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Press Release:
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January 13, 2012

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

December 20, 2011

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 20, 2011

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

Dear Ms. Lagarde:

On behalf of the Government of Uganda, I would like to provide you with an update on the progress we have made under our program backed by the IMF's Policy Support Instrument (PSI).

Since the last review, Uganda has faced the twin challenges of inflation and a volatile and fast depreciating exchange rate, which Government has fought successfully. This was done through aggressively constraining credit demand through the central bank rate, and resisted all temptations to support the Uganda Shilling, or ban food exports. Despite these challenges and turbulence, we have remained steadfast in implementing good macroeconomic policies that are now starting to pay off. Signs of price instability are beginning to abate and the exchange rate has been more stable, with the Uganda Shilling firming recently.

The spike in inflation emanated, in the first instance, from higher international and regional food prices, as well as a result of the depreciation of the Uganda shilling against major foreign currencies during the first three quarters of the year. The global economic outlook has adversely affected Uganda. Weaker global demand for Uganda's exports has contributed to a worsening in the current account of the balance of payments, and also tempered non-resident investment in our markets. The Government's refusal to ban food exports in order to keep domestic prices low embodies our deep commitment to maintaining a liberal trade regime.

The authorities met six out of the seven quantitative assessment criteria as at end-June 2011. The only criterion not met was Net Credit to Government (NCG) from the banking system, which was missed by about 0.9 percent of GDP as a result of inadvertent under-budgeting for important expenditure items, including civil service wages, road construction, and interest charges on public debt. The latter have risen as the Monetary Authority has tightened the stance of monetary policy. In addition, we incurred some expenditure arrears in the power sector, amounting to about 0.5 percent of GDP, as we continue to support the power sector in the face of increasing costs resulting from higher crude oil prices and a depreciating exchange rate. Following the clearing of arrears to the power sector incurred in the last fiscal year, Government is taking decisive steps to ensure that adequate provisions are made and any accumulation of arrears does not recur this year. End-user electricity tariffs will accordingly be increased early in the new year. I hereby request a waiver for the nonobservance of Net Credit to Government (NCG) quantitative assessment criteria for this.

Looking ahead, we request the modification of quantitative assessment criteria for end-December 2011 and establishment of quantitative assessment criteria for end-June 2012, as set out in the attached Memorandum of Economic and Financial Policies (MEFP) and the Technical Memorandum of Understanding (TMU) that is a part of the MEFP. The MEFP also sets out the Government's objectives and policies for remainder of this financial year and sets out Government's medium term strategic goals. These goals are drawn from our National Development Plan (NDP), and emphasize the importance of scaling up infrastructure development to clear the most critical bottlenecks to growth and poverty reduction. The Government is taking measures to tighten fiscal and monetary policies to contain inflationary pressures while protecting medium-term growth. We will also place central efforts at enhancing revenues and strengthening public financial management in order to create a medium term macroeconomic policy framework that enables scaling up of infrastructure spending while rebuilding gross international reserves in line with the PSI objectives.

The Government believes the policies set forth in the MEFP are fully sufficient to achieve the objectives of our PSI-supported program. We stand ready to take any further measures that may become appropriate for this purpose and intend to work with the IMF and other development partners in the implementation of our program. We commit to consult with Fund staff in advance should revisions to the policies contained in the PSI be contemplated by the Government.

Sincerely yours,

/s/

Ms. Maria Kiwanuka
Minister
Ministry of Finance, Planning and Economic Development

Attachments
Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

cc: Governor Emmanuel Tumusiime-Mutebile, Bank of Uganda

Attachment I. Memorandum of Economic and Financial Policies

December 20, 2011

I. INTRODUCTION

1. The Government of Uganda remains committed to macroeconomic stability, sustainable economic growth and poverty reduction as set out in the National Development Plan.[1] This Memorandum of Economic and Financial Policies (MEFP) summarizes the Government's strategy to achieve these goals. The Government of Uganda and the International Monetary Fund (IMF) are cooperating on the economic program through a three-year Policy Support Instrument (PSI). This MEFP describes performance under the PSI program through September 2011, specific policies and targets for 2011/12 and medium term objectives.

2. The Uganda Government is taking the necessary measures to deal with the external shocks to the economy and to reduce inflation to single-digit territory. Economic growth remains strong despite the exogenous shocks which have hit the economy. The authorities are revising the macroeconomic framework to curb the second round impact of these shocks on inflation and to ensure that competitiveness is not undermined. Both fiscal and monetary policies will remain tight in the short to medium term in order to reduce inflation to single digits by the end of 2012.

Purpose of the MEFP

3. This memorandum updates Uganda's economic program under the three-year Policy Support Instrument (PSI) for the period 2010–13, approved by the IMF Executive Board on May 12, 2010. The second review of the PSI was completed in June 2011. Since then, global economic developments coupled with continued regional demand shocks and structural supply constraints for food have posed risks and challenges to the Ugandan economy, resulting in high inflation and exchange rate volatility. In the face of these risks, the Government has taken steps to contain inflationary pressures and exchange rate volatility. Government's key near-term objective is to reverse the acceleration in inflation over the coming year.

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[1] http://www.finance.go.ug/index.php/publications/doc_download/80-national-development-plan.html

Performance under the PSI

4. All the quantitative assessment criteria, except the one related to the ceiling on Net Credit to Government (NCG) by the banking system, were met. The NCG target was missed by about Ush 350 billion because of road construction bills which were not anticipated during the period, higher interest costs due to the increased interest rates, and a higher wage bill, also due to underestimation of the budget. To avoid these overruns in future, the Authorities have agreed, beginning in mid-December 2011, to submit to Cabinet regular quarterly reports on unpaid bills of spending units based on data in the Commitment Control System (CCS) for the previous quarter of the fiscal year. This will enable corrective actions to be taken within the budget to avoid the accumulation of arrears by the end of the fiscal year

5. Government acknowledges that implementation of agreed structural reforms through end-September was mixed. Only two of the seven structural benchmarks due were met: the URA issued and began to enforce transfer pricing guidelines, and publication of the net and gross positions of government in the BoU was achieved. Roll-out of the National Identification System is on track, as 4 million Ugandans are meant to have ID cards by June 30, 2012. Full roll-out of the national ID cards to all Ugandans is planned to take place by July 1, 2013. Most other measures have been or will be implemented with delay, mainly for technical reasons:

- Government has begun to gazette and publish on the Ministry of Finance, Planning and Economic Development (MoFPED) website the names of beneficiaries of all tax exemptions, as of December 9, 2011.[2]

- Government has posted on the MoFPED website the balances of unspent budgetary funds on all government accounts at the end of the fiscal year 2010/11 as of December 12, 2011. Government balances for central government agencies were zeroed out at end-June 2011, but there were some balances left on accounts of local governments. These unspent balances were however not re-appropriated by Parliament for FY 2011/12.[3]

- The structural benchmark on submitting to Cabinet regular quarterly reports on unpaid bills of spending units based on data from the Commitment Control System (CCS) was not done on time, but was introduced as of December 19, 2011.

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[2] See http://www.finance.go.ug/index.php/publications/doc_download/219-gross-tax-payment-for-mofped-2010-2011.html and http://www.finance.go.ug/index.php/publications/doc_download/224-gross-tax-expenditure-july-sept-2011-2012.html.

[3] See http://www.finance.go.ug/images/Authorised%20unspent%20balances%20FY%202010-11.pdf.

- Government did not introduce "straight-through payments" for electricity and water bills of government organizations as planned in July. It intends to achieve the same objective—of strengthening the accountability of accounting officers in spending units—by publishing quarterly releases and actual payments for utilities on a disaggregated (vote) basis, and imposing administrative sanctions on those Accounting Officers found to have failed to settle legal obligations for power and water.[4]) The implementation of this reform began to be implemented on December 13, 2011. Government expects to reinforce the effect of this measure by agreeing with utility companies on installation of prepaid meters for water and electricity in government institutions.

- The structural benchmark to develop a set of high frequency indicators was partly met, as the BoU is working in collaboration with the Uganda Bureau of Statistics (UBOS) to develop a Composite Index of Economic Activity. BoU began to distribute it within government on December 9, 2011.

II. Economic and Policy Developments

Outturn in 2010/11

6. Economic growth in 2010/11 was 6.7 percent but the pace of growth declined in the second half of the fiscal year. The main drivers of economic growth were manufacturing, trade, construction, and transport and communication. In contrast, agricultural growth was very low because of adverse weather conditions.

7. Inflation, which fell between July and October 2010, began to pick-up towards the end of the year, and then accelerated during 2011. Annual headline and core inflation stood at 30.5 percent and 30.8 percent, respectively, in October 2011. Food inflation rose from 33.4 percent in June 2011 to 45.8 percent by October, while the increase in non-food inflation was from 7.9 percent to 22.8 percent in the same period. The rise in inflation is attributable to a number of factors: poor domestic harvests for most food crops; higher international commodity prices, particularly for food and fuel; higher inflation in the countries from which Uganda imports; and exchange rate depreciation. But monetary factors have also played a role. Private sector credit grew by 44 percent in 2010/11 fiscal year, and has remained high through September.

8. The balance of payments weakened significantly in 2010/11, mainly because of the deteriorating current account deficit, which widened as import growth outstripped that of exports, tourism receipts and remittances. Imports grew strongly because of higher

[4] See http://www.finance.go.ug/index.php/publications/doc_download/227-budget-analysis-for-electricity-and-water-items-for-financial-year-201011.html

international commodity prices and the rebound in domestic demand. The capital and financial account surplus fell to US$ 1,258 million in 2010/11 from US$ 1811 million in 2009/10. Because of the deterioration of the current account, the overall balance of payments recorded a deficit of US$ 581.4 million, compared with a surplus of US$ 210.9 million in 2009/10. This resulted in a reduction in gross international reserves to the equivalent of 3.3 months of imports of goods and services by end-FY 2010/11, compared to 4.2 months at the end of the previous fiscal year.

9. The deteriorating balance of payments has caused the Ugandan shilling to weaken against the US dollar and other major international currencies. In addition, speculative activities in the domestic interbank foreign exchange market caused some volatility in the market that BoU could only partly curtail through interventions. As a result, the nominal effective exchange rate depreciated by 16.0 percent in 2010/11 compared to a depreciation of 7.4 percent in 2009/10.

Monetary policy

10. Although fiscal and monetary policy management was not the main cause of inflation, the authorities now see a risk that second round effects are taking hold, and have taken measures to reduce aggregate demand by increasing interest rates. The Central Bank Rate (CBR) was introduced in July 2011 at a rate of 13 percent and subsequently raised four times to 23 percent in November. (See paragraph 29 below.) As a result, commercial banks have increased their prime lending interest rates by several percentage points, with some now as high as 29 percent. Moreover, the yields on government securities rose from 13.1 percent in June 2011 to 23.3 percent in October. In the short term, fiscal policy will remain tight to support monetary policy management, and the Government will make the necessary adjustments to fiscal policy in FY 2011/12 to be supportive of the BoU's disinflation effort.

Financial sector

11. A recent Financial Sector Assessment Program (FSAP) review commended the progress the authorities have made in the financial sector since the last review in 2005. In particular, significant advances have been made in implementing risk-based supervision, exercising strong supervisory practices and complying with the 2005 Basel Core Principles (BCP) assessment, resulting in a more than adequately regulated and supervised financial sector. In wake of the challenges to the macroeconomic environment, and particularly the impact on interest rates and the quality of assets of the banking system, the FSAP recommends that BoU address the gaps within the existing legislative and regulatory framework, and strengthen collaboration with other jurisdictions to reduce cross-border banking and other related risks.

12. In particular, during FY 2010/11, private sector credit as a ratio of GDP increased to 17 percent, compared to 13 percent a year earlier. The FSAP noted that bank profitability has improved as cost-to-income ratios were reduced, and non-performing loans, which are a

measure of asset quality, remained low, despite the rapid expansion of credit growth. Specifically, non-performing loans as a share of total loans fell to around 2 percent, from 4 percent in 2009. Nevertheless, the authorities recognize that the tighter policy stance will slow down private sector activity and, as noted by the recent FSAP, could lead to deterioration in the quality of bank assets.

13. As regards structural issues, legislation to enable banks to undertake *bancassurance* and offer Islamic financial products, and to introduce a capital charge for market risk, is before Cabinet. Legislation to strengthen anti-money laundering is also before Parliament, and the Uganda Retirement Benefits Regulatory Authority Act 2011 which establishes a regulatory framework for the entire pension sector was enacted in June 2011, which is the initial step in leveraging private sector savings to finance domestic investments.

Fiscal performance during FY 2010/11

14. Revenue collections during 2010/11 fiscal year rose, relative to the previous year, mainly due to the effects of exchange rate depreciation and stronger demand for consumption imports. Tax revenue (excluding oil capital gains taxes) for FY 2010/11was 12.7 percent of GDP. Tax revenue from PAYE, corporation tax, customs duties and VAT on imports was above target. However, VAT on domestic consumption (except beer and soft drinks) and local excise duties on cigarettes, sugar, mobile phone talk time, as well as domestic fees and licenses were below their respective targets.

15. Total expenditure to GDP was 22.8 percent in FY 2010/11, about 3 percentage points higher than in FY 2009/10. The sharp increase in government spending was due to a number of factors, including: increased security-related exceptional spending; increased wages and salaries for lower-paid cadres of civil servants; unanticipated pension obligations; under-budgeted transport sector bills; higher-than-forecast thermal power costs due to rising fuel prices; and increased police, security and other election-related activities. Some of these expenditures were unforeseen, leading to arrears on thermal power subsidies of about 0.5 percent of GDP which had to be paid in early FY 2011/12, and also contributing to the missed target on net credit to government. On a cash basis (excluding arrears), the central government deficit including grants for last fiscal year was 7.2 percent of GDP.

Outlook and Medium-Term Policies

Macroeconomic Objectives and Outlook

16. Government's primary macroeconomic objectives over the next two years are to reduce inflation and achieve sustainable economic growth. The economy is expected to slow down from 6.7 percent growth in 2010/11 to 5.0 percent in 2011/12, because of weaker global growth and the tight macroeconomic stance needed to curb inflation in Uganda. Real GDP growth is expected to recover to 6.0 percent in 2012/13 and 7.0 percent in outer years on the back of stronger domestic investment in agriculture, power and roads, and restoration

of macroeconomic stability. The balance of payments is expected to remain under pressure, given rising investment on infrastructure projects including the oil sector, while mitigated by more FDI flows and portfolio investors' response to higher interest rates. Regional exports are expected to increase over the medium term in response to the current Government focus on investments that promote regional trade, taking advantage of the high regional demand particularly for food and light manufactures.

Monetary policy

17. The BoU's primary objective is to bring down core inflation towards its 5 percent target in the medium term. In addition, the BoU aims to rebuild foreign exchange reserves equivalent to a minimum level of 4 months of imports by FY 2014/15. The BoU will continue to maintain a flexible exchange rate regime to ensure the necessary adjustments in the economy following external shocks, and will also continue to maintain an open capital account.

18. Overall (headline) inflation is projected to decline to about 17 percent by June 2012. Core inflation is projected at 20 percent by June 2012 before declining to about 5 percent in June 2013. The outlook indicates that consumer prices will ease after peaking this year, as food prices gradually moderate and aggregate demand is reined in through tighter fiscal and monetary policies. The speed at which inflation falls will to some extent depend on how quickly the supply side shocks to food prices dissipate and the extent to which further adjustment in the exchange rate is necessary to equilibrate the balance of payments.

19. Looking ahead, the BoU will set the CBR to achieve its path for the reduction of inflation. If inflation is higher than forecast over the coming months, the BoU will raise the CBR, to ensure that the real interest rate increases. The BoU is committed to act in a manner which will stabilize inflation, by raising the CBR by more than the change in the inflation forecast, i.e. by tightening further if the inflation outlook deteriorates.

Fiscal strategy for 2011/12 and the medium term

20. The Budget for FY 2011/12 is consistent with the understandings reached in the context of the PSI. The main thrust of the 2011/12 budget is to address the challenges of rising inflation, high unemployment, inadequate infrastructure development particularly in the power and roads sectors, improving social infrastructure and improving social service delivery. Addressing these constraints will require restructuring the budget to refocus it to the medium term priorities in order to create fiscal space through further expenditure efficiency measures.

21. Government recognizes the importance of revenue enhancement for ensuring fiscal sustainability. Nevertheless, non-oil tax revenue to GDP is projected to fall slightly to 12.5 percent of GDP in FY 2011/12, given the forecast slower real GDP growth. The

expected revenue outturn will be helped by the reduction in tax exemptions, administration efficiency gains, and the exchange rate depreciation.

22. Total expenditure is projected to decline to 19.4 percent of GDP in FY 2011/12. The sharp depreciation of the Uganda shilling against the US dollar has increased the shilling expenditure requirements of dollar-denominated components of the FY 2011/12 Budget. To the extent possible, supplementary expenditure pressures will be accommodated within the resource envelope for 2011/12 fiscal year. In the event that higher nominal revenues arise from the impact of inflation on the tax base, relative to the approved FY 2011/2012 Budget, some of these extra revenues will be used to finance expenditure pressures that may arise during 2011/12 fiscal year, while the remainder will be set aside to tighten the fiscal stance as needed to support the Bank of Uganda's disinflation effort.

23. The fiscal deficit including foreign grants but excluding oil revenues was 7.2 percent of GDP in FY 2010/11, and is projected to decline to below 4 percent in FY 2011/12 as exceptional military expenditures come to an end, and consistent with the objective of reducing inflation. This deficit will be financed primarily through external borrowing, with donor disbursements projected to increase to 3 percent of GDP in FY 2011/12 compared to 2.2 percent of GDP a year before. Banking system financing is projected to decline significantly from 4.2 percent of GDP in 2010/11 to about 1 percent of GDP in 2011/12, with the main source of financing being drawdown from the Energy Fund to cover payments needed to initiate the Karuma hydropower project.

24. Government is committed to reducing the scope of tax exemptions and tax holidays in order to boost domestic revenue collections. Government has begun publishing the names and amounts of beneficiaries of tax expenditures on the MoFPED website on a quarterly basis (as of December 2011). Further, Government is reviewing tax holidays and exemptions with a view to streamlining them into the tax code. Tax exemptions on hotels have been terminated, and we have issued and begun to implement new transfer pricing guidelines. It is also streamlining agricultural processing exemptions and the 10-year tax holiday under the Income Tax Act, while also eliminating VAT exemptions on sales of motor vehicles or trailers of a carrying capacity of 3.5 tons or more designed for the transport of goods. As stated in the MEFP of June 15, 2011, some tax policy reforms will take time to prepare, and in a few cases additional technical assistance may be required. We therefore intend, in the context of the 2012/13 budget, to propose elimination of a number of additional exemptions, particularly of intermediate sales under the VAT. Beginning in 2012/13, URA hopes to begin paying VAT refunds directly, rather than through budgetary appropriation, in order to expedite refunds and improve the efficiency of this tax.

25. As noted at the time of the second PSI review, Government is working on amendments to the Public Finance and Accountability Act (PFAA) to enhance the predictability of the budget by considering the creation of a contingency fund to finance emergencies and supplementary budgets, with clear criteria for its use. The revised act—

which is expected to be submitted to Parliament during FY 2011/12—would also restrictvirements (reallocations) between and within spending ministries. Finally, as noted below, the revised PFAA will establish an appropriate mechanism for oil revenue management, including by establishing a Petroleum Fund (see paragraphs 36–37 below).

26. Government received almost US$450 million in oil capital gains tax revenues in FY 2010/11. These funds have been set aside as part of a special account in the Bank of Uganda, and are earmarked for the Karuma Hydropower Project. The foreign exchange equivalent was, however, sold to the BoU in July to boost reserves in the period before a formal Petroleum Fund is established. Future oil revenues will be retained on the petroleum account of government in the BoU, and not comingled with BoU's international reserves.

27. Government expenditure policy in 2011/12 will emphasize a prudent expansion in public investment in line with the NDP priorities but also consistent with availability of resources, taking into consideration the current domestic economic developments. Government will undertake a review of the implementation of the NDP in early-2012 to assess implementation constraints including availability of resources and recent developments in the economy. In the medium term, as fiscal space and implementation capacity are expanded, the fiscal strategy will focus on wider implementation of key priority infrastructure projects in the NDP to unlock the most critical binding constraints to economic growth. In addition to the on-going infrastructure projects already in the MTEF, the new projects which will commence in FY2011/12 are the Karuma hydropower project and the Kampala-Entebbe express highway.

28. Other projects to be implemented in the medium term include the rehabilitation of Tororo-Pakwach railway, construction of Kampala-Jinja dual carriage way, and Kampala metropolitan roads to decongest the traffic in and around Kampala city. These projects are to be financed mainly by some nonconcessional borrowing for the highway, government's own current domestic revenues (including oil revenues) and, with time possibly the proceeds from the sale of infrastructure bonds. In particular, Government is considering issuance of an infrastructure bond in the third year of construction of the Karuma hydropower project, when the oil revenue savings at BoU are expected to be exhausted. It is also expected that limited infrastructure bonds may be issued to meet start up costs for other critical projects; however, these issuances will be fully consistent with the macroeconomic stance discussed and agreed with the IMF. Finally, at this stage, Government is not requesting an increase in the nonconcessional borrowing ceiling under the PSI, though it may do so at future reviews

III. Structural Issues and Reforms

Enhancing the framework for monetary policy

29. To modernize monetary policy framework, the BoU introduced an Inflation Targeting Lite (ITL) monetary policy framework in July 2011. Under this framework, the operating target of monetary policy is a monetary policy interest rate called the Central Bank Rate

(CBR), which targets the 7-day interbank interest rate. The daily operations of monetary policy are thus geared at influencing the supply of liquidity in the interbank money market so as to align the 7-day interbank money market rate within a band around the CBR. The ITL framework has improved the transparency of monetary policy. The BoU has expanded and strengthened its communication strategy to include periodic press briefings explaining the decisions of the Monetary Policy Committee. To enhance the effectiveness of monetary policy, the BoU—in collaboration with the Uganda Bureau of Statistics (UBOS)—has developed a Composite Index of Economic Activity as one of the needed high frequency indicators for monetary policy analysis. The BoU has begun to disseminate an early version of this data within government. In this regard, the BoU has requested that the International Monetary Fund provide technical assistance and advice on enhancing the compilation of the Index and other high frequency indicators needed for monetary policy analysis.

Revenue administration modernization

30. Government plans to continue with revenue administration reforms in addition to the tax policy changes noted above. To improve tax administration and reduce cost of compliance, the use of e-tax services is being rolled out across the country to facilitate taxpayers' registration, filing and payments. The implementation of the e-tax will continue in a phased manner, starting with large and medium taxpayers. Introduction of e-tax will allow URA to pay VAT refunds directly, rather than through budgetary appropriation, which Government hopes to begin doing in 2012/13. Introduction of the national identification system will proceed in stages, with an initial 4 million citizens covered by June 30, 2012. Full roll-out of the National ID project will take place by July 1, 2013.

Public Finance Management

31. During FY 2011/12, the Government will propose to Parliament revisions to the Public Finance and Accountability Act (PFAA) of 2003 with the aim of strengthening public finance management. It was submitted to Cabinet in late November 2011. Key objectives in this regard include introduction of a contingency fund to cater for any supplementary budgets or national emergencies, with clear guidelines to control spending pressures. The revised PFAA will also restrict virement (reallocation) abilities both across and within spending ministries. In the new PFAA, Government will ensure that any significant reallocation of spending authority will require ex-ante approval from parliament. Further, to ensure realism and credibility of the budget, and strict adherence to annual work plans of spending units, the authorities plan to consider in the PFAA amendments advancing the budget timetable to enable Parliamentary budgetary approval before the start of each new fiscal year. Over the medium term, Government intends to move to a treasury single account system for administering government finances, recognizing this practice will improve cash management and reduce the cost of government borrowing. In this regard, Government requests IMF technical assistance on establishment of a treasury single account.

32. In addition, the revised PFAA will also clarify and set limits on the ability of government to carry forward expenditure appropriation from one fiscal year to the next. In the meantime, to limit the potential for abuse and diversion of funds, government took strong measures to control unspent balances at the end of FY 2010/11: all central government agency accounts were zeroed out by June 30, 2011, and the balances returned to the Uganda Consolidated Fund (UCF). However, local governments were allowed by the Secretary to the Treasury (albeit not by parliament) to retain some central government funds disbursed in FY 2010/11. These balances (both in the BoU and in commercial banks) as at June 30 were published on the MoFPED website to enhance transparency.

33. Government acknowledges that internal controls to prevent the accumulation of expenditure arrears need to be strengthened, despite the measures set out in our 2007 Debt Strategy. In the context of amendments to the PFAA, Government will take steps to strengthen the Commitment Control system (CCS), including by introducing strong sanctions—including immediate dismissal—on Accounting Officers who are found to have incurred expenditure obligations outside the CCS. In the meantime, to address persistent reports of arrears on electricity and water, MoFPED has begun to publish on a quarterly basis the releases and actual payments made for these utilities, by vote and including the name of the responsible Accounting Officer in charge at that time. Accounting Officers who are found to have run persistent arrears on power and water will face administrative sanction, and we commit to report on the actions taken at the time of the next PSI review.

34. Further, to control the growth of expenditure arrears, the Minister of Finance, Planning and Economic development has begun to submit to Cabinet reports on unpaid bills for nine central government ministries on a quarterly basis. These institutions are: Works and Transport, State House/Presidency, Ministry of Public Service, Prisons, Police, Ministry of Justice and Constitutional Affairs, Education, Health and Ministry of Finance, Planning and Economic Development. These reports will cover civil works certificates, utilities, wages and pensions, compensations and/or court awards, and power subsidies. The reports will also include the unspent balances from the previous quarter. More fundamentally, Government requests for IMF technical assistance to boost capacity in the area of control of expenditure arrears.

35. In the context of strengthened control over expenditure arrears, Government firmly intends to avoid accumulation of arrears in the power sector, and a supplementary budget will be submitted to Parliament by April 30, 2012 to cover any residual subsidy requirements that would be due. Subsidy requirements in the budget will be consistent with the power sector tariff structure actually set by the Electricity Regulatory Authority (ERA), and Government expects that power tariffs will begin to rise early in calendar 2012. Government understands that there is a trade-off between low power sector tariffs and higher budgetary subsidies, and is firmly committed to avoiding spending arrears on the latter.

36. For the medium term, Government will need to implement the appropriate policy mix to balance demand for electricity with available financing and supply. The intention is to move to having ERA setting tariffs at cost recovery levels over the medium term. Moreover, the expected generation of power from the nearly completed Bujagali hydropower dam will reduce the power deficit and therefore reduce the need for subsidies. However, this will be short lived as demand will begin to exceed generation capacity about one and half years after the completion of Bujagali in April 2012. Government will include in the Budget Framework Paper for FY 2012/2013 a medium term strategic plan that will establish the timeframe over which power sector tariffs will move to cost recovery levels, and set out options for satisfying power sector demand in a cost-effective manner once demand outstrips the new power coming from the Bujagali hydropower project.

Oil Revenue Management

37. Government will provide for the prudent management and accountability of petroleum resources in the context of amendments to the PFAA. Our objective is to ensure that the necessary mechanisms for transparency and accountability are in place before large scale oil revenues begin to accrue. A dedicated account for oil revenues has been created in the Bank of Uganda on which capital gains tax has been deposited. Flows out of this account will only be made to the budget and for the near term will be used for financing the Karuma hydropower project. The amendments to the PFAA will legally establish the Petroleum Fund into which all oil and gas revenues will be deposited, and we will ensure that all spending is done through the budget. Government is considering the possibility of joining the Extractive Industries Transparency Initiative (EITI) in its commitment to transparency in oil revenue management. The reporting requirements in the proposed amendments to the PFAA will be designed to comply with the EITI requirements.

38. The BoU is to act as the investment manager for these resources on behalf of government, and will pursue an investment strategy that is—at least in the short run—consistent with its handling of Uganda's foreign exchange reserves. Until an Act of Parliament establishes the Fund, BoU is handling the payments of significant capital gains tax revenues consistent with these objectives. Looking to the medium term, the manner in which oil revenue will be managed must not compromise the growth and export potential of non-oil sectors in order to enhance employment creation in the country. This will entail building capacity in managing oil resources and also research capacity.

Debt sustainability in the context of improved asset and liability management

39. Government is currently updating the debt strategy to ensure continued debt sustainability in the context of accelerated public infrastructure investment. A key policy issue is to separate monetary policy instruments from the domestic financing of the deficit, by using secondary market operations for the former and primary securities issues for the latter. There is a need to enhance coordination between MoFPED and BoU on liquidity

management, and also to develop capacity in MoFPED for debt management. In light of the intention to start accessing capital markets for infrastructure financing, Government requests technical assistance from the IMF on debt management.

40. Government recognizes that the most pressing constraint to stepped-up infrastructure investment is its own system of project assessment, planning, and implementation. Government intends to put in place an evaluation and appraisal criteria to ensure that all projects funded are economically and financially viable and consistent with the overall macroeconomic framework to ensure continued stability.

41. As we establish the legal framework for administering petroleum wealth through the amended PFAA, we will need to review our preparedness for asset management. The petroleum fund will be administered by the BoU, but the investment guidelines and risk tolerance will be set by the government. In this regard, we also look forward to technical support from the IMF, insofar as asset and liability management must be viewed as a package.

IV. PROGRAM MONITORING

42. 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 semi-annual reviews. Revised assessment criteria are added for end-December 2011 and proposed for end-June 2012, to be monitored respectively at the fourth and fifth reviews. The fourth review is expected to be completed by end-June 2012 and the fifth review by end-December 2012. 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, or from introducing multiple currency practices.

Table 1. Uganda: Proposed Quantitative Assessment Criteria and Indicative Targets for December 2011 - June 2012 1/

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

	Dec. 31 2011 2nd Review Prog.	Dec. 31 2011 Rev. Prog.	March 31 2012 2/ Rev. Prog.	June 30 2012 Rev. Prog.	June 30 2012 2nd Review Prog.
			(Ush billions)		
Assessment criteria					
Ceiling on the increase in net domestic assets of the Bank of Uganda	877	652	830	892	1,150
Ceiling on the increase in net credit to the central government by the banking system	633	119	302	481	829
			(US$ millions)		
Ceiling on the stock of external payments arrears incurred by the public sector 3/	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 3/ 4/	800	800	800	800	800
Ceiling on new external debt with maturity up to one year contracted or guaranteed by the public sector 3/ 5/	0	0	0	0	0
Minimum increase in net international reserves of the Bank of Uganda	-121	309	282	300	-51
Share of oil revenue placed into Petroleum Fund (in percent)	100	100	100	100	100
			(Ush billions)		
Indicative targets					
Ceiling on the increase in base money liabilities of the Bank of Uganda	399	253	356	471	743
Stock of domestic budgetary arrears under the Commitment Control System (CCS) 6/	…	…	…	0	50
Minimum expenditures under the Poverty Action Fund	650	…	…	1,300	1,400
Ceiling on the issuances of guarantees by the Government/Bank of Uganda (US$mn)		0	0	0	

1/ The assessment criteria and indicative targets under the program, and their adjusters, are defined in the technical memorandum of understanding (TMU).
2/ Indicative target.
3/ Continuous assessment criterion.
4/ To be used exclusively for infrastructure investment projects. Cumulative change from May 2010.
5/ Excluding normal import-related credits.
6/ Monitored annually.

Table 2. Uganda: Structural Benchmarks Under the PSI

Policy Measure	Macroeconomic Rationale	Date
Government to begin to gazette and publish on the internet the names of beneficiaries (whether individual or corporation) of all tax expenditures (MEFP ¶5, 24).	Enforce discipline in issuance of tax exemptions.	September 30, 2011, and **quarterly thereafter**
Begin submitting to Cabinet regular quarterly reports on unpaid bills of nine Ministries based on data in the Commitment Control System (CCS) for the previous quarter of the fiscal year (MEFP ¶4, 34).	To facilitate control and elimination of expenditure arrears	June 30, 2011, for the report covering Q3 of FY2010/11, and **quarterly thereafter.**
Produce and disseminate within government a monthly index of economic activity relying on the various high-frequency indicators available (MEFP ¶5, 29).	To facilitate the conduct of monetary policy.	September 30, 2011, and **quarterly thereafter**.
BoU to include in Quarterly Report data on the net and gross positions of government in the BoU (MEFP ¶5).	Enhance central bank independence and prepare Bank of Uganda to move toward inflation targeting.	September 30, 2011, and **quarterly thereafter**.
Government to publish releases by MoFPED for power and water obligations of spending ministries, and actual payments by them, with sanctions to be applied to the named Accounting Officers of agencies that run arrears on these utilities. (MEFP ¶33).	Help control accumulation of arrears. Replaces benchmark on "straight-through payments"	December 15, 2011 (for the previous quarter) and **quarterly thereafter.**
Government to submit to Cabinet a strategy to contain increases in power sector subsidies, including establishing the timeframe over which Energy Regulatory Authority (ERA) is to move power tariffs to a rules-based, cost-recovery level, and setting out options for the period when power demand outstrips the additional capacity coming from Bujagali hydro project (MEFP ¶36).	Prevent accumulation of expenditure arrears.	April 1, 2012.
Government to submit to Parliament a supplementary budget to cover known arrears and under-budgeted spending obligations, including those for power sector subsidies which may be required in light of ERA's tariff setting policy. (MEFP ¶35).	Prevent accumulation of expenditure arrears	April 30, 2012.
As part of introduction of national identification system, 4 million additional citizens will have received IDs (MEFP ¶5, 30).	To support efforts to strengthen revenue collection and combat money laundering and the financing of terrorism.	June 30, 2012.

Attachment II. Uganda: Technical Memorandum of Understanding

I. Introduction

1. This memorandum defines the quarterly assessment criteria and indicative targets described in the memorandum of economic and financial policies (MEFP) for the period of December 31, 2011–June 30, 2012 financial program supported by the IMF Policy Support Instrument (PSI), and sets forth the reporting requirements under the instrument.

II. Ceiling on the Cumulative Increase in Net Domestic Assets (NDA) of the Bank of Uganda (BoU)

2. Net foreign assets (NFA) 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, excluding oil revenues in the petroleum fund. 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 referred to in the table below for the various currencies and then converted into Uganda shillings using the program average U.S. dollar-Uganda shilling exchange rate for August 31, 2011.

Program Exchange Rates

US dollar (US$)	1.0000
British pound/US$	1.6282
US$/Japanese yen	76.4600
SDR/US$	1.6094
US$/Kenyan shillings	93.8000
US$/Tanzania shillings	1,619.5000
Euro/US$	1.4398
US$/Ugandan shillings	2,821.1300

3. Net domestic assets (NDA) of the 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 change from the monthly average based on daily data for June 2011 to the same monthly averages for December 2011, March and June 2012.

III. Base Money

4. Base money is defined as the sum of currency issued by 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 change from the monthly average based on daily data for June 2011 to the same monthly average for December 2011, and March and June 2012.

IV. Ceiling on the Cumulative Increase in Net Claims on the Central Government by the banking system[1]

5. Net claims on the central government by the banking system is defined as the difference between the outstanding amount of bank credits to the central government and the central government's deposits with the banking system, excluding oil revenues in the petroleum fund and 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 by the banking system will be calculated based on data from balance sheets of the monetary authority and commercial banks as per the monetary survey.

V. Floor on Net International Reserves of the Bank of Uganda

6. Net international reserves (NIR) of the BoU are defined for program monitoring purpose as reserve assets of the BoU net of short-term external liabilities of the BoU. Reserve assets are defined as external assets readily available to, and controlled by, the BoU and exclude pledged or otherwise encumbered external assets, including, but not limited to, assets used as collateral or guarantees for third-party liabilities. Short-term external liabilities are defined as liabilities to nonresidents, of original maturities less than one year, contracted by the BoU and include outstanding IMF purchases and loans.

VI. Floor on Net International Reserves of the Bank of Uganda

7. 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

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

defined as liabilities to nonresidents, of original maturities less than one year, contracted by the BoU and include outstanding IMF purchases and loans.

8. For program-monitoring purposes, reserve assets and short-term liabilities at the end of each test period will be calculated in U.S. dollars by converting the stock from their original currency denomination at program exchange rates (as specified in paragraph 2).

VII. Ceiling on the Stock of Domestic Budgetary Arrears of the Central Government

9. The stock of domestic payment arrears/unpaid payment claims will be monitored on a quarterly basis. Domestic payments arrears/unpaid payment claims 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 end of the quarter in question, and for which payment has not been made, under the recurrent expenditure budget (excluding court awards and pensions) or the development expenditure budget. For the purpose of program monitoring, the reports on domestic payment arrears/unpaid payment claims prepared by the Auditor General will be used to monitor this item following the end of the fiscal year. In the interim, the reports prepared by the Accountant General on unpaid claims will be monitored to gauge expenditure pressures.

VIII. Expenditures under the Poverty Action Fund (PAF)

10. The indicative target on expenditures under the Poverty Action Fund is designed to ensure that resources freed by debt relief are used for additional PAF expenditures. Compliance with the indicative floor for PAF expenditures will be verified on the basis of releases (PAF resources made available to spending agencies).

IX. Ceiling on Issuance of Guarantees by the Government or Bank of Uganda

11. The indicative target on issuance of guarantees by the Government or Bank of Uganda aims to prevent accumulation of contingent liabilities by the Government (including Government entities such as ministries, agencies and authorities). Included against the ceiling are any direct, contingent liabilities of Government (including entities that are part of government such as ministries, agencies and authorities) issued after June 30, 2011, and including any guarantees issued prior to July 1, 2011 but which are extended after June 30, 2011. This excludes guarantee programs which have explicit budget appropriations.

X. Share of Oil Revenue Placed in Petroleum Fund

12. The purpose of this assessment criterion is to avoid a situation whereby petroleum revenues bypass the Ugandan budget framework. A petroleum fund will be created upon passage of the revised Public Finance Act; in the meantime, government has established a petroleum revenue account in the Bank of Uganda. This QAC will be deemed satisfied if

100 percent of petroleum revenues are transferred to this account upon collection by URA. These resources may then be spent or saved as governed by the organic budget law in force at the time (PFAA 2003 until the new PFA is enacted).

XI. ADJUSTERS

13. 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.

14. The NCG target for the banking system, 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.

15. The Uganda shilling equivalent of projected 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 for the banking system 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 (including HIPC and MDRI)
(Ush billions, cumulative from July 1, 2011) 1/

	September 30, 2011	December 30, 2011	March 31, 2012	June 30, 2012
Budget support, incl. HIPC and MDRI	255.7	415.8	942.3	1089.2

1/ Calculated from US$ at program exchange rate

16. The ceiling on the increases in NDA and NCG of the banking system 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).

[2] Debt service due is defined as pre-HIPC Initiative debt service due, excluding debt service subject to HIPC Initiative debt rescheduling.

Schedule B: External Debt Service (Ush billions, cumulative from July 1, 2011)				
	September 30, 2011	December 30, 2011	March 31, 2012	June 30, 2012
External Debt Service due before HIPC excluding exceptional financing	243.0	190.0	301.8	366.9

17. The ceiling on increases in NCG of the banking system will be adjusted downward (upward) by any excess (shortfall) in nonbank financing, relative to the programmed cumulative amounts in Schedule C. Non-bank financing will include any domestic debt—either in domestic currency or foreign currency— of the Government of Uganda that is held by creditors—whether resident or nonresident[3]—that is not included in the Ugandan banking system. It will include the change in government securities held by the nonbank sector as reported in the monetary survey, as calculated by data provided by the Central Depository System (CDS), plus any other claims on government, including entities of government (ministries, agencies, authorities, etc.), held outside the banking system, including those which might be held by the National Social Security Fund (NSSF).

Schedule C: Non-bank Financing (Ush billions, cumulative from July 1, 2011)				
	September 30, 2011	December 30, 2011	March 31, 2012	June 30, 2012
Nonbank financing	208.0	511.2	361.2	124.2

18. The floor on the cumulative increase in NIR of the BOU will be adjusted downward (upward) by the amount by which foreign exchange expenditures on the Karuma hydropower project exceeds (falls short of) the projected amounts as set out in Schedule D. The ceiling on NCG will be adjusted upward (downward) by the amount by which the domestic currency equivalent of Karuma spending (using the annual program exchange rate) exceeds the projected amounts as set out in Schedule D.

19. 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 resdiscounting of government securities by commercial banks.

20. 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 changes 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.

[3] Non-residents holding government securities are excluded from the definition of external debt in paragraph 20.

Schedule D: Expenditures for Karuma hydropower project (US$ millions, cumulative from July 1, 2011)				
	September 30, 2011	December 30, 2011	March 31, 2012	June 30, 2012
Foreign exchange expenditures for Karuma hydropower project	0.0	0.0	150.0	150.0

XII. 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]

21. The assessment criterion on short-term debt refers to contracting or guaranteeing external debt with original maturity of one year or less by the public sector. Excluded from this assessment criterion are normal import-related credits and non-resident holdings of government securities and government promissory notes. The definition of "debt" is set out in paragraph 19.

22. 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

[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.

[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

not constitute nonconcessional external borrowing. Excluded from these limits are also nonconcessional borrowing within the limits specified in Table 1 of the MEFP. The ceiling also excludes nonconcessional borrowing by one state-owned bank, Housing Finance Bank, which poses limited fiscal risk and is in a position to borrow without a government guarantee.

23. 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, 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.

24. 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.

XIII. Monitoring and Reporting Requirements

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

Attachment II. Table 1. Summary of Reporting Requirements			
Reporting institution	**Report/Table**	**Submission Frequency**	**Submission lag**
I. Bank of Uganda	Issuance of government securities, repurchase operations and reverse repurchase operations	Weekly	5 working days
	Operations in the foreign exchange	Weekly	5 working days
	Interest rates (7 day interbank, commercial bank prime lending rate, government securities)	Weekly	5 working days
	Private sector credit growth by shilling and forex, and excess reserves of commercial banks	Weekly	5 working days
	Disaggregated consumer price index.	Monthly	2 weeks
	Balance sheet of the BOU, consolidated accounts of the commercial banks, and monetary survey.	Monthly	4 weeks
	Monthly foreign exchange cash flow table of BOU.	quarterly	4 weeks
	Statement of (i) cash balances held in project accounts at commercial banks; (ii) total value (measured at issue price) of outstanding government securities from the Central Depository System (CDS); and (iii) the stock of government securities (measured at issue price) held by commercial banks from the CDS.	Quarterly	6 weeks
	Summary of (i) monthly commodity and direction of trade statistics; (ii) disbursements, principal and interest, flows of debt rescheduling and debt cancellation, arrears, and committed undisbursed balances—by creditor category; and (iii) composition of nominal HIPC Initiative assistance.	Quarterly	6 weeks
	Summary of stock of external debt, external arrears, and committed undisbursed loan balances by creditor.	Quarterly	6 weeks
	Standard off-site bank supervision indicators for deposit money banks.	Quarterly	4 weeks
	Summary table of preliminary program performance comparing actual outcome with adjusted program targets for (i) base money; (ii) net claims on central government by the banking system; ((iv) new nonconcessional external borrowing; and (v) net international reserves	Quarterly	6 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).	Monthly	4 weeks
	Summary of outstanding stock of unpaid payment claims	Quarterly	6 weeks
	Summary of contingent liabilities of the central government and the Bank of Uganda. For the purpose of the program, contingent liabilities include all borrowings by statutory bodies, government guarantees, claims against the government in court cases that are pending, or court awards that the government has appealed.	Quarterly	6 weeks
	Detailed monthly central government account of disbursed budget support and project grants and loans (less change in the stock of project accounts held at the BoU and commercial banks), HIPC support, and external debt service due and paid.	Quarterly	4 weeks
	Detailed central government account of disbursed donor project support grants and loans.	Monthly	6 weeks
	Statement on new external loans contracted or guaranteed by the central government and the Bank of Uganda during the period according to loan agreements.	Quarterly	6 weeks
	Updated national accounts statistics (real and nominal) according to UBOS and medium-term projections.	Quarterly	12 weeks