Uganda: Letter of Intent and Memorandum of Economic and Financial Policies

November 2, 2015

Letter of Intent

Kampala, Uganda,
November 2, 2015

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

Dear Madame 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). In FY2014/15 economic growth was strong supported by our program of public investment. Despite significant exchange rate depreciation, most of it caused by factors out of our control, inflation has been contained due to decisive monetary policy tightening. Fiscal performance has strictly aligned to the budget, and international reserves remain adequate.

Performance under the PSI-supported program remains positive. In particular, we observed all of June 2015 quantitative assessment criteria and most indicative targets, and we made progress on the structural reform agenda. We understand, however, that the modality of our new auction-based system for foreign exchange purchases could have resulted in a multiple currency practice under Fund policies. While de facto the spreads between successful offers in the auctions conducted so far have been significantly lower than the Fund's 2 percent threshold, we have modified the system to explicitly prevent spreads from widening beyond 1 percent, and thus we request a waiver for the temporary nonobservance of this continuous assessment criterion.

Our key priority now is to continue to adjust policies to evolving global, regional, and domestic conditions. To this end, we have decided to implement credible expenditure cuts with respect to the approved budget, boost tax administration to maintain strong revenue performance, and adhere to the deficit financing modalities contemplated in the program. Monetary policy will remain vigilant of price and exchange rate developments. We have also re-profiled our medium-term public investment program to ensure public debt remains at a low risk of distress. We shall continue to enhance our institutional coordination and communication strategy to boost policy credibility. We are confident that these actions will help us achieve our main objectives of high and inclusive growth with low and stable inflation.

Our structural reform agenda will center on implementing efficiently the new Public Financial Management (PFM) legal framework. In particular, we intend to issue regulations that respond to well-established PFM principles for the newly adopted PFM Act. We remain committed to finalizing this fiscal year the charter of fiscal responsibility to set sound fiscal policy guidelines, and the amendments to the Bank of Uganda Act to strengthen central bank independence. We also plan to continue making progress on the transparent management and the reduction of the stock of public sector arrears.

These and other details of our economic program are set out in the attached Memorandum of Economic and Financial Policies (MEFP) and the Technical Memorandum of Understanding (TMU), which extend our commitments to end-June 2016. In line with the new debt limits policy, we request dropping the ceilings on short term external debt and on non-concessional external debt with maturities greater than one year and modifying the treatment of the overall fiscal deficit from an indicative target to a quantitative assessment criteria. We also request eliminating the quantitative assessment criteria on net domestic financing and replacing it by an indicative target on the ceiling on cumulative changes in temporary advances from the Bank of Uganda to the central government, which we believe will further protect macroeconomic stability.

In light of the satisfactory performance and our continued commitment to and ownership of the program, we request completion of the fifth review under our PSI-supported program. We also request modification of the December 2015 quantitative assessment criteria, and December 2015 and March 2016 indicative targets in line with recent developments and policies.

We intend to work with the IMF and other development partners on the implementation of our program, and will consult with the Fund on the adoption of any 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 implementing the policies and reaching the objectives of the program. We also consent to publication of the staff report, the letter of intent, the MEFP and the TMU for the fifth review under the PSI.

Sincerely yours,

/s/

Honorable Matia Kasaija
Minister of Finance, Planning, and
Economic Development

/s/

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

A. Introduction

1. This Memorandum of Economic and Financial Policies complements the agreed policies under the 2013, 2014, and June 2015 Memoranda of Economic and Financial Policies. It presents an update on the economic performance in FY2014/15 and the first quarter of FY2015/16, and provides details of the policies Government intends to implement to preserve price stability and growth in a context of fiscal and external sustainability. The memorandum proposes extension of quantitative targets to end-March 2016, and structural benchmarks and other reform commitments to end-June 2016.

B. Recent Economic and Policy Developments

2. Real GDP growth continued to strengthen, reaching 5 percent in FY2014/15 and mainly driven by a strong performance of services and manufacturing. However, more recent indicators including increasing interest rates, a decline in the business tendency survey, and shortfalls in corporate tax revenue point to a possible slowdown in private sector activity. The scale up of public investments is expected to offset this behavior in the rest of the year, providing a boost to the construction, mining, and quarrying sectors.

3. Inflation remained within the PSI consultation target bands. Headline inflation recorded an average of 2.7 percent in FY2014/15, but it has since then picked up. Annual core and headline inflation rose to 7.2 and 6.7 percent, respectively, in September 2015. Declining fuel and food prices had previously mitigated the impact of the high exchange rate pass-through; however food crop inflation picked up since May due to weather conditions and problems related to pests and diseases.

4. The exchange rate depreciation, which reached over 40 percent year-on-year in September 2015, was a result of a combination of global and domestic factors, including the appreciation of the US dollar against major currencies; declining global commodity prices; an elevated demand for foreign currency by offshore investors and key sectors of the domestic economy, such as energy, manufacturing; lower FDI inflows owing to tightening of global liquidity conditions; negative sentiment related to the national elections cycle; and delays in issuing production licenses to the extractive sector.

5. The current account deficit remained large at 9.6 percent of GDP (excluding official grants) in FY2014/15, owing mostly to one-off government payments for services related to the Karuma and Isimba hydropower projects. Lower tourism receipts and higher profit repatriations also contributed to this outcome. The current account deficit was financed mainly by FDI and some external reserves drawdown. Reserve coverage remained adequate at above 4 months of imports of goods and services at the end of the fiscal year.

6. The financial sector remains sound, well capitalized, and profitable. Non-performing loans (NPLs) have gradually fallen from 5.8 percent as of June 2014 to 4 percent of total gross loans in June 2015. The shilling depreciation has increased commercial banks' exposure to foreign

currency lending, but risks remain well contained as banks adhere to the guideline of extending foreign currency loans only to borrowers with an income stream in foreign currency. Stress tests on foreign currency risk show that an additional 100 percent shilling depreciation from June levels would result in a decline in the core capital ratio from 18.8 percent to 17.7 percent. Furthermore, all banks would keep their open position within the regulatory limit of +/-25 percent of tier 1 capital.

7. On the fiscal side, the FY2014/15 revenue-to-GDP ratio was 1½ percent higher than in FY2013/14, supported by the strong package of tax measures approved in the FY2014/15 budget. However, tax revenues in the first three months of the current fiscal year have slightly underperformed. This was partially driven by shortfalls in corporate, withholding, and excise duty taxes, notably on international calls resulting from non-uniform external tax treatment in Uganda and other countries in the region. Current spending was ½ percent of GDP higher than in the previous year on account of increased interest payments on domestic debt and wage and salary costs. Capital spending, excluding Karuma and Isimba, remained constant due to delays in project implementation. Spending on Karuma and Isimba increased by 1½ percent of GDP.

8. The overall deficit was 4.6 percent of GDP, financed by a combination of concessional project loans, issuance of domestic securities, and withdrawals from the petroleum and energy funds. While financing of the deficit in FY2014/15 was largely as anticipated, in the first quarter of FY2015/16 the government faced challenges issuing securities in the domestic market in the context of rising interest rates and speculation. In view of cash flow difficulties, the government resorted to a temporary advance from the Bank of Uganda (BoU), which the government intends to gradually repay over the fiscal year.

9. Our debt sustainability analysis shows that debt remains at low risk of distress despite the downward revision of the World Bank's Country Policy and Institutional Assessment (CPIA) and the strong exchange rate depreciation. To ensure this position is kept, we have re-profiled Government's public investment plans in the medium term to postpone the start of some of the projects. This is important since it confirms that Government will be able to service its debt obligations.

10. Monetary policy was tightened at the appropriate time to ensure that annual core inflation remains around the medium-term target of 5 percent. The central bank rate was increased by 600 basis points from 11 percent in March to 17 percent in October to forestall a rise in core inflation resulting from the high pass-through of the depreciation of the shilling and second-round effects from a pick-up in food crop prices. Since Uganda has a flexible exchange rate regime, the BoU does not target the exchange rate. The BoU continued to purchase foreign exchange in the market to build up reserves but it had to also occasionally sell foreign exchange to stem excessive volatility in the market.

C. Performance under the PSI

11. Performance under the PSI has been strong. All end-June 2015 quantitative assessment criteria (QAC) were met; international reserves declined but remain at adequate levels, and the ceilings on the increase in net domestic financing and the contracting or guaranteeing of new

non-concessional external debt were also met. Inflation remained within the consultation target bands. The indicative targets (IT) on tax revenues and expenditures on poverty alleviating sectors surpassed program targets. However, the IT on the overall deficit was missed due to higher project performance financed by stronger-than expected external financing, and so was the IT on withdrawals from the energy and petroleum fund, though just by a small margin. While progress was made in the reduction of the stock of arrears, we are currently working with the Auditor General to ascertain why the stock was larger than initially thought. We are committed to conducting a thorough audit of the arrears situation to strengthen credibility in the data, and publish the report on the stock of end-June arrears by end-December (proposed updated date for structural benchmark). We also plan to apply sanctions on the incurrence of arrears to ensure no new arrears are accumulated.

12. Progress on the structural reform agenda is ongoing. The draft PFM Act regulations are now under review of the First Parliamentary Council, before submission to Cabinet for approval. Regulations will become effective by March 2016 (proposed updated date for structural benchmark). Consultative meetings and workshops with Permanent Secretaries and Accounting Officers have taken place to sensitize them about the new law and draft regulations. The draft amendments to the Bank of Uganda Act are being reviewed by the Ministry of Finance, Planning and Economic Development (MoFPED) before submission to Cabinet, and will be submitted to Parliament by April 2016 (structural benchmark). The charter of fiscal responsibility is to be finalized for submission to Parliament after the general election, by April 2016 (structural benchmark). Government continues to recapitalize the BoU to ensure it has the necessary tools for the effective conduct of monetary policy (structural benchmark). The TSA head and TSA sub-account structure has been completed. Donor-supported projects have however not yet been included in the TSA, as this will require enhanced systems to facilitate a common disbursement mechanism. Government will continue to work with specific development partners on this issue. We will also continue publishing quarterly reports on the stock of unpaid bills (structural benchmark).

D. Macroeconomic Outlook and Risks

13. Real GDP growth is projected at 5 percent for FY2015/16 and 5.8 percent for FY2016/17. This pick-up in growth will be driven by a scale up in public infrastructure spending (particularly HPPs) and a rebound in private sector activity as market sentiment improves on account of a stable post-election environment. Private sector investment will be boosted by a recovery in FDI inflows linked to the expected issuance of oil production licenses and the normalization of the monetary policy stance that will provide a boost to the manufacturing and trade sectors. Consumer prices are expected to increase somewhat reflecting the continued and lagged pass-through of the exchange rate depreciation to domestic prices and higher food crops prices. Nonetheless, average core inflation is projected to remain within the PSI consultation band at 7.9 percent and 6.6 percent for FY2015/16 and FY2016/17, respectively.

14. The current account deficit is projected to widen as a result of increased imports to finance Government's planned infrastructure projects and an expansion in private sector activity, coupled with slow growth in exports. Government's infrastructure related imports will however

be fully externally financed and will therefore not exert pressure on the balance of payments. International reserves are projected to decline to 3.6 months of imports in FY2015/16, but to recover to 3.8 months of imports in FY2016/17 and gradually return to over 4 months of imports thereafter. The medium-term outlook points to good prospects in the oil sector as Government issues production licenses to prospective investors and negotiations on oil-related infrastructure progress.

15. Nonetheless, risks to the outlook have significantly increased owing to the difficulties in neighboring countries, the continued strengthening of the US dollar, lower international commodity prices, seasonal factors regarding food crops, and deteriorating market sentiment in the run-up to the February 2016 general election.

E. Economic Policies

National Development Plan

16. The new National Development Plan (NDP) II came into force in June 2015, and constitutes the main policy framework governing the Government's macroeconomic and development policy agenda in the medium term. The plan prioritizes 3 of the 9 opportunities identified in the Vision 2040—agriculture; tourism; and mining, oil and gas—and identifies infrastructure and human capital as two fundamental areas of development in order to achieve the priorities. The Plan will bring to completion a number of unfinished NDP I interventions, but will also introduce new projects critical for enhancing regional trade and integration, preparing for oil production, and improving the business environment. These projects include the standard-gauge railway, the oil refinery, oil-related infrastructure serving the Albertine region, and a number of new roads and electricity transmission projects.

Fiscal Policy

The fiscal stance

17. The government has decided to reduce significantly the fiscal expansion approved in the FY2015/16 budget to help achieve macroeconomic objectives and build policy credibility. The deficit is now expected to increase from 4.6 percent in FY2014/15 to 6.6 percent of GDP, as opposed to 7.0 percent presented in the budget. Since a large part of the deficit is expected to be financed from external sources, domestic borrowing needs in the market will fall from Shs. 1.4 trillion to Shs. 530 billion. This would imply that the government will issue securities for Shs. 750 billion in the three last quarters of the fiscal year.

18. Despite the challenges in raising domestic financing at the beginning of the fiscal year, we will continue to offer securities to meet the costs of budget execution, albeit for lower-than-anticipated amounts given the revised fiscal framework. Below are some of our planned actions in the domestic debt market:

i. To adjust supply to demand preferences, we are planning to reduce the amount offered at bond auctions, and increase the amount offered at T-bills auctions. This measure will reduce the risk of having to lock-in high interest rates in the future. Efforts to lengthen the maturity of domestic debt will continue in the medium term, including through market reforms to expand participants.

ii. We also plan to offer the 2-year, 5-year and 10-year bonds at the same auction. Currently only two bonds are offered at each bond auction. This will help strike a balance between managing the refinancing risk and locking high interest rates in the future.

iii. We will change the modality for treasury securities auctions to enhance performance and minimize equilibrium yields paid on these securities.

Even though this is an election year, we are committed to executing the budget in line with the agreed terms under the PSI. This implies that the budget will be executed well below the ceilings in the budget approved by Parliament to reflect the reduction in the fiscal expansion.

Boosting tax revenue

19. We plan to continue our efforts to further increase tax revenue by 0.3 percent of GDP in the current fiscal year, surpassing the nominal budget target. We have identified a plan of tax administration actions to mitigate potential revenue shortfalls in FY2015/16 and compensate for the shortfalls that materialized in the first three months of the year.

20. Our strategy to improve performance in FY2015/16 includes the following actions:

On domestic taxes:

i. Conducting critical analysis of returns on a monthly basis;
ii. Closely monitoring large taxpayers (VIPs and high net worth investors/individuals) to better understand their businesses and offer advisory services;
iii. Ensuring data matching between domestic taxes and customs to identify non-complaint taxpayers and minimize under-declarations;
iv. Enforcing the new simplified presumptive regime to bring more players from the informal sector into the tax net; and
v. Providing information to taxpayers on the impact/interpretation of new policy measures.

On customs:

i. Enhancing valuation to minimize revenue leakages by adding more items to the database;
ii. Improving bonded warehousing management;
iii. Centralizing customs document processing; and
iv. Strengthening risk management through the establishment of a national targeting center to provide timely interventions and avert revenue leakages.

21. For the medium term, we plan to continue simplifying the tax regime, by removing ambiguities in the tax laws and updating them to cope with the dynamics in the economy and international developments. This will not only widen the tax base but also reduce compliance costs and improve revenue collections. For this purpose, Government will reassess the rationale

and value added of the remaining tax exemptions to specific sectors and consider their elimination. Government will also undertake comprehensive taxpayer education, and further automate and simplify tax management and compliance systems. Government commits to improving service delivery and providing the needed resources to support tax administration.

Identifying expenditure cuts and prioritizing spending

22. The less expansionary deficit that we now envisage relies on realistic expenditures cuts in comparison to the current budget and last PSI review. These expenditure cuts will take the form of lower-than-programmed capital investment expenditures on slow moving projects and lower non-essential recurrent expenditures. The nature of the cuts will ensure growth is not significantly and adversely affected and arrears are not accumulated. The cuts will also ensure that poverty-reducing spending is preserved.

Implementing infrastructure projects

23. Successful implementation of infrastructure investment projects remains a key priority for us. We remain committed to properly sequencing the projects once their feasibility studies and commercial viability have been confirmed. We plan to limit implementation constraints by ensuring that all projects are approved by the Development Committee. We are also finalizing the Public Investment Management Guidelines and Procedures (structural benchmark).

24. The main projects that we will implement in FY2015/16 are: 1) the continuation of the construction of the Karuma and Isimba dams, with spending amounting to $680 million. Work on these projects has started, although the external disbursements have been delayed because of the need to conclude negotiations, but are expected to be disbursed by end-2015. The 15 percent of the total costs' contribution from Government was provided in FY2014/15 and utilized mainly for the purchase of equipment and materials, while insurance and commitment fees remain; 2) road construction using machinery acquired through a loan amounting to $132 million for the purchase of construction equipment; and 3) the upgrade of the Entebbe airport financed by a loan of a total value of $202 million—of which $80 million is to be spent in FY2015/16.

25. Our medium-term investment plan has been adjusted in the following way: 1) the pace of spending on Karuma has been slowed; 2) spending on the SGR has been reduced in FY2016/17, and spread over a larger number of years; 3) the investment in the refinery has been reduced in FY2017/18 and spread over a larger number of years; and 4) various road projects have been delayed by one year and will now commence in FY2017/18.

26. Road construction will be undertaken by PPP arrangements, including for the construction of the Kampala-Jinja express highway, Kampala Southern Bypass, and Kampala Bombo express highway. The planned oil refinery will also take the form of a PPP. The Public Private Partnership Act is effective since October 2015, and provides the legal and institutional framework for the implementation of PPPs. Government has initiated the process of setting up institutions responsible for exercising oversight of implementation of PPPs, including by

preparing regulations, setting up the PPP unit, and establishing the PPP committee within the MoFPED.

F. Monetary and Financial Sector Policies

27. The BoU will remain focused on its main objective of keeping inflation low and stable. To this end, it will continue to carefully monitor domestic and external economic developments and outlook and adapt the monetary policy stance as needed.

28. To avoid confusing signals to the market and ensure that foreign exchange purchases contribute to reserve build up, the BoU recently changed the modality of its program of purchases from a pre-determined amount with participation of some banks to an auction-based methodology where all banks are eligible to participate. The BoU invites banks to place their foreign exchange offers on a daily basis. Banks are free to offer any amount at any price. The BoU accepts the lowest price bids first and work upwards. This experience has resulted in price deviations of less than 0.2 percent between successful offers during the same auction. To avoid giving rise to multiple currency practices, the BoU has issued new guidelines to ensure that the spread between auction prices will remain well below 1 percent at all times. Sales of foreign exchange in the market will continue to be limited to smoothing excessive volatility.

29. To further improve the inflation targeting regime and strengthen central bank's governance and independence, we seek to finalize the amendments to the BoU Act by April 2016 (structural benchmark). The new BoU Act will include provisions to limit temporary advances to Government to 10 percent of tax revenue of the previous year; establish the capital of the BoU as an adequate percent of monetary liabilities; and regulate the management of the Petroleum Revenue Investment Reserve established by the new PFM Act.

30. The BoU remains committed and has started implementing policies to control non-monetary policy related (administrative and operational) costs in line with reforms described in its latest business plan.

31. To preserve financial sector stability, the BoU is strengthening its prudential oversight to guard against potential market, liquidity, and operational risks. The BoU continues to monitor the health of the banking system closely in the aftermath of the strong depreciation through its onsite inspections and off-site analysis, including through stress-testing the system for further currency depreciations, interest rates increases, liquidity pressures, and credit sector concentration risks.

G. Policy Coordination

32. The MoFPED and the BoU will continue to strengthen coordination through regular meetings and agree on guiding principles of cooperation in the updated Memorandum of Understanding between the two parties to be signed shortly. Given the nervousness in the market, it is essential to ensure policy consistency and build policy credibility. This will be further enhanced by a joint strategy to communicate policies to the public aiming at raising general awareness of economic developments and policy signaling to manage expectations throughout the election period.

33. The MoFPED is committed to containing temporary advances at manageable levels so that they can be repaid within the year, to ensure adequate liquidity in the market and avoid distorting signals. For this purpose, we propose including in the PSI a new IT to measure changes in the advance from the BoU to Government. In addition, and in line with IMF technical assistance recommendations, the MoFPED will introduce specific rules and controls around the flows, use, and balances of the Uganda Consolidated Fund (UCF) and UCF/TSA and institutionalize these rules in a framework agreement with the BoU and in the charter of fiscal responsibility (new proposed structural benchmark).

34. Government will also ensure that all future oil revenues are deposited in the new Petroleum Fund, and that all oil revenue remains earmarked to infrastructure financing through the regular process of budget appropriations. For this purpose, the current stocks of Shs. 1,066 and Shs. 190 billion from the oil and energy funds will be fully transferred to the new petroleum fund created in line with the PFM Act, in addition to the $36 million in capital gains received following the commencement of the Act.

H. Social Protection

35. Government remains committed to strengthening the social protection system to ensure the benefits of growth are broadly shared. Efforts will be focused on reducing poverty and inequality, and providing a support system for the lower income segments of the population.

36. To achieve this objective, a draft social protection policy was developed and submitted to Cabinet for approval. It outlines Uganda’s vision for a national social protection system, and clarifies a specific set of instruments, namely social insurance, direct income support, social care, and support services. The National Social Protection Policy will also provide a clear framework for increasing social protection coverage and delivering well-coordinated interventions to address the risks and vulnerabilities faced by different categories of the population in both the formal and informal sectors.

37. To further strengthen social protection interventions, the Government of Uganda (GoU) has entered into a Memorandum of Understanding (MoU) with DFID and the Government of Ireland. A key component of this agreement is the implementation of the second phase of the Social Assistance Grants for Empowerment Program over a 5-year period (FY 2015/16–FY 2020/21), whereby 40 new districts will be added to the existing 15 districts previously covered by Phase 1 of the program. Other key deliverables under this MoU include the strengthening of the institutional framework for a coordinated and gender sensitive social protection service delivery, and the enhancement of an enabling environment for an inclusive social protection policy.

I. Structural Reforms

38. Progress on PFM reforms is ongoing. The implementation of the new PFM Act, in force since March 2015, has increased transparency and scrutiny of the budget process and fiscal frameworks, and improved standards for reporting, budgeting, procurement, audit, and oversight. Government will ensure that the proposed amendments to the Act, needed to facilitate budget implementation, keep its main principles intact. Our pilot experience including 14 local governments in the TSA has been positive, and we plan to expand it to all local governments within 2 to 3 years. By March 2016, 30 local governments will be using the TSA (proposed modified structural benchmark). In addition, government will continue to engage development partners on streamlining disbursement and reporting modalities for proper operation under the TSA. In parallel, government will upgrade the data center to facilitate inclusion of more entities in the TSA.

39. We have issued 10 million identity cards, surpassing the PSI benchmark of 3 million. This will support efforts to strengthen revenue mobilization, promote financial inclusion through the unique identification of financial sector clients, and combat money laundering and the financing of terrorism.

40. Progress is ongoing to enhance financial access and inclusion. In the more recent period, we have prepared draft amendments of the Financial Institutions Act (FIA) to include provisions regulating agency banking that are expected to further spur financial deepening and access. Progress has also been made to oversee operations of mobile money transactions.

41. To ensure financial system integrity, we sped up the implementation of the action plan to comply with Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) standards. Amendments to the AML Act are under consideration of Parliament. Draft regulations for the AML Act, now under review by the MoFPED, expand the scope of records required to be kept, and ensure that there is unconditional exchange of information with foreign counterparts, among other actions. Amendments to the Anti-Terrorism Act, including definitions to properly criminalize terrorist financing, were adopted in June, and its regulations were issued in August, 2015. These amendments, together with the full constitution of the Board of the Financial Intelligence Authority, prevented Uganda from being blacklisted by the Financial Action Task Force (FATF). The Government is committed to promptly addressing any remaining strategic AML/CFT deficiencies.

42. Further upgrading our statistics compilation and dissemination system remains one of our critical objectives. We are willing to work with the Fund to implement the recommendations under the e-GDDS, as suggested in Ms. Lagarde's letter of May, 2015. This would allow us to improve data transparency standards by using standardized formats. In the fiscal area, progress has been made to overcome the considerable coordination difficulties that prevent the straightforward collection and dissemination of arrears data, although further steps are required and are under consideration.

43. Progress towards EAC regional integration will continue. Work to establish regional institutions at the EAC level and to create a fiscal surveillance process is ongoing, including the

preparation of a medium-term convergence program. Other steps taken to enhance regional integration include the enactment of the Elimination of Non-Tariffs Bill in March 2015 and the launch of a new scorecard to assess progress towards the Common Market Protocol and highlight key implementation gaps EAC Capital Markets Authorities also plan to integrate regional financial sectors and link up the stock markets.

J. Program Monitoring

44. Progress on the implementation of the policies under this program will be monitored through QACs, ITs, and SBs detailed in the attached Tables 1, 2, and 3 and through semi-annual reviews. Two QACs (the overall deficit and the international reserves) are proposed to be modified for end–December 2015 to better reflect the updated macroeconomic framework and plans, and to be monitored at the sixth PSI review. We request turning the previous IT on the overall deficit into a QAC and dropping the QAC on net domestic financing. We request adding a new IT on cumulative changes in temporary advances from the BoU to the central government. We request dropping the ceilings on nonconcessional and short-term external borrowing in line with the new debt policy guidelines. Indicative targets are proposed for March 2016. The sixth review is expected to be completed by end-June 2016. The attached Technical Memorandum of Understanding—which is an integral part of this memorandum—contains the needed definitions.

Attachment Table I.1. Uganda: Observance of Quantitative Assessment Criteria and Indicative Targets for December 2014–June 2015[1]

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

	December 31, 2014 [2]				March 31, 2015 [2]				June 30, 2015 [2]			
	Program	Adjusted Target	Outturn	Result	Program	Adjusted Target	Outturn	Result	Program	Adjusted Target	Outturn	Result
	(Billions of Ugandan shillings)											
Assessment criteria												
Ceiling on the increase in net domestic financing of the central government [3]	2,461	2,081	1,632	Met	2,896	2,518	2,002	Met	2,526	2,417	2,400	Met
	(Millions of US dollars)											
Ceiling on the stock of external payment arrears incurred by the public sector	0		0	Met	0		0	Met	0		0	Met
Ceiling on the contracting or guaranteeing of new nonconcessional external debt with maturities greater than one year by the public sector [4,5]	2,200		201	Met	2,200		2,134	Met	3,000		2,217	Met
Ceiling on new external debt with maturity up to one year contracted or guaranteed by the public sector [4, 6]	0		0	Met	0		0	Met	0		0	Met
Minimum increase in net international reserves of the Bank of Uganda (US$mn)[3,7]	-275	-175	238	Met	-175	-77	-101	Not met	-482	-490	-308	Met
Share of oil revenue placed in the Petroleum Fund	100		100	Met	100		100	Met	100		100	Met
	(Billions of Ugandan shillings)											
Indicative targets												
Ceiling on the overall deficit of the Central Government [3]	n.a.		n.a.		n.a.		n.a.		3,371	3,262	3,319	Not met
Floor on tax revenue	4,362		4,454	Met	6,576		6,751	Met	9,397		9,485	Met
Expenditures on poverty alleviating sectors	1,277		1,420	Met	2,141		2,233	Met	2,994		3,032	Met
Ceiling on the issuance of guarantees by the Government/Bank of Uganda	0		0	Met	0		0	Met	0		0	Met
Net change in the stock of domestic arrears[8]	-70		-58	Not met	-80		-96	Met	-212		n.a.	n.a.
Ceiling on withdrawals from energy and petroleum funds	1,230		899	Met	1,230		899	Met	1,096		1,100	Not met
	(Annual percentage change)											
Inflation consultation clause												
Outer band (upper limit)	8.7				8.3				8.0			
Inner band (upper limit)	7.7				7.3				7.0			
Core inflation target [9]	5.7		3.1	Not met	5.3		2.9	Not met	5.0		3.3	Met
Inner band (lower limit)	3.7				3.3				3.0			
Outer band (lower limit)	2.7				2.3				2.0			

[1] Defined in the Technical Memorandum of Understanding (TMU). Values for December 2014 and June 2015 are quantitative assessment criteria except as marked. Values for March are indicative targets.

[2] Proposed targets are measured as the change from June 2014, except as marked.

[3] The adjustors applied for budget support contained in Schedule A of the TMU inadvertently switched the lines for budget support loans and grants. The correct adjustor has been used to calculate the adjusted target.

[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] The NIR outturn is assessed using program exchange rates.

[8] For quarters other than the one ending June 30, the net change in the stock of unpaid bills will be used as the indicative target.

[9] Annual percentage change, twelve-month period average core inflation.

Attachment Table I.2. Uganda: Quantitative Assessment Criteria and Indicative Targets for September 2015–March 2016[1]

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

	September 30, 2015 [2]	December 31, 2015 [2]		March 31, 2016 [2]	
	Program	Program	Revised Program	Program	Revised Program
		(Billions of Ugandan shillings)			
Assessment criteria					
Ceiling on the overall deficit of the Central Government	1,682	3,215	2,346	4,479	3,814
		(Millions of US dollars)			
Ceiling on the stock of external payment arrears incurred by the public sector	0	0	0	0	0
Minimum increase in net international reserves of the Bank of Uganda (US$mn)[3]	49	111	-225	174	-281
Share of oil revenue placed in the Petroleum Fund	100	100	100	100	100
		(Billions of Ugandan shillings)			
Indicative targets					
Ceiling on cumulative changes in temporary advances from Bank of Uganda to the central government	n.a.	n.a.	268	n.a.	118
Floor on tax revenue	2,441	5,199	5,282	7,823	7,997
Expenditures on poverty alleviating sectors	768	1,570	1,570	2,367	2,367
Ceiling on the issuance of guarantees by the Government/Bank of Uganda	0	0	0	0	0
Net change in the stock of domestic arrears[4]	-20	-40	-39	-60	-80
Ceiling on withdrawals from energy and petroleum funds	70	95	173	120	253
		(Annual percentage change)			
Inflation consultation clause					
Outer band (upper limit)	8.0	8.0	8.0	8.0	8.0
Inner band (upper limit)	7.0	7.0	7.0	7.0	7.0
Core inflation target [5]	5.0	5.0	5.0	5.0	5.0
Inner band (lower limit)	3.0	3.0	3.0	3.0	3.0
Outer band (lower limit)	2.0	2.0	2.0	2.0	2.0

[1] Defined in the Technical Memorandum of Understanding (TMU). Values for December 2015 are quantitative assessment criteria except as marked. Values for March and September are indicative targets.

[2] Proposed targets are measured as the change from June 2015, except as marked.

[3] The NIR outturn is assessed using program exchange rates.

[4] For quarters other than the one ending June 30, the net change in the stock of unpaid bills will be used as the indicative target.

[5] Annual percentage change, twelve-month period average core inflation.

Attachment Table I.3. Structural Benchmarks

Policy Measure	Macroeconomic Rationale	Date[1]	Status	Proposed Revised Date[1]
Ministry of Finance to submit to Parliament amendments to the Bank of Uganda Act containing provisions to support implementation of inflation targeting in line with international best practices, including establishing the capital of the BoU as an adequate percent of monetary liabilities, and limiting the size of intra-year advances to the government to 10 percent of tax revenues of the previous year.	To strengthen monetary policy independence and credibility of the central bank.	April 2016	Some progress. The draft is under review.	
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 commitment to implement its business plan to contain operational and administrative costs.	To enhance central bank efficiency. To enhance central bank discipline and monetary policy independence.	October 2015	Not met. BoU recapitalization for this fiscal year catered for in the FY2015/16 budget. The recapitalization process has started, and the BoU is making progress on the implementation of its business plan to contain operational and administrative costs.	November 2015
Ministry of Finance to publish quarterly reports signed by the PS/ST on the stock of unpaid bills of all government entities contained in the central government votes.	To facilitate control and reduction of unpaid bills.	November 15, 2015 for quarter ending September 30, 2015. February 15, 2016 for quarter ending December 31, 2015. May 15, 2016 for quarter ending March 31, 2016.		

Attachment Table I.3. Structural Benchmarks (continued)

Ministry of Finance to publish a report signed by the PS/ST on the stock of domestic arrears of all government entities contained in the central government votes.	To facilitate control and reduction of expenditure arrears.	September 30, 2015 for the quarter ending June 30, 2015.	Not met. Government needs to audit and reconcile figures before publication.	December 2015
Government to have issued a minimum of 3 million ID cards under the new national identification system.	To support efforts to strengthen revenue collection, promote the identification of financial sector clients, and combat money laundering and the financing of terrorism.	July 2015	Met.	
Regulations for implementation of the PFM Act to become effective.	Ensure efficient PFM implementation and oil revenue management by providing guidelines, clarifying and making specific those aspects that are general in the law.	July 2015	Not met. Government needs to wait for approval of PFM Act amendments. Current draft of regulations needs to incorporate substantive changes, mainly on oil revenue management.	March 2016
Ministry of Finance to send to Parliament the charter of fiscal responsibility.	To improve fiscal and macroeconomic management.	April 2016	On track. Current draft under internal discussion.	
Ministry of Finance to develop the Public Investment Management Guidelines and Procedures.	To strengthen the capacity of MDAs in the preparation of feasibility studies, project preparation, analysis and appraisal, and financing assessments.	December 2015	On track. Work Bank consultants were procured; guidelines were produced; and training for stakeholders was facilitated.	
Ministry of Finance to conduct a pilot exercise aimed at including donor-supported projects in the TSA.	Provide a key milestone for full TSA implementation.	March 2016	Off track. Donors require more time as they consider existing systems do not provide sufficient safeguards. SB reformulated in line with the next SB below.	

Attachment Table I.3. Structural Benchmarks (concluded)				
Proposed new structural benchmarks.				
Ministry of Finance to include 30 local governments in the TSA structure.	Provide a key milestone for full TSA implementation.	March 2016		
Ministry of Finance to introduce specific rules and controls on the intra-year use and balances of the Uganda Consolidated Fund (UCF) and UCF/TSA and institutionalize those rules in a framework agreement with the BOU and in the charter of fiscal responsibility.	To improve fiscal and macroeconomic management.	April 2016		
[1] All dates refer to the end of the month, unless otherwise specified.				

Attachment II. Technical Memorandum of Understanding

A. Introduction

1. This memorandum defines the quarterly quantitative assessment criteria (QAC) and indicative targets (ITs) described in the Memorandum of Economic and Financial Policies (MEFP) for the economic program supported by the IMF Policy Support Instrument (PSI) over the period of December 31, 2015—March 31, 2016, and sets forth the reporting requirements under the instrument. The stock of all foreign assets and liabilities will be converted into U.S. dollars at each test date using the cross exchange rates referred to in text table 1 below for the various currencies, and then converted into Uganda shillings using the program U.S. dollar-Uganda shilling exchange rate for end-June 2015, unless otherwise indicated in the text.

Text Table 1. Program Exchange Rates (end-June 2015)

US Dollar (US$)	1.0
British Pound/US$	0.636213
Japanese Yen/US$	122.45
SDR/US$	0.711039
Kenyan Shilling/US$	98.6394
Tanzania Shillings/US$	2,020.35
Euro/US$	0.893735
Canadian dollar/US$	1.2474
Australian dollar/US$	1.302083
Ugandan Shillings/US$	3,301.80

B. Consultation Mechanism on Inflation (QAC)

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 Text Table 2. The consultation bands specify the range of admissible CCPI inflation. Observed CCPI inflation for end-December 2015 will be subject to the consultation mechanism, while the CCPI inflation for end-March 2016 will be an indicative target.

Text Table 2. Inflation Targets

	Dec. 2015	Mar. 2016
Outer band (upper limit)	8.0	8.0
Inner band (upper limit)	7.0	7.0
Core inflation target	5.0	5.0
Inner band (lower limit)	3.0	3.0
Outer band (lower limit)	2.0	2.0

3. Should the observed average CCPI inflation for the test date linked to a PSI program review (i.e., end-December 2015 for the sixth review) fall outside the outer band as specified in the above table, 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 Fund staff when the observed average CCPI inflation falls outside the inner band, as specified for December 2015 in Text Table 2.

C. Ceiling on Overall Deficit of the Central Government[1] (QAC)

4. The QAC on the ceiling on the overall deficit of the central government is defined as the cumulative sum, from the beginning of the relevant fiscal year, of:

a. net domestic financing (NDF) as defined below;

b. net external financing (NEF), defined as the sum of the difference between disbursements and amortization of any loans (including budget support loans and project loans, both concessional and non-concessional), internationally-issued bonds, and any other forms of liabilities by the Central Government to nonresidents, excluding nonresidents' holdings of domestically-issued government securities (which are covered under NDF), plus external exceptional financing; and

c. net proceeds from sales of non-financial assets including privatization receipts.

5. The NDF of the central government 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, excluding deposits in the Energy and Petroleum Funds and project accounts with the banking system and 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 (DCS).

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

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

6. Changes in NEF will be measured using external financing (net) provided in the monthly government financial statistics. These data, in turn, will be based on the reconciled donor disbursement figures obtained by the central bank and by Ministry of Finance, Planning, and Economic Development (MoFPED) through the Debt Management and Financial Analysis System (DMFAS) and Aid Management System (AMS).

D. Floor on the Net International Reserves of the Bank of Uganda (QAC)

7. Net international reserves (NIR) of the Bank of Uganda 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.

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 text table 1). The NIR limits are the cumulative changes of the NIR stock from the beginning of the respective fiscal year to the specified dates.

E. Share of Oil Revenue Placed in Petroleum Fund (QAC)

9. The purpose of this QAC is to avoid a situation whereby petroleum revenues bypass the Ugandan budget framework. The 2015 PFM Act has established a petroleum fund; and while the Act becomes operational, government has established a petroleum revenue account in the BoU. This QAC will be deemed satisfied if 100 percent of any kind of petroleum-related revenues (even before the start of oil production) is transferred to this account upon collection by URA. These resources may then be spent or saved as governed by the 2015 PFM Act.

F. Ceiling on Cumulative Changes in Temporary Advances from the Bank of Uganda to the Central Government (IT)

Background on temporary advances from the Bank of Uganda to the central government

10. The Government of Uganda (GoU) may receive "temporary advances" from the Bank of Uganda (BoU) to cover temporary deficiencies of recurrent revenue, up to 18 percent of recurrent revenues over the fiscal year, according to Section 33 of the 2000 BoU Act. The 2000 BoU Act does not specify when the "temporary advances" are to be fully repaid nor does it define how the advance amounts are to be measured. The use of such advances should be limited for cash flow management and should be temporary, with a requirement of full repayment within the respective fiscal year. The ambiguity of the 2000 BoU Act may lead to a situation where an extensive use of this non-programmed financing could replace financing from the domestic financial market, posing a risk of monetization of fiscal deficits. This issue is to be addressed under the envisaged amendments to the BoU Act, expected to be submitted to Parliament in April, 2016.

11. At the beginning of FY2015/16, the GoU requested from the BoU access to temporary advances up to about Ush 2,000 billion, with the commitment of fully repaying them by the end of the fiscal year. The GoU intends to utilize this access periodically for cash flow management.

Purpose, definition, and measurement of this indicative target

12. The purpose of the new indicative target on the ceiling on cumulative changes in temporary advances from the BoU to the central government is to help define and monitor the balance of outstanding temporary advances and ensure their prompt repayment. This should help reduce the likelihood of a situation where the temporary advances are used in order to bypass issuances of treasury securities in the domestic financial market, resulting in monetization of fiscal deficits and potential inflationary pressures.

13. The cumulative change in temporary advances from the BoU to the central government is defined as the cumulative change, from the beginning of the respective fiscal year, in adjusted net claims on the central government by the BoU. The adjusted net claims on the central government by the BoU is defined as the difference between the outstanding amount of BoU credit to the central government and the central government's deposits, excluding deposits in administered accounts (including the energy and petroleum funds) and project accounts with the central bank. Credits comprise BoU loans and advances to the government and holdings of government securities and promissory notes.

14. The cumulative change in temporary advances from the BoU to the central government will be calculated based on data from balance sheets of the monetary authority as per the DCS.

G. Floor on Expenditures on Poverty Alleviating Sectors (IT)

15. The indicative target on the floor 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 functional budget classification, excluding those which are externally financed. Compliance with the indicative floor for poverty alleviating expenditures will be verified on the basis of releases.

H. Ceiling on Issuance of Guarantees by the Government or Bank of Uganda (IT)

16. The indicative target on issuance of guarantees by the GoU or the BoU aims to prevent accumulation of contingent liabilities by the GoU (including entities such as ministries, agencies and authorities). Included against the ceiling are any direct, contingent liabilities of the GoU (including entities that are part of the GoU such as ministries, agencies and authorities). This excludes guarantee programs which have explicit budget appropriations.

I. Tax Revenue (IT)

17. A floor applies on tax revenue of the 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 and unallocated receipts); excise duty and value-added taxes net of refunds; infrastructure levy; and taxes on international trade minus temporary road licenses and fees to hides and skins, as defined by the GoU's revenue classification.

J. Net Accumulation of Domestic Arrears of the Government (IT)

18. A ceiling applies to net accumulation of domestic arrears of the central government as an indicative target. A negative target thus represents a floor on net repayment. The ceiling for each test date is measured cumulatively from the beginning of the respective fiscal year.

19. An unpaid bill is defined as any verified outstanding payment owed by any entity that forms part of the central government votes for the following: utilities, rent, employee costs, other recurrent, court awards, compensation, contributions to international organizations, development, taxes, and other deductions. Domestic arrears are the total stock of unpaid bills as of June 30 of the fiscal year as reported in the consolidated financial statements of the GoU.

20. For quarters other than the one ending June 30, the net change in the stock of unpaid bills will be used as the indicative target. For the quarter ending in June 30, the change in the total stock of arrears as reported in the consolidated financial statements of the GoU will be used as the indicative target.

K. Ceiling on Withdrawals from the GoU Deposits from the Petroleum and Energy Funds (IT)

21. The indicative target on the ceiling on withdrawals from the GoU deposits from the Petroleum Fund and the Energy Fund aims at channeling these resources to key infrastructure projects while ensuring coordination with the BoU so that proper management can be made on the accompanying impact on liquidity. A ceiling applies on withdrawals from the GoU deposits from the Petroleum Fund and the Energy Fund measured cumulatively from the beginning of the respective fiscal year. Withdrawals will be restricted to meet the GoU's share of spending on externally-financed infrastructure projects listed in Text Table 3.

Text Table 3. Externally-financed infrastructure projects.

Karuma and Isimba hydropower projects (HPPs)
Standard Gauge Railway
Entebbe Airport upgrade

L. Adjusters

Adjustor related to budget support

22. The NIR and the overall deficit targets are based on program assumptions regarding budget support excluding assistance provided under the Heavily Indebted Poor Countries (HIPC) Initiative and the MDRI.

23. The Uganda shilling equivalent of projected budget support (grants and loans) excluding HIPC Initiative and MDRI assistance in the form of grants on a cumulative basis from the beginning of the relevant fiscal year is presented under Schedule A. 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, excluding HIPC Initiative and MDRI assistance, exceeds (falls short of) the projected amounts. The ceilings on the cumulative increase in overall deficit will be adjusted downward (upward) by the amount by which budget support grants, excluding HIPC Initiative and MDRI assistance, exceeds (falls short of) the projected amounts.

Schedule A: Budget Support[1]

(Ush billions; cumulative from the beginning of the respective fiscal year)

	Dec-15	Mar-16
Budget support grants	110	142
Budget support loans	--	--

[1] Budget support loans and grants excluding HIPC Initiative and MDRI assistance.

Adjustors related to the financing of the infrastructure projects

Background on Infrastructure projects and Energy and Petroleum Fund Stocks

24. The GoU's deposits in the Energy Fund and the Petroleum Fund—with the current stocks described in the table below—will be exclusively used for the GoU to co-finance the externally-financed infrastructure projects listed in Text Table 3 for the current FY. The foreign currency-denominated deposits of the Petroleum 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 the Fund will continue to be recorded outside of the reserves and under other foreign assets of the BoU.

Stock of the Energy and Petroleum Funds as of end-June 2015

(Ush billions and USD millions)

	Ush	USD	
Energy Fund	190	0	(BoU reserves)
Petroleum Fund	1,186	0	(BoU other assets)

Adjustor on Expenditures to Co-finance Externally-financed Infrastructure Projects

25. The ceilings on the cumulative increase in overall deficit and the cumulative withdrawals from the GoU deposits from the Petroleum Fund and the Energy Fund will be adjusted downward (upwards) by the amount by which the domestic currency equivalent of the spending to co-finance the externally-financed infrastructure projects listed in Text Table 3, financed by withdrawals from the Petroleum Fund and the Energy Fund (measured using the DCS) falls short of (exceeds) the projected amounts as set out in Schedule B. Any upward adjustment to meet higher-than-expected share will be capped by 10 percent of the amounts as set out in Schedule B. Spending on these projects financed by external borrowing are not included in this adjuster.

Schedule B: Expenditures on co-financing externally-financed infrastructure projects

(Ush billions)

	Dec-15	Mar-16
Cumulative from the beginning of the respective fiscal year	173	253

Adjustor on Inflows into the Petroleum Fund

26. The ceilings on the cumulative increase in overall deficit will be adjusted upward (downward) by the amount by which inflows into the petroleum fund (excluding valuation changes) falls short of (exceeds) the projected amounts as set out in Schedule C.

Schedule C: Inflows into Petroleum Fund
(Ush billions)

	Dec-15	Mar-16
Cumulative from the beginning of the respective fiscal year	--	--

Adjustor on Foreign Currency Spending to Co-finance Externally-financed Infrastructure Projects

27. The floor on the change in NIR will be adjusted upward (downward) by the amount by which the GoU's spending in foreign currency to co-finance the externally-financed infrastructure projects listed in Text Table 3 falls short of (exceeds) the projected amounts set out in Schedule D. The GoU will first withdraw the foreign currency denominated portion of its deposits once there are new foreign currency inflows to the Energy and Petroleum Funds.

Schedule D: GoU's foreing-currency spending to confiance the externally-financed infrastructure projects
(US$ millions)

	Dec-15	Mar-16
Cumulative from the beginning of the respective fiscal year	--	--

28. The ceilings on overall deficit will be adjusted upward (downward) by the amount by which the recapitalization of the BoU exceeds (falls short of) the projected amounts as set out in Schedule E.

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

	Dec-15	Mar-16
Cumulative from the beginning of the respective fiscal year	200	200

Adjustor related to externally-financed projects

29. The ceiling on overall deficit will be adjusted downward (upward) by the amount by which (both concessional and non-concessional) external financing tied to projects falls short of (exceeds) the projected amounts as set out in Schedule F. Any upward adjustment will be capped by 10 percent of the amounts set out in Schedule F.

Schedule F: External financing tied to projects

(Ush billions)

	Dec-15	Mar-16
Cumulative from the beginning of the respective fiscal year	2090	3266

M. Ceiling on the Accumulation of New External Payments Arrears Incurred by the Public Sector[2]

30. 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.[3] 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

[2] 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.

[3] Contracting and guaranteeing is defined as approval by a resolution of Parliament as required in Section 36(5) and 39(1) of the Public Finance and Management Act, 2015.

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.

31. 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 2015. 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.

N. Monitoring and Reporting Requirements

32. The GoU 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 Table II.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 market and the level of the BoU's international reserves.	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.	Monthly	5 working days
	Disaggregated consumer price index.	Monthly	2 weeks
	Balance sheet of the BoU, consolidated accounts of the commercial banks, and depository corporations' survey.	Monthly	4 weeks

Attachment Table II.1. Summary of Reporting Requirements (continued)			
Reporting institution	**Report/Table**	**Submission Frequency**	**Submission Lag**
	Monthly balances of net foreign assets, net domestic assets, and base money of the BoU.	Monthly	4 weeks
	Details on the government position at the central bank including deposits broken down by i) net public debt, ii) government project accounts, iii) Petroleum Fund (specifying the currency), iv) Energy Fund, v) government ministries accounts, and the remainder in vi) other deposits. In addition, liabilities broken down by i) appropriation account (UCF), ii) other drawdown accounts, iii) government securities accounts and the remainder in iv) other liabilities. Detailed information about the recording of the recapitalization 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
	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) net claims on central government by the banking system; (ii) new non-concessional external borrowing; and (iii) net international reserves.	Quarterly	6 weeks
	Currency composition of the BoU's international reserves in unit of each currency at each end of quarter.	Quarterly	6 weeks

Attachment Table II.1. Summary of Reporting Requirements (concluded)

Reporting institution	Report/Table	Submission Frequency	Submission Lag
II. Ministry of Finance	Summary of central government accounts. Revenues shall be recorded on a cash basis, with a breakdown including infrastructure levy. Expenditures shall be recorded when checks are issued, except for domestic and external debt-service payments[4], 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 government entities contained in the central government votes as reported by the Accountant General and signed by the PS/ST.	Quarterly	6 weeks
	Summary of the stock of arrears by government entities contained in the central government votes as reported by the Accountant General and signed by the PS/ST.	Annual	3 months
	Summary of contingent liabilities of the central government and the BoU. 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 BoU during the period according to loan agreements. Parliament resolutions on any new loans.	Quarterly	6 weeks
	Updated national accounts statistics (real and nominal) according to UBOS and medium-term projections.	Quarterly	12 weeks
	Releases of domestic expenditures on wages and salaries in the Health, Education, Water and Environment and Agriculture sectors, as defined by the Government of Uganda's functional budget classification, with a breakdown based on financing (domestically financed or externally financed).	Quarterly	6 weeks

[4] The budget records domestic interest payments on cash-basis while for program purposes this entry will be reported on an accrual basis.