from the Government's own program aimed at promoting employment, poverty reduction and sustainable economic growth in Uganda. The Government intends to request to begin discussions on a successor PSI during the first half of calendar year 2010, upon completion of the National Development Plan, and thus better align the new PSI with the new government strategy. In the meantime, we hereby request extension of the current PSI through December 14, 2010, which will permit two additional reviews covering test dates at December 31, 2009, and June 30, 2010.

Performance under the PSI through the 6th review has been strong. We have weathered the difficult storm caused by the international financial crisis better than originally expected, and we are addressing issues arising from regional drought conditions. Growth has remained robust, albeit slower than in recent years, and core inflation has been kept under control. Although there has been some delays in implementing two structural benchmarks, we have made advances in carrying out related reforms. Our commitment to strengthen the structural reform agenda remains strong and our policy stance has remained fully aligned with the objectives of the PSI. For reasons explained in the MEFP, we ask that these two structural benchmarks be reprofiled for 2010. 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 publication and distribution of this letter, the attachments to it, and all reports prepared by IMF staff for the 6th review under the PSI.

Sincerely,

/s/

Ms. Syda Bbumba
Minister, Ministry of Finance, Planning, and Economic Development

cc: The Governor, Bank of Uganda

Attachment 1. Uganda: Memorandum of Economic and Financial Policies

December 1, 2009

I. INTRODUCTION

1. Purpose of MEFP

The Government of Uganda (GoU) is requesting the Fund to extend test dates under the current PSI until June 30, 2010 to allow the finalization of the National Development Plan (NDP) and alignment of the successor PSI with the fiscal year of GoU. This memorandum outlines the performance of the economy in the fiscal year 2008/09 and sets out the policy objectives and the macroeconomic projections for the fiscal year 2009/10 and establishes specific targets through June 30, 2010.

2. Performance under the PSI.

The six assessment criteria under the PSI for June 2009 were all met and the indicative target on the minimum expenditures under the poverty action fund (PAF) was comfortably achieved. The indicative target on the ceiling on base money was missed albeit by a very small margin. Preliminary estimates show that the indicative target on the stock of domestic budgetary arrears has been missed. Regarding structural measures, both of the structural benchmarks—submission to Parliament of a draft regulatory framework for pension funds and introduction of pilots for the Integrated Personnel and Payroll System—were missed. We ask that they be rephased as explained below.

II. ECONOMIC AND POLICY DEVELOPMENTS

3. Macroeconomic outturn in FY08/09

The Ugandan economy was hit by an external shock which began in the second quarter of the fiscal year, arising from the global economic crisis. Despite this, the economy registered a growth rate of 7.1 percent at market prices (6.2 percent at basic prices) during fiscal year 2008/09, which was lower than the outturn for 2007/08 8.7 percent, indicating a slowdown in the economy because of the global economic crisis. The global crisis affected growth mainly by reducing aggregate demand in markets for Uganda's traditional exports, tightening of liquidity conditions, and a slowdown in the construction sector.

Inflation rose rapidly in the first 8 months of calendar year 2008, driven by the rise in regional demand for food and international fuel prices. By June 2009, headline and core inflation had fallen by 3.6 and 2.6 percentage points respectively, relative to their peaks in August 2008, reflecting lower fuel prices. Core inflation ended the fiscal year approximately 0.8 percentage points higher than had been initially programmed largely because of the pass through to domestic prices of the sharp nominal depreciation of the exchange rate.

4. Fiscal outturn

Both revenues and overall expenditures underperformed in 2008/09 by 0.3 percent and 4.3 percent of GDP compared to the original budget, respectively, hence the fiscal deficit was smaller than budgeted. The fiscal deficit excluding grants was 4.4.percent of GDP compared to 7.7 percent of GDP in the budget. Tax revenues in Ush fell short of budgeted amounts by 5 percent, with most of this shortfall attributable to the weak performance of indirect taxes due to low aggregate demand. Total expenditures fell short of the budgeted amount by 20 percent, because of a 43 percent shortfall in development expenditures in domestically financed and donor funded projects. The underperformance of donor projects was a result of lower-than-expected disbursement by donors, coupled with challenges in absorption by implementing agencies.

5. Monetary and exchange rate policy stance

The BOU's monetary policy framework continued to utilize reserve money as the operating target and broad money as the intermediate target. The BOU initially set a target of 18 percent for base money growth. Early in the second half of the fiscal year, the target was raised to 20.5 percent to take account of increased demand for liquidity, partly arising from the disruptions to money markets that were related to the global financial crisis. The Bank of Uganda continued to maintain a flexible exchange rate regime.

6. Balance of payments and exchange rate.

The BOP was hit by a major external shock beginning in the second quarter of 2008/09. This was a result of a weakening of both the current and capital accounts. The global economic crisis affected formal sector exports, tourism and remittances, all of which fell in the second half of 2008/09 compared to the first half of the year. Preliminary data shows a rebound in workers' remittances in the first two months of fiscal year 2009/10.

Although import growth also slowed down, partly as a result of the exchange rate depreciation, the trade deficit was larger in 2008/09 than in the previous year by USD 130 million. The surplus of the capital and financial account was reduced as a result of the reversal of portfolio capital flows mainly related to offshore investors in the Government securities market, who drew back from emerging and frontier markets across the globe. These flows were negative in most months of the last three quarters of the fiscal year. Compared to a build up of international reserves (net of valuation effects) of USD 545 million in 2007/08, there was a decline of reserves of USD 62 million in 2008/09.

The deterioration in the BOP triggered a depreciation of the exchange rate of 37 percent in nominal terms against the US dollar between the end of September 2008 and mid May 2009. The exchange rate subsequently rebounded by 10 percent between mid May and the end of June 2009. The rebound in the exchange rate was stimulated initially by an improved trade balance and then, at the end of the year, by a recovery of remittances and net portfolio flows, as well as by the weakening of the dollar against other international currencies.

III. OUTLOOK AND KEY ECONOMIC OBJECTIVES

7. Key goals.

The key macroeconomic goals in 2009/10 are to increase production, improve productivity, and reduce poverty by making investments in infrastructure for sustainable growth, to continue reducing core inflation back towards the target of 5 percent and to ensure that external stability is not undermined.

8. Macroeconomic outlook

Real GDP growth is projected at 6.3 percent in fiscal year 2009/10, and core inflation is expected to decline to 7.9 percent by end of this fiscal year. Developments in the BOP in recent months indicate that the negative effects of the global economic shock have begun to subside. However, food prices have risen sharply, by 30 percent in the first three months of 2009/10, partly due to the high regional demand for food and reduced food production which is linked to the drought affecting large parts of East Africa.

Government is giving priority to increasing food production in order to increase supply in response to the high food demand. In this regard, a number of initiatives are being implemented. These include (i) reforming and refocusing National Agricultural and Advisory Delivery Services (NAADS) and ensuring value addition; (ii) working with commercial farmers to increase production by increasing availability of seed and other planting materials; (iii) establishing a credit guarantee scheme to encourage commercial banks to provide credit to agriculture and agro-processing at subsidized interest rates, with the Government providing initial seed money of Ushs 30 billion, (iv) providing equipment for irrigation and (iv) upgrading rural infrastructure including rural electrification and feeder roads.

The BOP is expected to improve in 2009/10 with the more favorable external environment, which should allow some recovery of remittances and capital flows. Aggregate demand is expected to remain relatively subdued during the first half of the fiscal year, but to pick up in the second half, boosted by higher government spending, as well as the recovery in the global and regional demand.

A. Fiscal Policy

9. The primary objective of the 2009/10 budget is to provide a fiscal stimulus to the economy and to continue the re-orientation of the budget towards development expenditures. Government will continue its strong efforts to enhance revenue administration, including by rolling out the medium taxpayer office and stepping up enforcement. Expenditures and net lending are programmed to rise by 0.9 percent of GDP from the 2008/09 outturn, largely on account of higher development expenditures. The fiscal deficit before grants is programmed at 5 percent of GDP while the fiscal deficit after grants is budged at 2.5 percent of GDP. The Government's financing requirement will be met primarily through external sources, projected at 2.4 percent of GDP on a net basis.

10. The Government is continuing to shift expenditure allocations towards capital formation. While government does not intend to cut on-going programs, additional allocations of resources will favor capital formation, except in education and health where the bulk of the expenditures are of a recurrent nature.

11. In view of the low absorptive capacity observed in implementation of infrastructure projects and ensuring value for money, Government is strengthening the output-based budgeting reforms which commenced in FY2008/09 through the following measures: (i) ensuring that expenditure releases to spending agencies are based on concrete work plans and evidence of outputs of previous releases, (ii) advance planning of implementation of programs and projects including preparation of procurement and recruitment plans; (iii) establishment of the Budget Monitoring and Analysis Unit (BMAU) within the Ministry of Finance, Planning and Economic Development (MFPED), which undertakes sample expenditure tracking in relation to outputs on the ground in the implementation of projects and programs; instituting ministerial quarterly reviews on implementation of Government projects and programs; and (iv) strengthening the audit function in the Treasury.

12. Nevertheless, in light of the potential delay in increasing absorptive capacity, and in order to avoid complicating the conduct of monetary policy, we envisage expenditure outturns—particularly for donor-financed project infrastructure spending—that are somewhat less ambitious than the available financing in the budget would afford. We are confident that our spending profile will accelerate as implementation capacity picks up.

B. Monetary and Exchange Rate Policies

13. Monetary policy objective for 2009/10.

The primary objective of monetary policy in 2009/10 is to continue reducing core inflation towards the long term goal of 5 percent while ensuring that real money balances and credit growth are sufficient to support activity at a level consistent with potential output. The BOU aims to reduce core inflation to 7.9 percent by June 2010 and to achieve this goal, it will restrict broad money growth to 21.2 percent and reserve money growth to 21 percent. The BOU will tighten the monetary targets for June 2010 if the shock to food prices feeds through to core inflation to the extent that the target of 7.9 percent for June 2009 might not be met.

14. Monetary policy

Although the monetary policy framework will continue to comprise a quantitative target for reserve money and an intermediate target for broad money, the BOU has revised the operating procedures for monetary policy. The revisions, which were supported by Fund Technical Assistance, include the de-linking of structural liquidity management (based on regular primary securities auctions and regular daily foreign exchange sales) from daily liquidity management (which is implemented through repos and reverse repos). The aim of these changes was to dampen the volatility (e.g. in interbank interest rates) which has frequently characterized the money market and to allow the targets for reserve money to be adjusted to accommodate any unanticipated shocks to money demand. The introduction of the flexible reserve money program is intended to be a step towards the eventual adoption of inflation targeting. In the long-run Uganda is committed to participating in the East African Monetary Union (EAMU).

15. Exchange rate policy

BOU will continue to implement a flexible exchange rate policy, intervening only to dampen excessive volatility in the exchange rate. Gross foreign exchange reserves are projected to increase by USD 288 million, including the recent SDR allocation. We do not intend to draw down the SDR allocation in the near future.

C. Financial Sector Policies

16. Supervision and regulation

The banking system was not adversely affected by the global financial crisis, mainly because its exposure to toxic assets and distressed financial institutions abroad was minimal. In aggregate, it remains very well capitalized with an average regulatory capital to risk-weighted assets ratio of over [20] percent. The banks are liquid and their loan quality is relatively good; the average ratio of non-performing loans to total loans was 4 percent in June 2009. Nevertheless, the non-performing loans ratio has crept up during the year and may rise further if the economic slowdown affects the capacity of businesses and households to service debts. The BOU will closely supervise the regulated financial institutions to ensure that appropriate remedial measures are implemented in the event of any weakening in their financial condition.

To strengthen the regulatory framework for financial institutions, the BOU intends to update the Financial Institutions Act of 2004 and Microfinance Deposit-taking Institutions Act of 2003. This will include an upward revision of minimum capital requirements, provisions to cover Islamic banking products, and regulations to cover insurance products offered by banks and regulated non-banks. Furthermore, the BOU will review the regulatory restrictions on lending with maturity of over three years with a view to encouraging longer term lending by banks. At the regional level, the East African central banks are implementing measures to strengthen information sharing and regulation of financial institutions which operate across borders in the region.

17. Creation of financial stability department.

The BOU has set up a Financial Stability Department within its Supervision Function. The department will monitor threats to systemic stability in the financial system, analyze issues related to this and will produce a bi-annual financial stability report. The Supervision Function is receiving TA from the Fund to support this activity.

D. Medium-term Outlook

18. The macroeconomic strategy for the medium term will continue to focus on maintaining sound fiscal policy that allows Government investment in the critical areas to address the binding constraints on economic growth while at the same time ensuring macroeconomic stability and creating room for strong growth in private sector credit and

investment, thus helping to reduce poverty. Government is committed to participating in the East African Monetary Union and its fiscal and monetary policy objectives will be consistent with the macroeconomic convergence criteria for the East African Community member countries.

19. Medium term budget policy aims to address critical constraints to growth and to reduce the costs of doing business. To achieve this Government will increase spending on infrastructure in roads, railways, energy and water for irrigation. It will create fiscal space for this through implementation of measures to improve efficiency. Beyond expenditure efficiency gains, Government will mobilize external resources where available and consistent with the Debt Strategy, and will also seek private sector participation in infrastructure projects.

20. Government requests a €75 million increase in the ceiling on nonconcessional loans to accommodate a strategic project to establish a new port facility on Lake Victoria. This project is of strategic importance as we seek to diversify our access to regional and international markets. As a landlocked country, we currently rely mostly on the road to Mombasa, which implies both high transaction costs (as the cost of road transportation is high) and limited access to regional markets. The project would facilitate access to the port of Dar es Salaam and help lower transportation costs, thereby supporting export growth over the medium term. The government will only contract the loan upon confirmation of the economic viability of the project based on the completion of a feasibility study by an independent reputable institution.

21. The Government recognizes that addressing the critical infrastructure gaps in the economy will require leveraging private financing to compliment both domestic resources and Official Development Assistance. The Government is preparing a Public Private Partnership (PPP) Policy Framework to facilitate private involvement in the provision of public goods. Government intends to undertake a Debt Sustainability Analysis in March 2010, which will be used to inform its borrowing strategy over the medium term.

22. In view of the need to increase domestic revenue mobilization, Government will continue to strengthen tax administration, including with the support of IMF technical assistance. Moreover, Government intends to conduct a review of all existing tax incentives and exemptions in the period prior to the next IMF review under the PSI. Our objective, with support from IMF staff, is to compile a register of all existing tax incentives and exemptions, including quantifying their cost in terms of their impact on government revenues. These costs will compared to their net economic benefits, with an eye toward eliminating those exemptions which are found not to deliver value for money in the FY2010/11 budget.

23. The National Development Plan currently under preparation will be consistent with the macroeconomic policy objectives of Government. It will provide the strategic guidance for the expenditure allocation in the MTEF to ensure optimal use of resources. It is, therefore, envisaged that the NDP will be periodically reviewed to ensure that emerging priorities are reflected in the expenditure planning.

E. Structural Reforms

24. Government has made a decision to liberalize the pension sector, allowing entry of private pension providers which will compete with the National Social Security Fund. A Bill to establish a regulatory framework for pension sector and other retirement benefits schemes is in Cabinet and a policy paper detailing the nature of the liberalization is currently being prepared. It is expected that the Bill and the policy paper on the regulatory framework will be submitted to parliament by end June 2010. This measure, which was a structural benchmark for September 2009, has been delayed to take into account the results of a study being conducted by the East African Community Secretariat on consolidated regulation of financial services in the East African Community, which is due by December 2009.

25. Government is implementing measures that will streamline the payment of pension obligations. These include implementation of the Straight Through Payment (STP) for both salaries and Pensions which will be completed this Fiscal year. It is envisaged that this will eliminate further accumulation of pension and salary arrears, which arose on account of under-provisioning especially of pension and gratuity payments. In addition, Government is undertaking forensic audit of the existing pension arrears to determine the actual stock with a view to prioritizing their settlement. The November 2009 structural benchmark for introduction of a pilot of the integrated Personnel Payroll System (IPPS) has been missed due to procurement capacity challenges within the Ministry of Public Service and delays in connecting the four service commissions to the IFMIS. It is now envisaged that a trial run will be implemented by end July 2010 and the full IPPS will roll out in September 2010.

26. The emergence of an oil and gas sector presents a unique opportunity for Uganda's growth and poverty reduction. To ensure prudent utilization, the oil revenues will be integrated into the medium term fiscal framework and budgetary process. Fiscal policy will incorporate a target for the non-oil structural fiscal balance which ensures sustainable use of oil revenues over the long term.

27. Public Financial Management (PFM) will continue to be strengthened through further rolling out of the Integrated Financial Management System to cover all spending agencies. PFM will be monitored in the context of the Joint Assessment Framework (JAF). which has specific performance indicators that relate to credibility of the budget and value for money.

28. To deal with the problem of domestic arrears arising from membership subscriptions to international organizations and as a result of Accounting Officers bypassing the established IFMS, Government will double up efforts to minimize arrears by implementing the following actions by January 2010: (i) submission to Cabinet of a priority list of those international organizations it will subscribe to in the next three years; (ii) verify the stock of arrears to international organizations and specification that membership fees be paid from the budgets of responsible line ministries for FY 2009/10; (iii) the Accountant General to implement a zero tolerance policy of issuance of expenditure and accounting warrants for those expenditure incurred outside the IFMS; and (iv) establish the CCS arrears accumulated since March 2008 to be paid by the responsible line ministries from their budget of FY 2009/10. With these measures, we are confident that the target that we have set for ourselves

under the program—a reduction of the stock of domestic arrears under the commitment control system (CCS) to Ush 51 billion by end-June 2010—will be achieved.

29. Government will ensure operational independence of Internal Audit, by reporting directly to the Permanent secretary/Secretary to the Treasury and the six sectoral audit committees. This reform will address the current weakness in financial management and compliance, and strengthen internal planning, execution and reporting on Audits. Starting in 2009/10, performance audits, risk management, IT audits and more effective quality assurance will be undertaken.

30. The Government is implementing a five year financial markets development plan, the objectives of which include deepening the financial markets and strengthening financial intermediation. The plan includes measures to establish a credit reference bureau, strengthen the payment system and revise the commercial laws to strengthen contract enforcement.

II. Program Monitoring

31. Progress in the implementation of the policies under this program will be monitored through assessment criteria (ACs) and indicative targets, and structural benchmarks. Quantitative targets, which are established for end-December 2009 and end-June 2010, are detailed in Tables 1 and 2. The attached Technical Memorandum of Understanding contains definitions and adjustors. Program performance will be assessed in the course of the seventh and eighth reviews that will take place before the end of May and November 2010 respectively.

Table 1. Uganda: Quantitative Assessment Criteria and Indicative Targets for December 2009 - June 2010 1/

(Cumulative change from the beginning of the fiscal year, unless otherwise stated) 2/

	Dec. 31 2009		Mar. 31 2010 3/	June 30 2010
	Prog.	Rev. prog.	Prog.	Prog.
Assessment criteria	(Billions of Uganda shillings)			
Ceiling on the increase in net domestic assets of the Bank of Uganda	486	187	237	289
Ceiling on the increase in net claims on the central government by the banking system	199	-59	-92	88
	(Millions of U.S. dollars unless otherwise specified)			
Ceiling on the stock of external payments arrears incurred by the government or the Bank of Uganda 5/	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
Central Corridor (Lake Victoria port, in Euro millions)**	0	75	75	75
Other	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
Minimum increase in net international reserves of the Bank of Uganda (US$mn)	-115	263	276	288
Indicative target	(Billions of Uganda shillings)			
Ceiling on the increase in base money liabilities of the Bank of Uganda 4/	260	261	335	410
Stock of domestic budgetary arrears under the Commitment Control System (CCS) 8/				51
Minimum expenditures under the Poverty Action Fund (including the Universal Primary Education component of development expenditure)	160	536.5	817.6	1,097.0

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/ Cumulative changes from the average of June 2009, 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.

**Contingent upon the completion of a feasibility/viability study by an independent international reputable institution.

Table 2. Uganda: Proposed Structural Benchmarks[1]

Policy Measure	Date of Implementation
Structural Benchmarks	
Implement pilot Integrated Personnel and Payroll System in four Commissions (Public Service Commission, Health Service Commission, Education Service Commission and Judicial Service Commission), Ministries (Ministry of Finance, Ministry of Health, Ministry of Public Service, Ministry of Education, Judiciary (Courts and Judicature)), and Local Governments (Lira and Jinja Districts).	End-September 2010
Submit to Parliament draft regulatory framework for pension funds.	End-June 2010

[1] Benchmarks 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.

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 October 2009 for the various currencies and then converted into Uganda shillings using the average U.S. dollar-Uganda shilling exchange rate for October 2009.

Program Exchange Rates (US$ per currency unit, unless indicated otherwise)	
Euro	1.48164
British pound	1.61854
Japanese Yen	0.011066
Kenya shilling	0.01329
SDR	1.5896
Uganda shilling (per US$1)	1898.28

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 2009 to the average of December 2009 and March and June 2010.

	December 31, 2009	March 31, 2010	June 30, 2010
Cumulative change in base money	260.8	335	410
Cumulative change in NFA	73.7	98.4	121.4
Cumulative change in NDA	187.0	237	288.6

B. Base Money

3. 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 2009 to the daily average of December 2009, and March and June 2010.

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

4. 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

5. 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.

6. 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

7. The stock of domestic payment arrears under the Commitment Controls System (CCS) will be monitored on an annual 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 IFMS and non-IFMS 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.

8. 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 2008/09 and 2009/10. 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 USh 94 billion as of June 2009[1].

F. Expenditures under the Poverty Action Fund (PAF).

9. 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

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), and external debt-service payments.

[1] Preliminary estimate.

11. 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. Finally, the NDA and NIR targets are based on program assumptions regarding automatic access by commercial banks to the BOU's rediscount and discount window facilities.

12. 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.

Quarter	December 31, 2009	March 31, 2010	June 30, 2010
Budget support, including HIPC Initiative grants	609.3	851.4	901.4

13. 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[2] 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).

Quarter	December 31, 2009	March 31, 2010	June 30, 2010
Debt service due before HIPC, excluding exceptional financing	119	160.8	194.5

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

14. The ceiling on the increase in NCG will be adjusted downward (upward) by any excess (shortfall) in nonbank financing[3] 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.

Quarter	December 31, 2009	March 31, 2010	June 30, 2010
(A) Nonbank financing	-74.4	-66.9	-54.7
(B) Domestic arrears repayment	-40.1	-65.8	-76.1
(C) Total = (A) –(B)	-34.3	-1.1	21.5

15. The ceiling on NDA of the BOU for every test date 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.

16. 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

17. 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 19.

18. 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.[4] Nonconcessional borrowing is defined as loans with a grant element of less than

[3] 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).

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

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. Excluded from these limits are also nonconcessional borrowing for the Karuma hydroelectric project, the JBIC loan guarantee to Phoenix Textile factory and the Central Corridor (port facility at Lake Victoria) within the limits specified in Table 1 of the MEFP.[5]

19. 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.,

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[5] The nonconcessional borrowing for the port facility is contingent upon a confirmation on the viability of the project based on a study to be conducted by an independent reputable institution.

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.

20. 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[6] 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

21. 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 AFRUGA@IMF.ORG .

[6] 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).

Attachment II. 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

Attachment II. 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