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

April 25, 2010

LETTER OF INTENT

Kampala, Uganda
April 25, 2010

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). Further, I would like to request continued cooperation through a new three-year PSI.

Performance under the PSI through the 7th review has remained strong and all end-December assessment criteria have been met. Our strong policy framework enabled us to limit the impact of the global financial crisis on our economy. Growth has slowed but remains robust and is set to recover quickly, and inflation has been kept under control. Although there have been some delays in reforms, particularly in public financial management, we have made advances in other areas and we remain committed to strengthening the structural reform agenda.

We recently launched our National Development Plan (NDP) aimed at sustaining long-term economic growth, promoting economic transformation and wealth creation. To better align program targets with our medium-term development plans, the Government of Uganda wishes that the current PSI be canceled immediately upon conclusion of the seventh review, and that a new three-year PSI commence immediately thereafter.

The attached Memorandum of Economic and Financial Policies (MEFP) sets out the Government's objectives and policies derived from our NDP. Specific emphasis is placed on infrastructure investment to address critical constraints to growth in a coherent and consistent framework. The new PSI also seeks to rejuvenate the structural reform agenda.

The Government of Uganda believes that the policies set forth in the attached MEFP are adequate to achieve the objectives of our PSI-supported program but will take any further measures that may become appropriate for this purpose. 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 of this letter, its attachments, and all reports prepared by IMF staff for the 7th review under the PSI and the request for a new 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

April 25, 2010

I. INTRODUCTION

Purpose of MEFP

1. The Government of Uganda (GOU) requests a new Policy Support Instrument (PSI) for the period 2010 to 2013, to be aligned with the recently-adopted National Development Plan (NDP). The NDP, which covers the period 2010/11-2014/15, identifies four priority objectives: human resource development through health and education; eliminating infrastructure bottlenecks to growth, particularly in energy and transportation; supporting science, technology and innovation, and facilitating private access to critical inputs to production, especially in agriculture. Economic policies under the new PSI will also be framed to be consistent with the requirements of the transition to a monetary union in East Africa.

2. This memorandum outlines the performance of the economy in the first half of 2009/10, discusses the projections and policy stance for the remainder of the fiscal year and then sets out the policy objectives for the 2010/11 fiscal year and the medium-term.

Performance under the PSI

3. All of the six quantitative assessment criteria for end-December 2009 were met, as were the two indicative targets. Both structural benchmarks under the PSI have 2010 deadlines which Government expects to meet.

II. ECONOMIC AND POLICY DEVELOPMENTS

Outturn in the first half 2009/10

4. There have been indications of slowdown of real GDP growth in H1 2009/10 because of drought in the first quarter of 2009/10, and delays in the implementation of government spending. Core consumer price inflation fell sharply in H1 2009/10, from an annual rate of 11 percent in June 2009 to 7.4 percent in December 2009, because of the slow growth in consumer spending and the exchange rate appreciation in the first half of the year. A sharp rise in food crop prices in Q1 2009/10, attributable to the drought, drove up annual headline consumer price inflation from 12.3 percent in June 2009 to 14.6 percent in September 2009, but the recovery in food supply in the second quarter together with the continued fall in core inflation brought down headline inflation to 11 percent in December 2009.

5. The fiscal stance in H1 2009/10 was tighter than programmed because of delays in implementing public expenditures, especially capital expenditures. Total expenditures were Shs 246 billion lower than budgeted in H1. Revenues underperformed by Shs 85 billion, on account of the weakness in import growth. There was, however, an over performance in several direct and indirect domestic tax handles, including excise taxes and VAT on domestic goods, as a result of stronger enforcement efforts by the Uganda Revenue Authority.

6. Monetary growth was lower than projected in H1 2009/10, reflecting weak money demand as a result of subdued private sector consumption. Reserve money was 2.4 percent lower than programmed. To stimulate stronger private spending, the Bank of Uganda (BOU) sought to boost liquidity and reduce interest rates, with the yields on 364 day Treasury Bills falling from 14 percent in June 2009 to 9 percent in December 2009. The fall in securities yields, alongside lower money market rates, reflected both the stance of monetary policy and falling inflationary expectations. However, thus far lending rates have only declined marginally, reflecting market rigidities and a tightening in lending standards.

7. The BOP, which had recorded an overall deficit in 2008/09, improved in the first half of 2009/10, with an overall surplus leading to a net accumulation of international reserves of US$ 93 million. The improvement in the BOP, which was due to weaker import growth and a recovery of foreign investment, led to an appreciation of the nominal exchange rate, which on a trade weighted basis, appreciated by 8.2 percent between June and December 2009.

Projections for the second half of 2009/10

8. Aggregate demand is projected to pick up in H2 2009/10, boosted by recovery of consumer demand and a more rapid implementation of budgeted public expenditures. This is expected to result in real GDP growth for the fiscal year of 5.6 percent, 0.7 percentage points lower than had been programmed. Despite the recovery in H2, output will remain below potential and hence inflationary trends are expected to remain subdued. Although monthly core inflation will begin to accelerate in H2 in line with consumer demand (from around zero at the end of H1), annual core inflation is projected to decelerate to 3.9 percent in June 2010. Annual headline inflation is projected at 5 percent in June 2010.

9. The fiscal outturn for 2009/10 is projected to be slightly less expansionary than projected at the time of the 6th Review, largely due to the underperformance of development expenditures (by 1.6 percent of GDP).This is for two reasons. First, reallocations from capital expenditures to current spending, including increased provision for pension payments, and for emergency spending and road maintenance through supplementary appropriations, will raise current expenditures above programmed levels by 0.5 percent of GDP. Secondly, expenditures amounting to 0.5 percent of GDP, mainly pertaining to roads projects, will be implemented from budgetary resources carried forward from the previous fiscal year. Revenues are projected to underperform but only by 0.3 percent of GDP. With grants being approximately in line with programmed levels, the overall fiscal deficit, both including and

excluding grants, is projected to be lower than programmed by 0.2 percent of GDP and 0.3 percent of GDP, at 2.3 percent and 4.7 percent of GDP, respectively. The fiscal deficit is projected to be financed by net external borrowing of 2.0 percent of GDP and net domestic financing of 0.3 percent of GDP, the latter being 0.2 percent of GDP higher than programmed.

10. Monetary policy will continue to be cautiously accommodative. Money demand is projected to pick up in H2, lifting annual broad money growth for the fiscal year to 19.3 percent and reserve money growth to 19.1 percent. Private sector credit is projected to grow at 17.1 percent in 2009/10.

11. The BOP is projected to record an overall surplus of US$ 291 million in 2009/10, in line with the programmed level. The current account deficit is projected to widen as a percentage of GDP, from 4.8 percent in 2008/09 to 5.3 percent in 2009/10, despite a lower trade deficit, because of higher services and lower official transfers.

Economic Policies for 2010/11

12. The main objective of macroeconomic policy in 2010/11 will be to support demand while maintaining macroeconomic stability. In this context, policies will aim to raise output back towards its potential level (with potential real growth estimated at 6-7 percent per annum) while maintaining core inflation at a maximum of 5 percent (barring exogenous shocks to inflation) and running a BOP surplus to accumulate international reserves. The authorities are mindful that, in an election year, private sector expenditure may increase more quickly than programmed and hence will exercise caution in implementing monetary and fiscal policies. A projected worsening of the external terms of trade will also constrain the scope for macroeconomic policy to support growth in 2010/11. On balance, real GDP growth is projected to rise to 6.4 percent in 2010/11 on the heels of a recovery in domestic demand.

Fiscal Policy

13. The fiscal strategy for 2010/11 and the medium term centers on the implementation of the capital projects and social programs in the NDP in order to boost real growth and reduce poverty. This will require the creation of fiscal space for higher public investments by curtailing growth in recurrent spending on non-productive activities. To ensure that the medium-term fiscal strategy is implemented effectively, a key goal of the 2010/11 budget is to remedy the absorption constraints in the execution of government programs through deployment of external technical assistance on contracting and procurement, and training of accounting officers on preparation of work plans, execution and reporting.

14. The fiscal balance in 2010/11 is projected to be roughly similar to the projected outturn in 2009/10, with an overall deficit excluding grants of 5 percent of GDP. Expenditure and net lending is expected to increase by 0.9 percent of GDP in 2010/11 from the outturn in 2009/10, as absorption of available resources for development expenditure improves; while

revenue is projected to increase by about ½ percent of GDP. To generate increased budget resources for allocation to priority public investments, including infrastructure, the authorities are committed to strengthening domestic revenue mobilization. However, due to the limited options with respect to new sources of tax revenue in the near term, efforts to increase revenue will focus on improving enforcement and the collection of non-tax revenues. In addition, the authorities will undertake and publish a review which costs the revenue loss and assesses the effectiveness of all existing tax holidays and exemptions, and formulate recommendations to Cabinet for their streamlining before end-June 2010.

Monetary policy

15. Monetary policy in 2010/11 will aim at supporting economic growth while being mindful of potential pressures on inflation. The operation of the BOU's monetary policy will continue to be based on the flexible implementation of the reserve money program which was developed with TA from the Fund. The BOU will review its quantitative targets for monetary aggregates on a monthly basis, taking into account the latest available macroeconomic data, and intervene on a daily basis with repos and reverse repos to ensure stability in the money markets. The intermediate target for broad money growth, which is provisionally set at 13.7 percent for 2010/11, takes into account the projected growth of potential real output, the BOU's inflation target and the projected fall in velocity of circulation. The monetary program for 2010/11 will be designed to provide room for bank lending to the private sector to grow at the same pace as nominal GDP. To enhance the efficacy of monetary policy, the BOU will develop a set of high frequency indicators designed to capture activity and demand in the formal sector of the economy by March 2011.

External Sector

16. With the external environment expected to be less favorable in 2010/11, the BOP is projected to record only a modest overall surplus of US$ 60 million in 2010/11. The exchange rate will continue to be flexible with the BOU intervening only to dampen volatility and to avoid significant misalignments arising from external capital flows.

Financial sector policies

17. The banking system remains financially sound, with aggregate tier 1 capital to risk weighted assets of 20 percent, well above the statutory minimum of 12 percent. However the BOU is concerned that the minimum paid up capital required to open and operate a bank is no longer sufficient to support new entrants in the more competitive banking markets which now prevail in Uganda, as well as being out of line with regional minimum requirements. Therefore Government intends to introduce amendments to the Financial Institutions Act (FIA) in Parliament to raise the minimum paid up capital for a bank during 2010/11. Furthermore, amendments to the FIA will also be introduced to allow commercial banks to offer insurance and Islamic banking products to their customers. The rationale of these

amendments is to improve the efficiency of banking and broaden the range of financial service products available to the public.

18. Government will prepare and implement a comprehensive strategy to deepen and diversify the financial markets. A detailed strategy, drawing on the ongoing work by the Financial Markets Development Committee Secretariat, will be prepared by June 2011 and will be included in the midterm review of the NDP. The strategy will cover all of the required reforms to the legal and institutional framework for the financial markets. The strategy will be coordinated with Uganda's EAC partner states to ensure that the legal and institutional framework is consistent with the adoption of a common market in East Africa.

19. The credit reference bureau has commenced operations, and is expected to become fully operational in the 2010/11 fiscal year. Government will also establish a Small Commercial Claims Court to speed up the resolution of small business disputes.

20. The BOU intends to strengthen the regulation of deposit taking microfinance institutions, by bringing under aegis of the Microfinance Deposit Taking Institutions Act the larger savings and credit unions (SACCOs) which are currently unregulated.

III. Medium Term Policies

21. The macroeconomic strategy for the medium term will continue to focus on maintaining a sound fiscal policy that allows Government to invest in the public infrastructure which is critical to alleviate the binding constraints to economic growth, while at the same time ensuring macroeconomic stability. To achieve this, Government aims to create fiscal space by raising the revenue to GDP ratio from the current level of about 12.5 percent to over 14 percent during the medium-term, through a combination of measures to broaden the tax base and improve tax administration.

22. Government has taken the initial step to establish the National Identification system for movement of persons within the East African community; this will also help to improve tax administration and broaden the tax base by bringing informal sector activity into the tax net. To achieve this objective, Government has procured an external firm to undertake the identification exercise.

23. Government will strengthen the prioritization of public spending and improve value for money through the implementation of efficiency measures, which aim to link public spending more closely to outputs. Public expenditure is projected to increase from 17.2 percent of GDP in 2009/10 to an average of 18.8 percent of GDP per year and a fiscal deficit (excluding grants) of 4.9 percent of GDP per year on average over the NDP period. The NDP prioritizes public investments that facilitate regional integration. To leverage private sector financing and expertise, some of the priority projects in the NDP will be executed through public-private partnerships (PPPs). Government is finalizing a PPP policy framework and

institutional arrangements to enhance the capacity of Government to analyze PPP proposals and allocate risks appropriately will be finalized during FY 2010/11.

24. Although Government will continue to rely mainly on concessional financing, it may occasionally need to mobilize nonconcessional funds to cover shortfalls in project financing and to finance its share in the equity in PPPs. Therefore, Government requests the IMF to maintain the ceiling for non-concessional borrowing at US$ 500 million in the next PSI. Government aims at using such nonconcessional resources exclusively for the financing of investment expenditures, including the Karuma hydropower dam and other high-yield infrastructure projects. In addition, Government is considering participation in regional projects to boost transportation infrastructure in the EAC, and may require an increase in the ceiling on nonconcessional borrowing to finance its share of such projects in due course.

IV. STRUCTURAL REFORMS

25. Government is advancing reforms in the pension sector. The Retirement Benefits Authorities Bill was approved by Cabinet in December 2009, together with the policy on liberalizing the sector. It is expected that the Bill will be submitted to Parliament by end-August 2010, and the new regulator put in place by 2011. Government will request technical assistance from the IMF to undertake an actuarial evaluation of the NSSF to determine its financial viability.

26. Government continues to accumulate domestic expenditure arrears, which weakens the credibility of the budget system. The Ministry of Finance, Planning and Economic Development has undertaken a verification exercise of the newly accumulated arrears during FY 2008/09, which revealed a substantial increase in non-pension arrears. Therefore, Government is implementing the following measures to curtail the accumulation of new arrears:

(i.) accounting officers will be required to provide a detailed account of how the arrears came about, and this information will be used in any independent investigation;

(ii.) all new non-statutory arrears will raise an automatic audit query and will be subjected to scrutiny by the Public Accounts Committee (PAC) of Parliament;

(iii.) the quarterly releases to spending agencies will be adjusted downwards by the magnitude of the new accumulated non-statutory arrears, starting with Q4 of fiscal year 2009/10;

(iv.) arrears will have a first call on spending agencies' resources for next fiscal year;

(v.) the "straight-through payment" system (STP) now employed for pensions will be extended to the utility sector (electricity, water, telephone, and rental payments) by July 2010; and,

(vi.) mandatory rotation of accountants and procurement officers will start July 2010, and a report on the implementation of this rotation will be completed by end-December 2010.

In addition, the Directorate of Budget of the MoFPED will undertake by end-July 2010 a review of the annual utility services consumed by government departments to ensure adequate resources are provided for.

27. Government recognizes that budgetary carry forward procedures are less rigorous than would be desirable and could pose a potential risk of abuse. Therefore, Government is taking measures to eliminate the scope for diverting budgetary funds which remain unspent at end of the fiscal year, but which, under the Public Finance and Accountability Act (PFAA), can be spent in the first quarter of the next fiscal year (beyond which time they must be returned to the Government Consolidated Fund). These measures include: (i) publishing the balances as at June 30 and September 30 of each calendar year on all government accounts at the BOU and commercial banks; (ii) the Minister responsible for Finance will present these accounts to Parliament by July 31 and October 30 of the following fiscal year; (iii) in order to spend any balances held over from the previous fiscal year beyond end-June, parliamentary approval as well as supporting work and procurement plans showing how such funds would be utilized will be required; (iv) all unspent balances which have not been re-appropriated by Parliament by end-September must be returned to the Government Consolidated Fund. Government will propose amendments to the PFAA and other relevant laws and regulations to support these measures. In the meantime, Government will undertake an inventory of existing accounts and immediately close those which are no longer justified by a current project or legitimate activity by end-December 2010. Related to this, Government will be seeking technical assistance from the Fund to assist in amending the PFAA and other relevant regulations in accordance with international best practices.

28. The implementation of the first phase of the Integrated Personnel and Payroll System (IPPS) has started with the procurement of the main contractor in October 2009, training of staff, establishment of a data centre in the Ministry of Public Service (MoPS) which also includes updating the Establishment register, job description and specification for the IPPS sites. This phase, which is scheduled to be completed by September 2010, will cover four commissions (public service, health service, education service, and judicial service), four ministries (Finance planning and economic development, Health, Public service, Education, and Judiciary (courts and judicature)), and two local governments (Lira and Jinja).

29. Government will ensure that the management of petroleum revenues is handled in a transparent manner that does not undermine the integrity of the budget framework, and that

large, volatile petroleum revenues do not endanger macroeconomic stability. And, through amendments to the PFAA, Government will strengthen the institutional and regulatory framework for petroleum revenue management ahead of the start of commercial production. Furthermore, Government requests the IMF to prepare and publish a revised *Report on the Observance of Standards and Codes* **(***ROSC), to* provide an updated assessment of Uganda's fiscal governance.

Program Monitoring

30. Progress in the implementation of the policies under this program will be monitored through assessment criteria (ACs), indicative targets (IT), and structural benchmarks (SBs) detailed in the attached Tables 1 and 2 and through semiannual reviews. Assessment criteria are proposed for end-June 2010 and end-December 2010, to be monitored respectively at the first and second reviews. The first review is expected to be completed by end-December 2010 and the second review by end-June 2011. The attached Technical Memorandum of Understanding—which is an integral part of this Memorandum—contains definitions and adjustors. During the program period we will refrain from imposing or intensifying exchange restrictions as well as restrictions on imports for balance of payments reasons, and from introducing or modifying multiple currency practices.

Table 1. Uganda: Quantitative Assessment Criteria and Indicative Targets for June 2010 - June 2011 [1]
(Cumulative change from the beginning of the fiscal year, unless otherwise stated) [2]

	June 30 2010	Sep. 30 2010 3	Dec. 31 2010	March 31 2011 3	June 30 2011 3
	Prog.	Prog.	Prog.	Prog.	Prog.
Assessment criteria	(Billions of Uganda shillings)				
Ceiling on the increase in net domestic assets of the Bank of Uganda [4]	252	54	144	181	221
Ceiling on the increase in net claims on the central government by the banking system [4]	94	31	82	103	123
	(Millions of U.S. dollars unless otherwise specified)				
Ceiling on the stock of external payments arrears incurred by the public sector [5]	0	0	0	0	0
Ceiling on the contracting or guaranteeing of new nonconcessional external debt with maturities greater than one year by the public sector [5, 6]	500	500	500	500	500
Ceiling on new external debt with maturity up to one year contracted or guaranteed by the public sector [5, 7]	0	0	0	0	0
Minimum increase in net international reserves of the Bank of Uganda (US$mn)	288	18	36	49	60
Indicative target	(Billions of Uganda shillings)				
Ceiling on the increase in base money liabilities of the Bank of Uganda [4]	373	89	213	274	335
Stock of domestic budgetary arrears under the Commitment Control System (CCS) [8]	51				51
Minimum expenditures under the Poverty Action Fund (including the Universal Primary Education component of development expenditure)	1,097.0	160.0	579.0	883.0	1,184.8

[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 are from June 2009 (averages for NDA and BM) for June 2010 targets and from June 2010 for FY 2010 11 targets, as defined in the TMU.
[5] Continuous assessment criterion.
[6] To be used exclusively for infrastructure investment projects. Cumulative change from May, 2010.
[7] Excluding normal import-related credits.
[8] Monitored annually.

Table 2. Uganda—Structural Benchmarks

for the First Year Under the New PSI (2010-13)

Policy Measure	**Date of Implementation**	**Macroeconomic rationale**
Fiscal Sector		
Complete and publish a review of existing tax holidays and exemptions and formulate and submit to Cabinet recommendations for their streamlining (¶14)	June 30, 2010	Strengthen revenue mobilization
Extend the "straight-through payment" system (STP) now employed for pensions to the utility sector (electricity, water, telephone, and rental payments) (¶26)	July 31, 2010	Help control accumulation of arrears
Implement pilot Integrated Personnel and Payroll System (IPPS) in four (4) commissions four (4) ministries, judiciary (courts and judicature) and two (2) local governments (¶28)	September 30, 2010	Strengthen oversight and control of public payroll
Report on the implementation of mandatory rotation of accountants and procurement officers (¶26)	December 31, 2010	Help control accumulation of arrears
Undertake an inventory of existing government accounts and close immediately those which are no longer justified by a current project or legitimate activity (¶27)	December 31, 2010	Enhance transparency and monitoring of public finances
Financial Sector		
Submit the Retirement Benefits Authorities Bill to parliament (¶25)	August 31, 2010	Encourage development of long-term savings
Other		
Develop a set of high frequency indicators designed to capture activity and demand in the formal sector of the economy (¶15)	March 31, 2011	Enhance macroeconomic information

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 May 2010-May 2013 financial program supported by the IMF Policy Support Instrument (PSI), and sets forth the reporting requirements under the instrument.

B. Ceiling on the Cumulative Increase in 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 ceilings on the cumulative changes from the monthly average based on daily data for June 2009 to the same monthly average for June 2010, and cumulative changes from the monthly average based on daily data for June 2010 to the same monthly average for September, and December 2010.

(In billions of shillings)			
	June 30, 2010,	September 30, 2010	December 31, 2010
Cumulative change in base money	373	89	213
Cumulative change in NFA	121.4	34.3	69.2
Cumulative change in NDA	251.6	54	143.8

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 monthly average based on daily data for June 2009 to the same monthly average for June 2010, and cumulative changes from the monthly average based on daily data for June 2010 to the same monthly average for September 2010, and December 2010.

C. Ceiling on the Cumulative Increase in Net Claims on the Central Government by the Banking System[1]

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 resources freed by the 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.

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

D. Floor on 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 the Stock of 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 by end of fiscal year, under the recurrent expenditure budget (excluding court awards, subscription to international organization and pensions) or the development expenditure budget. For the purpose of program monitoring, the CCS reports, which will include arrears accumulated at IFMS and non-IFMS sites, prepared by the Accountant General, will be used to monitor arrears. Arrears can be cleared in cash or through debt swaps. According to the verified report prepared by the Accountant General, this stock of arrears, incurred after end-June 2004, is estimated at USh 99 billion as of June 2009.

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

8. 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

9. 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.

10. 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.

11. 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's shillings, beginning July 1 of the fiscal year)

Quarter	June 30, 2010	September 30, 2010	December 31, 2010
Budget support, including HIPC Initiative grants	991.3	105	389.5

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[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).

Schedule B: Debt Service

(Cumulative billions of Uganda shillings, beginning July 1 of the fiscal year)

Quarter	June 30, 2010	September 30, 2010	December 31, 2010
Debt service due before HIPC, excluding exceptional financing	207	57	121

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

13. The ceiling on the increase in NCG will be adjusted downward (upward) by any excess (shortfall) in nonbank financing[3] less payment of domestic arrears on pensions, to international organizations, and court awards, relative to the programmed cumulative amounts presented in Schedule C. For the purpose of this adjuster, payment of such arrears cannot exceed the programmed amount by more than Ush 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, 2010	September 30, 2010	December 31, 2010
(A) Nonbank financing	0	100	100
(B) Repayment of domestic arrears on pensions, to international organizations, and for court awards	76.1	52	105.4
(C) Total = (A) –(B)	-76.1	48	-5.4

14. 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.

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. Ceiling on the Contracting or Guaranteeing of New Nonconcessional External Debt by the Public Sector, and Ceiling on the Stock of External Payments Arrears Incurred by the Public Sector[4]

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 public sector. Excluded from

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

this assessment criterion are normal import-related credits and non-resident holdings of government securities and government promissory notes. The definition of "debt" is set out in paragraph 18.

17. The program includes a ceiling on new nonconcessional borrowing with maturities greater than one year contracted or guaranteed by the public sector.[5] 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, not only current as defined below, but also contingent, on nonconcessional terms. External debt for the purpose of this assessment criterion means borrowing giving rise to liabilities to non-residents. Excluded from the limits are changes in indebtedness resulting from non-resident holdings of government securities and government promissory notes, refinancing credits and rescheduling operations, and credits extended by the IMF. For the purposes of the program, arrangements to pay over time obligations arising from judicial awards to external creditors that have not participated in the HIPC Initiative do not constitute nonconcessional external borrowing. Excluded from these limits are also nonconcessional borrowing within the limits specified in Table 1 of the MEFP.

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. 6230-(79/140), as amended by Decision No 14416-(09/91, effective December 1, 2009). It not only applies to the debt as defined in Point 9 of the Executive Board decision, but also to commitments contracted or guaranteed for which value has not been received. The definition of debt set forth in No. 9 of the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements reads as follows:

> (a) For the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement 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,

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

debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lesser retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property. (b) Under the definition of debt set out in point 9(a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

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 public sector from their level at end-June 2006. External debt payment arrears consist of external debt service obligations (reported by the Statistics Department of the BOU, the Macro Department of the Ministry of Finance) that have not been paid at the time they are due as specified in the contractual agreements but shall exclude arrears on obligations subject to rescheduling.

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 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 .

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 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 verified domestic arrears comprising the stock of CCS/IFMS arrears incurred after end-June 2004.	annually	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