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December 18, 2013

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

November 28, 2013

Kampala, Uganda,
November 28, 2013

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

Dear Ms. Lagarde:

On behalf of the Government of Uganda, we would like to provide you with an update on the progress we have achieved under our economic program supported by the IMF's Policy Support Instrument (PSI). Economic growth has been stronger than expected, inflation is under control despite a significant food price shock, and the external current account improved allowing international reserves to meet the PSI end-June 2013 target. In light of these favorable developments, we observed all June 2013 quantitative assessment criteria under the program. Unfortunately, we missed the indicative targets on tax revenue and expenditure on poverty reduction by small margins and some structural commitments have suffered delays, but we have taken remedial action and remain committed to speeding up the implementation of the structural reform agenda. Therefore, we request completion of the first review under our PSI-supported program.

Going forward, we will continue to conduct policies that maintain economic stability and support sustainable and inclusive growth by generating employment and reducing poverty levels. Monetary policy is designed to support the 5 percent medium-term core inflation target. A program of infrastructure investment in electricity and road projects to address the infrastructure gap is at the center of our growth and development strategy, and we will ensure that this program is consistent with debt sustainability and the absorption capacity of the economy. We are also advancing integration efforts with other Eastern African countries to boost trade, improve competiveness, and ultimately culminate in a monetary union. We have made progress on improving tax collection and enhancing public financial management and will continue to take steps to advance further. To assist us in carrying out this ambitious reform agenda, the government of Uganda wishes to continue to benefit from technical assistance from the IMF in areas included in the program. We also wish to request that the ceiling for non-concessional borrowing included in the PSI arrangement be raised from $1.5 to $2.2 billion to finance our infrastructure investment program, and that the December 2013 quantitative assessment criteria and March 2014 indicative targets be modified in line with recent developments.

The attached Memorandum of Economic and Financial Policies (MEFP) sets out details of the policies to be pursued in the next year, which Government believes will be sufficient to achieve the objectives of our PSI-supported program but, as always, we stand ready to take any further measures that may become appropriate for this purpose.

We intend to work with the IMF and other development partners in the implementation of our program, and will consult with the Fund on the adoption of any such further measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation. We will provide the IMF with such information as the Fund requests in connection with our progress in implementing the policies and reaching the objectives of the program. We also consent to publication of the documents for the first review under the PSI.

Sincerely yours

/s/
Maria Kiwanuka
Minister of Finance, Planning
and Economic Development

/s/
Louis Kasekende
For Prof. E. Tumusiime Mutebile
Governor
Bank of Uganda

Attachments
Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

This Memorandum of Economic and Financial Policies complements the previously agreed policies under the June 2013 Memorandum of Economic and Financial Policies (IMF Country Report 13/215). It presents an update on the economic performance in the second half of the fiscal year 2012/13, and provides details of the policies Government intends to implement in the period ahead to maintain overall macroeconomic stability and stimulate growth and job creation.

I. Recent Economic and Policy Developments

1. Economic growth for FY 2012/13 reached 5.8 percent, 0.7 percentage points higher than projected, driven by stronger-than-expected industrial output, services, and public investment. Inflation declined in the second half of FY2012/13 but the trend was reversed during the first quarter of FY2013/14 owing to a drought in most parts of the country that affected food crop production. With improved weather conditions, core inflation declined from 7.4 percent in September to 7.2 percent in October, and is projected to remain within PSI program targets.

2. On the external front, the current account deficit improved markedly in FY2012/13 with lower-than-anticipated FDI-related imports and stronger remittances. Gross international reserves rose from US$2.6 billion in FY2011/12 to US$2.9 billion in FY2012/13 equivalent to 3.9 months of imports. Risks to the external outlook include potential adverse effects of weather conditions on agricultural exports, unfavorable global economic conditions, and oil price increases.

3. Fiscal performance during FY2012/13 was slightly more expansive than projected. The overall deficit was 4.1 percent of GDP, compared to 3.9 percent of GDP in the program. Total expenditures and net lending amounted to 18.9 percent of GDP compared to 18.6 percent of GDP in the program, on account of higher development spending. The fiscal deficit was largely financed from external sources (2.6 percent of GDP) compared to 1.3 percent of GDP of domestic financing, in line with the program target.

4. Monetary policy was eased on account of muted inflation developments and forecasts, with the central bank rate (CBR) reduced to 12 percent in December 2012 and to 11 percent in June 2013 from 23 percent in February 2012. In an environment of relatively low inflation coupled with declining upward risks to inflation, BoU's efforts were geared to supporting economic activity. However, as inflation increased owing to a drought-related food price spike, the CBR was raised by 100 basis points in September 2013, signaling Bank of Uganda's (BoU) strong commitment to the inflation target. Lending rates have declined during the fiscal year, from 26.9 percent in July 2012 to 22.9 percent in June 2013; and private sector credit continued to grow, albeit at a slow pace, largely on account of foreign-currency-denominated loans.

5. The banking sector performed well in FY2012/13. Capital adequacy levels remained strong, aided by high profits, improved liquidity and better funding conditions. However, lending stagnated, with banks reducing their risk-weighted assets and investing more in government securities. The low rate in credit growth, 6.4 percent at the end of June 2013, reflected lower demand for credit from leveraged corporations and households and reduced appetite for risk taking by banks. Asset quality is improving, with the system-wide ratio of NPLs to total lending at 4 percent in June 2013 from a peak of 4.7 percent in March. 2013. A financial sector systemic risk assessment shows that banks' resilience has improved. The BoU has taken several measures to strengthen the macro prudential framework. In May, measures to enhance minimum capital requirements, including the Basel III capital conservation buffer for all banks, were introduced. Liquidity risk assessment will improve with the planned introduction of a new liquidity coverage ratio to be introduced in 2014. Financial inclusion continues to grow strongly as mobile money usage is becoming widespread in all regions of the country.

6. Government remains committed to addressing constraints affecting the business climate by stepping up infrastructure development, mainly on energy and roads.

I. Performance Under the PSI

7. As at end-June 2013, all quantitative assessment criteria were observed, while structural benchmarks were broadly achieved. The indicative targets on tax revenues and expenditures on poverty alleviating sectors for end-June 2013 were not met by small margins. Government is undertaking remedial measures to improve revenue collection and tax administration as well as addressing implementation capacity of the Ministries, Departments and Agencies (MDAs).

8. Significant progress has been made on achieving the structural benchmarks set from July to December. Government carried out the first stage of recapitalization of the BoU with marketable securities in May. Government remains committed to improving the management of public finances. Although with some delay, there is ongoing work on the VAT gap analysis in consultation with FAD. All central government entities are now covered by the Integrated Personnel and Payroll System (IPPS). Test runs are being undertaken on the functionality of the system, and it is expected that payment of salaries will be run through the IPPS starting in April 2014. The benchmark on rolling out the Integrated Financial Management System (IFMS) to cover all central government votes has been achieved ahead of schedule. The first phase of implementation of the Treasury Single Account (TSA) was completed in October 2013 by consolidating the central government accounts. Next steps include establishing cash management and debt management units. However, the structural benchmark on submitting to cabinet regular quarterly reports on unpaid bills of nine ministries based on data for the previous quarter was delayed because a mechanism of clear sanctions/penalties was being put in place. This awaits passing of the new Public Financial Management Bill. This bill is being considered by parliament, and consultations with the relevant stakeholders and the public are ongoing.

II. Macroeconomic Outlook and Risks

9. The macroeconomic framework has been updated to reflect last year's better-than-expected economic performance. Growth is projected to reach 6.2 percent this fiscal year and 6.5 percent in 2014/15, supported by continued investments in infrastructure (particularly roads and energy) and improved agricultural production and productivity. To achieve the latter, government is stepping up provision of inputs (seedlings) and pest and disease control.

10. Core inflation is expected to decline on account of lower food prices, declining commodity prices, and the recent exchange rate appreciation, converging to the 5 percent medium-term target. Risks to the inflation outlook include possible increases of imported prices and exchange rate depreciation as the global economy recovers. The external current account is expected to worsen due to increased FDI-related imports of goods and services.

11. The economy remains vulnerable to shocks emerging from both domestic and external sources. On the domestic side, the unpredictable weather conditions could negatively impact agricultural production thereby affecting exports and inflation. On the external front, the slower-than-projected global recovery could hurt export earnings and remittances inflows.

III. Economic Policies

Fiscal Policy

Budget FY2013/14

12. Government's fiscal policy in FY2013/14 and the medium term will aim at maintaining macroeconomic stability and accelerating the rate of economic growth, and will be focused on enhancing domestic revenue mobilization and budget efficiency. In order to complement achievement of these objectives, Government will continue strengthening the business climate and alleviating binding constraints to economic growth through targeted public investments, particularly in power and roads, agricultural production and productivity, and human capital. Domestic revenues are projected to increase as a share of GDP by about 0.5 percentage points as a result of new tax measures and strengthened tax administration. Any current expenditure pressures will be accommodated within the domestic financing for the FY2013/14 budget, in addition to conducting key investment projects described on paragraph 13. Excluding extraordinary investments, the fiscal stance will expand by 0.2 percent of GDP to support the growth recovery.

13. Inadequate power and road infrastructure are key impediments to private sector investment and growth. To address these constraints, Government will start construction of two large hydroelectric projects toward the end of this fiscal year. The Karuma and Isimba Hydropower Projects, together with associated transmission lines and substations, are identified as national core projects for development under the National Development Plan. Expected to more than double current production capacity, they will contribute to mitigating current and future energy supply shortages. Financing of these large projects amounts to US$ 2.2 billion in the next five years, and will require the use of government savings in the energy and oil funds and external borrowing. Given the challenges associated with identifying adequate financing from concessional sources, government intends to contract non-concessional loans in amounts consistent with debt sustainability and the absorptive capacity of Uganda. To this end, the government requests that the ceiling on non-concessional borrowing be adjusted to USD 2.2 billion during the program period.

Government does not intend to use future oil revenues as collateral and will ensure that on completion, these projects will generate sufficient returns to repay the costs of the investment through an appropriate policy on electricity tariffs.

14. Government will set up a special purpose vehicle to manage the hydropower dams and ensure that the revenue stream from the operation of the projects is separated from other transactions of the electricity companies and guarantee commercial viability of the projects.

Budget FY2014/15

15. The theme for the 2014/15 budget will be to promote growth and reduce poverty while maintaining macroeconomic stability and debt sustainability. The fiscal stance will be designed to be consistent with the objective of monetary policy of reducing core inflation to the medium term target of 5 percent.

16. With revenue gains from improved growth prospects and enhanced administrative reforms, total revenues and grants are projected to rise to 15.8 percent of GDP. Total expenditures and net lending are projected at about 21 percent of GDP and include among other items, wage increases to compensate civil servants for the decline in purchasing power of their salaries; election-related expenditures; and the continuation of spending on the two large-scale hydropower projects. Consequently, the overall deficit is projected at 5.1 percent of GDP. Financing of the deficit will rely on external sources (including non-concessional loans), which will account for about 3.9 percent of GDP, while up to 1.3 percent will be from domestic sources.

Monetary and Financial Policies

17. Monetary policy will be designed to ensure that core inflation over the medium term is as close to 5 percent as possible and that output is as close to potential as possible, consistent with the inflation objective.

18. The BoU continues to pursue a flexible exchange rate regime, and implement sterilized interventions in the foreign exchange market to dampen excessive exchange rate volatility or to accumulate reserves. To compensate for the loss of reserves from the planned use of government deposits to finance the infrastructure projects, the BoU has stepped up its announced program of daily dollar purchases in the market. This would allow international reserves to be maintained at 3.5 months of future imports during FY2013/14. Subsequently, international reserves will be raised to 4 months of imports.

19. The BoU continues to closely monitor risks that could emerge in the financial sector and is prepared to take any measure to mitigate these risks. In particular, the BoU will closely coordinate actions with the regulatory body (Uganda Communications Commission) and other relevant agencies to reduce the likelihood of any operational problems in the mobile money platforms. The BoU is also committed to upgrading its prudential measures and enforcement to mitigate risks that could emerge from foreign currency lending to unhedged borrowers.

IV. EAC Integration

Customs Union

20. The government together with other East African Community (EAC) partner states continues to work towards strengthening regional integration. There are ongoing efforts aimed at consolidating the EAC into a Single Customs Territory, as a foundation for smooth implementation of the EAC Common Market Protocol and the subsequent EAC Monetary Union. This entails eliminating non-tariff barriers, a mechanism for clearance of goods at the first point of entry into the Community, adopting an EAC bond guarantee regime to avoid execution of multiple bonds in the movement of goods across the region; and implementing one-stop border post models to coordinate activities of various Government agencies involved in the regulation of trade. The use of information and communication technology to facilitate clearance of payment of taxes and cargo tracking, as well as exchange of trade statistics analysis for guidance in policy formulation is being stepped up.

Common Market

21. Implementation of the common market has been slow, with significant barriers to the free movement of goods and factors of production still in place across the region. The EAC developed a plan to guide the implementation of the Common Market Protocol, focusing on the six rights provided for under the common market. To deal with emerging challenges, partner states are committed to accelerating convergence of laws and policies and integrating EAC policies into their individual national plans.

Monetary Union

22. Uganda and the other EAC partner states have concluded negotiations on a Protocol for establishing an EAC Monetary Union. The Protocol sets out a 10-year road map for implementing a single currency, pre-requisites for macroeconomic convergence, and harmonizing policy and legal frameworks.

V. Structural Reforms

Improving Public Financial Management

23. Government started implementing the TSA effective October 1st, 2013. The first phase of implementation involved i) introducing a structure of subaccounts to be swept daily into the consolidated fund, ii) closing most of the inactive accounts, iii) reconfiguring the IFMS to handle TSA operations, and iv) issuing operational guidelines to accounting officers. Looking forward, Government will further extend the coverage of the TSA by including salary accounts, holding accounts, non-donor funded project accounts and deposit accounts. Improvements to cash management planning will also require setting up a cash management planning unit to coordinate the timing of payments.

24. Government has broadened the coverage of IFMS to 68 central governments ministries and agencies, 14 local governments, 8 donor-financed projects, and 5 referral hospitals. The further rollout in central government will mainly target donor-financed projects, and remaining up-country referral hospitals. Further, government will enhance interfaces with other systems (Uganda Revenue Authority, Integrated Personnel and Payroll System, Debt Management and Financial Analysis System) and improve security of the system.

25. Government has revised its medium term debt strategy to take into account recent developments on borrowing. The strategy requires Government to undertake regular assessments of debt maturities (concessional and non-concessional) and associated risks (exchange rate, roll-over, etc). In line with the revised debt strategy in 2013, Government embarked on a restructuring of its debt management processes including its institutional framework.

Improving Tax Revenue

26. Government remains committed to raising tax revenue collections by continuously assessing tax exemptions from a cost-benefit perspective and amending the tax laws in cases where exemptions have outlived their usefulness. To this end, a VAT gap analysis is under way, with technical assistance from the IMF, to quantify the revenues foregone by statutory exemptions in the law. The results of this study will inform an action plan to be presented to Cabinet with the aim of implementing the recommendations in the FY2014/15 budget.

27. In addition, Government will send to Parliament the amendments to the Income Tax Act that were committed to at the time of the previous review but were delayed due to lack of consensus within cabinet. These include the amendment of the thin capitalization rule to limit excessive use of related party debt, the introduction of a capital gains tax on the disposal of commercial buildings by resident individuals, and the elimination of tax exemptions on income derived from agro processing and export businesses.

28. Further tax measures to strengthen revenues for next fiscal year's budget will include the termination of VAT exemptions on i) hotel accommodation, ii) the textile sector, iii) packaging materials, and iv) feeds for poultry and livestock.

29. Reforms in tax administration also feature prominently in Government's strategy to increase tax revenues in the medium term. To this end, efforts will be intensified to enforce compliance of the different types of taxpayers by improving risk profiles for different taxpayer segments and goods and sectors of operation. A particular focus will be on problematic industries, including wholesale and construction. Moreover, there will be a risk profile assessment of the top 216 importers, and top volume clearing agents, to identify, quantify, and channel their trade on the basis of evaluated risk levels. A National Targeting Centre will be created and provision to increase staff levels has also been made in the customs structure review.

30. Enforcement of the use of a unique tax identification number for all businesses who receive trading and other licenses and permits from the Kampala City Council Authority and local governments will be stepped up. Partnerships have also been further enhanced with specific Government institutions through the signing and monitoring of memoranda of understanding. The Uganda Revenue Authority (URA) plans to continue working closely with other ministries and agencies to identify and address the low levels of taxpayer compliance, especially among Government suppliers.

31. URA will also clean up the tax registers to ensure they contain solely those capable of filing monthly and paying. This exercise has been refocused to cover both the large and medium taxpayers' offices. Work is ongoing on the PAYE ledgers, whose system solution is already implemented. The development of a solution for the VAT ledgers is now at testing level. Current plans are to cover the larger taxpayers who bring in at least 90 percent of the revenue by June 2014 for PAYE and VAT.

Dealing with Arrears

32. Progress on the removal of arrears has proven challenging, but Government remains committed to eliminating them. To this end, an indicative target on the reduction in the stock of unpaid bills, as measured by the Accountant General through internal audits, will be introduced. Data on repayment of domestic arrears and the remaining previous year's stock of unpaid bills will be transmitted on a quarterly basis within six weeks of the end of each quarter to ensure timeliness and transparency.

Government's Support of Inflation Targeting

33. Government will amend the Bank of Uganda Act to include provisions that would enable the BoU to adapt its functions to the inflation targeting framework and bring its capital to an adequate ratio of its monetary liabilities.

34. Government will continue to annually recapitalize the BoU to meet statutory levels, subject to the implementation of the BoU's commitment to contain its non-monetary policy related operational and administrative costs. The undertakings of Government and BoU in support of these transactions are contained in a joint Memorandum of Understanding recently signed by both parties. The issuance of marketable government securities for this purpose will comprise diverse maturities so that the BoU can have appropriate instruments to conduct monetary policy under inflation targeting.

VI. Program Monitoring

35. Progress in the implementation of the policies under this program will be monitored through QAC, indicative targets (ITs), and structural benchmarks (SBs) detailed in the attached Tables 1 and 2 and through semiannual reviews. Quantitative assessment criteria are proposed for end-December 2013 and end-June 2014, to be monitored respectively at the second and third reviews. The second review is expected to be completed by end-June 2014 and the third review by end-December 2014. The attached Technical Memorandum of Understanding—which is an integral part of this memorandum—contains definitions and adjusters

Table 1. Uganda: Quantitative Assessment Criteria and Indicative Targets for June 2013–June 2014[1]

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

	June 30, 2013 [2]				September 30, 2013 [3]				December 31, 2013 [3]		March 31, 2014 [3]		June 30, 2014 [3]
	Program	Adjusted target	Outturn	Result	Program	Adjusted target	Outturn	Result	Program	Revised Program	Program	Revised Program	Program
							(Billions of Ugandan shillings)						
Assessment criteria													
Ceiling on the increase in net domestic financing of the central government	868	802	681	Met	257		n.a.		-421	736	-54	1,053	1,862
							(Millions of US dollars)						
Ceiling on the stock of external payments arrears incurred by the public sector [4]	0		0	Met	0		0	Met	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 [4, 5]	1,500		0	Met	1,500		0	Met	1,500	2,200	1,500	2,200	2,200
Ceiling on new external debt with maturity up to one year contracted or guaranteed by the public sector [4, 6]	0	0	0	Met	0		0	Met	0	0	0	0	0
Minimum increase in net international reserves of the Bank of Uganda (US$mn)	361	358	392	Met	16		n.a.		52	42	107	2	-140
Share of oil revenue placed in the Petroleum Fund [7]	100	100	100	Met	100		100	Met	100	100	100	100	100
							(Billions of Ugandan shillings)						
Indicative targets													
Ceiling on the increase in base money liabilities of the Bank of Uganda	836		527	Met	239		109	Met	504	434	591	541	593
Floor on tax revenue	7,015		7,005	Not met	1,813		1,779	Not met	4,024	3,988	5,977	5,972	8,314
Expenditures on poverty alleviating sectors	2,498		2,448	Not met	607		n.a.		1,246	1,246	1,745	1,745	2,612
Ceiling on the issuance of guarantees by the Government/Bank of Uganda	0		0	Met	0		n.a.		0	0	0	0	0
Net change in the stock of domestic arrears										0		-24	-50
							(Annual percentage change)						
Inflation consultation clause													
Outer band (upper limit)	9.8				9.0				9.7		9.6		9.3
Inner band (upper limit)	8.8				8.0				8.7		8.6		8.3
Core inflation target [8]	6.8		6.6	Met	6.0		5.7	Met	6.7		6.6		6.3
Inner band (lower limit)	4.8				4.0				4.7		4.6		4.3
Outer band (lower limit)	3.8				3.0				3.7		3.6		3.3

Sources: Ugandan authorities; and IMF staff estimates and projections

[1] Defined in the Technical Memorandum of Understanding (TMU). Values for June 2013, December 2013 and June 2014 are quantitative assessment criteria except as marked. Values for September 2013 and March 2014 are indicative targets except as marked.

[2] Proposed targets are measured as the change from June 2012, except as marked.

[3] Proposed targets are measured as the change from June 2013, except as marked.

[4] Continuous assessment criterion.

[5] Cumulative change from June 28, 2013. To be used exclusively for infrastructure investment projects.

[6] Excluding normal import-related credits.

[7] To ensure full and transparent transfer of oil revenues to the fiscal accounts.

[8] Annual percentage change, twelve-month period average core inflation. Calculated as stipulated in the TMU.

Table 2. Structural Benchmarks

Policy Measure	Macroeconomic Rationale	Date	Status
1. Government to carry out the first stage of recapitalization of the Bank of Uganda with marketable securities to the amount stipulated by law.	To enhance monetary policy independence and central bank credibility.	July 2013	Met
2. Ministry of Finance to submit 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.	To facilitate control and elimination of expenditure arrears.	October 1, 2013, for quarter ending June 30, 2013; January 1, 2014, for quarter ending September 30, 2013; April 1, 2014, for quarter ending December 31, 2013.	Not met
3. Government to carry out a VAT gap analysis in consultation with IMF staff and to publish such analysis.	To make transparent the costs of VAT tax expenditures.	March 2014	
4. Government to complete the rollout of the IPPS to cover management of the payroll of all entities within central government.	To improve both governance and transparency of budget execution.	April 15, 2014	
5. Government to complete the expansion of the treasury system (IFMS) to all of central government votes.	To improve both governance and transparency of budget execution.	April 15, 2014	
6. Ministry of Finance to submit to cabinet amendments to the Bank of Uganda Act including a provision for capital adequacy of BoU as an adequate percent of monetary liabilities, as well as other provisions to support implementation of inflation targeting.	To enable full monetary policy independence and credibility of the central bank.	May 2014	
7. Government to start introducing a treasury single account for IFMS related transactions, including for the TGAs, salaries, and IFMIS projects.	To improve both governance and transparency of budget execution.	March 2014	
8. Government to present to cabinet within the budget framework paper an action plan to implement the recommendations on addressing tax exemptions that come out of the VAT gap analysis.	To improve tax efficiency.	May 2014	

9. Government to include in the Budget Framework Paper a status report of all ongoing PPP programs, including individual estimates of each project's contingent liability.	To enhance fiscal transparency.	March 2014	
10. Government to have issued a minimum of 1 million ID cards under the new national identification system.	To support efforts to strengthen revenue collection, promote the unique identification of financial sector clients, and combat money laundering and the financing of terrorism.	May 2014	
11. Government to eliminate the income tax exemption on income derived from agro-processing.	To increase revenue and tax administration efficiency.	July 2014	
12. Government to continue with annual recapitalizations of the Bank of Uganda with marketable securities to bring capital to the statutory level until amendments to the Bank of Uganda act come into force, on the basis of the BoU's implementation of its commitment to contain operational and administrative costs.	To enhance central bank efficiency. To enhance central bank discipline and monetary policy independence.	June 2014 June 2015	

Attachment II. 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 financial program supported by the IMF Policy Support Instrument (PSI) over the period of December 30, 2013—June 30, 2014, and sets forth the reporting requirements under the instrument. For the first year of the PSI-supported program, the stock 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 March 2013.

Program Exchange Rates (end-March 2013)	
US Dollar (US$)	1
British pound/US$	0.66
Japanese Yen/US$	94.2
SDR/US$	0.67
Kenyan Shilings/US$	85.6
Tanzania Shilings/US$	1598.7
Euro/US$	0.78
Ugandan Shilings/US$	2594.8

II. Consultation Mechanism on Inflation

2. The quarterly consultation bands for the twelve-month average rate of consumer price inflation, as measured by the core consumer price index (CCPI) published by the Uganda Bureau of Statistics (UBOS), are specified in the text table 1: Inflation Targets. Projected CCPI inflation for end-December 2013 and end-June 2014 will be subject to the consultation mechanism, while that for end-March 2014 is an indicative target.

Text Table 1. Inflation Targets					
	Jun. 2013	Sep. 2013	Dec. 2013	Mar. 2014	Jun. 2014
Outer band (upper limit)	9.8	9.0	9.7	9.6	9.3
Inner band (upper limit)	8.8	8.0	8.7	8.6	8.3
Core inflation target	6.8	6.0	6.7	6.6	6.3
Inner band (lower limit)	4.8	4.0	4.7	4.6	4.3
Outer band (lower limit)	3.8	3.0	3.7	3.6	3.3

3. Should the observed average CCPI inflation for the test date linked to a PSI program review (i.e., end-December 2013 for the second review and end-June 2014 for the third review) fall outside the outer band as specified in text table 1, the authorities will complete a consultation with the Executive Board of the Fund on their proposed policy response before requesting completion of the review under the program. The authorities will not be able to request completing a review under the

PSI-supported program if the average CCPI inflation has moved outside of the outer band as of the test date linked to such review, until the consultation with the Executive Board has taken place. In line with the accountability principles, the BoU will report to the public the reasons for any breach of the outer bands and its policy response. In addition, the BoU will conduct discussions with the Fund staff when the observed average CCPI inflation falls outside the inner band as specified for the end of each quarter in the above table.

III. Base Money

4. Base money is defined as the sum of currency issued by the 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 for December 2013, March and June 2014 will be ceilings on the cumulative change from the monthly average based on daily data for June 2013 to the same monthly averages for December 2013, March and June 2014, respectively. Base money limits for December 2013, March 2014 and June 2014 will be indicative targets under the PSI-supported program.

IV. Ceiling on the Cumulative Increase in Net Domestic Financing of the Central Government[1]

5. Definition. The cumulative increase in net domestic financing of the central government (NDF) is defined from below the line on a cash basis as the sum of:

a. the change in net claims on the central government by the banking system: 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 deposit corporations, 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. NDF by deposit corporations will be calculated based on data from balance sheets of the monetary authority and deposit corporations as per the deposit corporations' survey.

b. *the change in net claims on the central government of domestic nonbank institutions and households*: net claims on the general government of domestic nonbank institutions and households are defined as treasury bills, bonds or other government securities held by nonbank institutions and households (including nonresidents and nonresident financial institutions), plus any other liabilities of the central government to domestic nonbank

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

institutions or households. All changes will be calculated as the difference between end-of-period stocks, net of any valuation changes resulting from currency movements.

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

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

7. For program-monitoring purposes, reserve assets and short-term liabilities at the end of each test period will be calculated in U.S. dollars by converting the stock from their original currency denomination at program exchange rates (as specified in paragraph 1). The NIR limits for December 2013, March and June 2014 will be floors on the change of the NIR stock from June 2013 to December 2013, March 2014 and June 2014, respectively. The NIR limit for December 2013 and June 2014 will be quantitative assessment criteria under the PSI-supported program; the floor for March 2014 will be an indicative target.

VI. Expenditures on Poverty Alleviating Sectors

8. The indicative target on poverty -alleviating expenditures includes domestic expenditures inclusive of wages and salaries in the Health, Education, Water and Environment and Agriculture sectors as defined by the Government of Uganda's functional budget classification. Compliance with the indicative floor for poverty alleviating expenditures will be verified on the basis of releases.

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

9. 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, 2012, and including any guarantees issued before July 1, 2012, but which are extended after June 30, 2012. This excludes guarantee programs that have explicit budget appropriations.

VIII. Share of Oil Revenue Placed in Petroleum Fund

10. 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 PFMB; in the meantime, government has established a petroleum revenue account at 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 PFMB is enacted).

IX. Tax Revenue

11. A floor applies on tax revenue of central government measured cumulatively from the beginning of the fiscal year. For program-monitoring purposes, tax revenue is defined as the sum of direct domestic taxes (PAYE, corporate tax, presumptive tax, other direct taxes, withholding tax, rental income tax, tax on bank interest, casino tax, unallocated receipts), excise duty and value-added taxes net of refunds and taxes on international trade minus temporary road licenses as defined by the Government of Uganda's revenue classification

X. Domestic Arrears

12. Net change of domestic arrears of the central government: a ceiling applies to net change of domestic arrears of the government. The ceiling for each test date is measured cumulatively from July 1, 2013.

13. Definition. The net change of arrears is defined as the difference between the gross accumulation of new domestic arrears (defined as the difference in stock of unpaid bills, as measured by the Accountant General through internal audits) and gross repayment of any arrears outstanding since the beginning of the year under review (including repayment of older arrears).

14. Reporting requirement. Data on repayment of domestic arrears and the remaining previous year's stock of arrears will be transmitted on a quarterly basis within six weeks of the end of each quarter.

XI. Adjusters

15. The NIR target is based on program assumptions regarding budget support, assistance provided under the Heavily Indebted Poor Countries (HIPC) Initiative and the MDRI, external debt-service payments. The NDF target is based on program assumptions regarding automatic access by commercial banks to the BoU's rediscount and discount window facilities.

16. 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 relevant fiscal year is presented under Schedule A. The ceilings on the cumulative increase in NDF 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, exceeds (falls short of) the projected amounts.

Schedule A: Budget Support[1]
(Ush billions)

	Sept-13	Dec-13	Mar-14	Jun-14
Cumulative from July 1, 2013	47	75	125	206

[1]Debt service is defined as pre-HIPC Initiative debt service.

17. The ceiling on the increases in NDF 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 as (i) all debt service rescheduled under the HIPC Initiative; and (ii) payments falling due to all non-HIPC Initiative creditors not currently being serviced by the authorities (that is, gross new arrears being incurred).

Schedule B: External Debt Service[1]
(Ush billions)

	Sept-13	Dec-13	Mar-14	Jun-14
Cumulative from July 1, 2013	92	181	283	433

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

18. The ceiling on NDF will be adjusted upward (downward) by the amount by which the domestic currency equivalent of Government of Uganda share of spending on the Karuma and Isimba hydropower projects and the associated industrial substations through withdrawals from the Petroleum Fund and the Energy Fund (using the market exchange rate) exceeds (falls short of) the projected amounts as set out in Schedule C. Spending on these projects financed by external borrowing are not included in this adjustor.

Schedule C: Expenditures on hydropower projects
(Ush billions)

	Sept-13	Dec-13	Mar-14	Jun-14
Cumulative from July 1, 2013	0	0	0	1,102

19. The ceiling on NDF will be adjusted upward (downward) by the amount by which inflows into the petroleum fund falls short of (exceeds) the projected amounts as set out in Schedule D.

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

Schedule D: Inflows into Petroleum Fund
(Ush billions)

	Dec-13	Mar-14	Jun-14
Cumulative change from November 1, 2013	0	0	0

20. The floor on the increase in NIR will be adjusted upward by the amount by which withdrawals from the Ush denominated deposits of the Government of Uganda in the Energy Fund and the Petroleum Fund (using the market exchange rate) to finance the Government of Uganda share of Karuma and Isimba hydropower plants (HPP) and the associated industrial substations falls short of the projected amounts as set out in Schedule E. The Government of Uganda will first withdraw the foreign currency denominated portion of its deposits in the BoU, including any new foreign currency inflows to the Petroleum Fund and the Energy Fund compared to the projected amounts as set out in Schedule D.

Schedule E: Withdrawals from the Energy and Petroleum Funds to Finance HPP
(US$ millions)

	Dec-13	Mar-14	Jun-14
Cumulative change from November 1, 2013	0	0	253

21. Underlying the above adjustor, the currency composition of the Energy Fund and the Petroleum Fund are given below. The foreign currency denominated deposits of the Petroleum Fund and the Energy Fund do not constitute part of the BoU's international reserves and as such are recorded under other foreign assets of the BoU. Any further foreign currency denominated inflows to these funds will continue to be recorded outside of the reserves and under other foreign assets of the BoU.

Stock of the Oil and Energy Fund by November 1, 2013
(Ush billions and USD millions)

	Ush	USD	
Energy Fund	301	181	(BoU reserves)
Petroleum Fund	1162	171	(BoU other assets)

22. The ceiling on NDF will be adjusted upward (downward) by the amount by which the recapitalization of the Bank of Uganda exceeds (falls short of) the projected amounts as set out in Schedule F.

Schedule F: Recapitalization of the Bank of Uganda
(Ush billions)

	Sept-13	Dec-13	Mar-14	Jun-14
Cumulative from July 1, 2013	0	0	0	0

XII. Ceiling on the Contracting or Guaranteeing of New Non-concessional External Debt by the Public Sector, and Ceiling on the Stock of External Payments Arrears Incurred by the Public Sector[3]

23. The assessment criterion on short-term debt refers to contracting or guaranteeing external debt with an 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 25.

24. The program includes a ceiling on new non-concessional borrowing with maturities greater than one year contracted or guaranteed by the public sector.[4] Non-concessional borrowing is defined as loans with a grant element of less than 35 percent. The discount rates used for this purpose is 5 percent. The ceiling on non-concessional 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 non-concessional 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 non-concessional external borrowing. Excluded from these limits are also non-concessional borrowing within the limits specified in Table 1 of the MEFP. The ceiling also excludes non-concessional 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. The definition of debt, for the purposes of

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

[4] 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.

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.

25. 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 sometime 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.

26. 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 2013. 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

27. 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, government securities).	Weekly	5 working days
	Commercial bank prime lending rate.	Weekly	10 working days
	Excess reserves of commercial banks.	Weekly	5 working days
	Private sector credit growth by shilling and forex.	Weekly	10 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
	Daily balances of net foreign assets, net domestic assets, and base money of the BoU.	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

Attachment II. Table 1. Summary of Reporting Requirements

Reporting Institution	**Report/Table**	**Submission Frequency**	**Submission Lag**
	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 non-concessional external borrowing; and (v) net international reserves.	Quarterly	6 weeks
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,[5] 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 the stock of unpaid bills by central government MDAs, as measured by the Accountant General through internal audits.	Quarterly	6 weeks

[5] The budget records domestic interest payments on a cash-basis while for program purposes this entry is reported on an accrual basis.

Attachment II. Table 1. Summary of Reporting Requirements			
Reporting Institution	**Report/Table**	**Submission Frequency**	**Submission Lag**
	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) according to UBOS and medium-term projections.	Quarterly	12 weeks