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Uganda: Sixth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Waiver of Performance Criteria, and Request for a Policy Support Instrument—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Uganda

In the context of the sixth review under the three-year arrangement under the Poverty Reduction and Growth Facility, request for a waiver of performance criteria, and request for a Policy Support Instrument, the following documents have been released and are included in this package:

- the staff report for the Sixth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Waiver of Performance Criteria, and Request for a Policy Support Instrument, prepared by a staff team of the IMF, following discussions that ended on October 26, 2005, with the officials of Uganda on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on January 6, 2006. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a Press Release summarizing the views of the Executive Board as expressed during its January 23, 2006 discussion of the staff report that completed the review and requests.

- a statement by the Executive Director for Uganda.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Uganda*
Memorandum of Economic and Financial Policies by the authorities of Uganda*
Technical Memorandum of Understanding*

*May also be included in the Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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UGANDA

Sixth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Waiver of Performance Criteria, and Request for a Policy Support Instrument

Prepared by the African Department

Approved by Michael Nowak and John Hicklin

January 6, 2006

Main topics. This report recommends completion of the sixth and final review under Uganda's Poverty Reduction and Growth Facility (PRGF) arrangement and approval of a Policy Support Instrument (PSI).

PRGF. Performance relative to the sixth and final PRGF review was satisfactory. The authorities request waivers for two performance criteria that were not observed by very small margins. Corrective measures will be undertaken during 2006 and overall program objectives were not jeopardized. The final disbursement is SDR 2 million.

PSI. The authorities also request a 16-month PSI. The main objective is to sustain macroeconomic stability. A multi-year PSI would be discussed after elections currently scheduled for February 2006. In addition to macroeconomic stability, the multi-year program would address second-generation structural reforms needed to implement Uganda's poverty alleviation strategy.

Poverty reduction. Uganda's strategy for poverty reduction is set out in the Poverty Eradication Action Plan (PEAP). It was revised in early 2005 and forms the basis of the proposed program.

Debt relief. Uganda received SDR 87.7 million in debt relief from the IMF under the Multilateral Debt Relief Initiative. The World Bank and the African Development Fund could provide significant relief during 2006. The authorities have indicated that resources from debt relief would be utilized within the medium-term expenditure framework.

Recent developments. Economic growth and the external position are consistent with program assumptions. Inflation was slightly above projections in July-August, but the government's target of 5 percent remains within reach. After the mission left Kampala, a leading opposition candidate for the February 2006 presidential elections was arrested and charged with treason. Some violent protests followed the arrest, but Kampala now appears to be returning to normal.

Participants. The mission met with President Museveni, Finance Minister Suruma, State Minister for Finance Rukutana, and Bank of Uganda Deputy Governor Kasakende

The mission team consisted of Messrs. Green (head, AFR), Mikkelsen, Gershenson (AFR), Espejo (PDR), and Jonas (FAD). Mr. Allum, the Fund's senior resident representative in Kampala, participated in the discussions.

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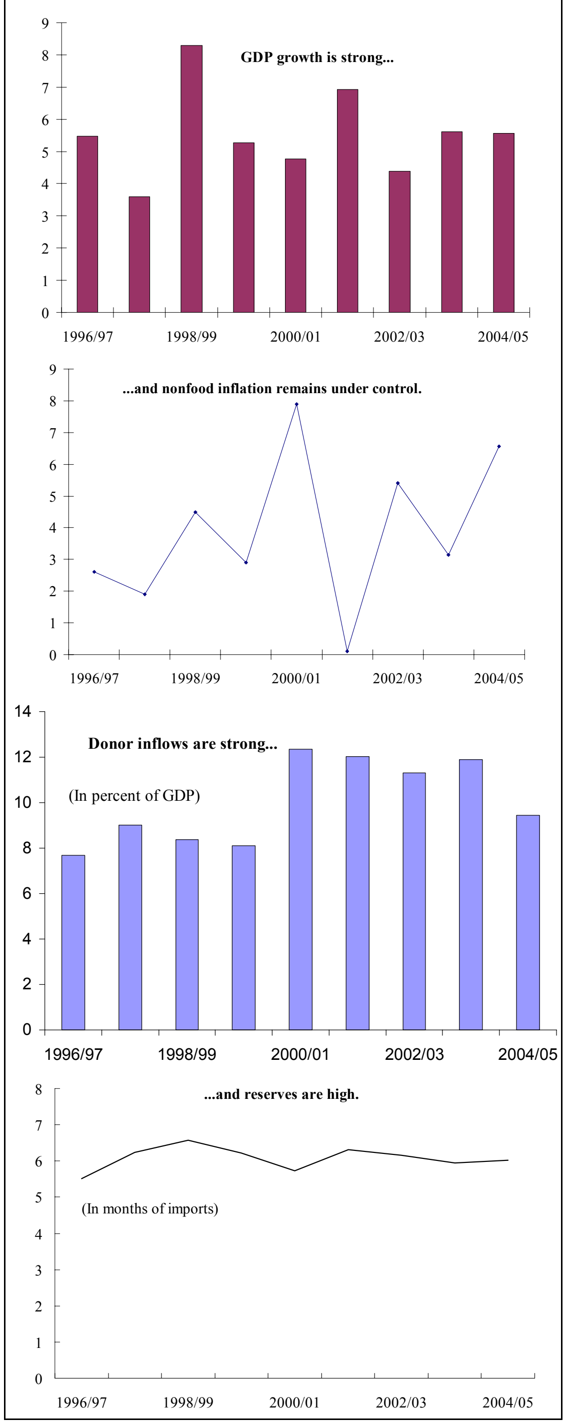
I. A Policy Support Instrument (PSI)—The Logical Next Step after Successful Conclusion of the PRGF Program

1. **Macroeconomic stability remains a cornerstone of Uganda's reform effort.** Fiscal restraint, coupled with prudent monetary management, supported Uganda's robust growth and helped contain inflation to single digit levels over most of the past decade. In recent years, these policies contributed to a very comfortable level of international reserves. Implementation of Uganda's Poverty Eradication Action Plan (PEAP) has improved living conditions, although per capita income gains have been modest because of Uganda's high population growth rate.

2. **As a "mature stabilizer," Uganda is ready to move to a PSI program.** In addition to its record of sustained macroeconomic stability, Uganda has completed most first-generation structural reforms and has begun to tackle the next layer of reforms, which addresses the business environment. The Ex Post Assessment of Uganda's long-term engagement (IMF Country Report No. 06/24) concluded that the country has no prolonged need for Fund financing, but would benefit from a continued policy dialog with the Fund that goes beyond a regular surveillance relationship. A PSI would serve this purpose and also provide key donors with regular assessments of macroeconomic performance.

3. **Longstanding support for prudent macro policies and the role of the private sector has been expressed at the highest political levels**. President Museveni has signaled his interest in second-generation reforms aimed at establishing a more competitive business climate and has welcomed the PSI initiative as a means of maintaining a policy dialog with the Fund.

Uganda Has Maintained Macroeconomic Stability



4. **The authorities have requested a PSI to begin immediately after the current PRGF arrangement expires**. The key objective of the program—as outlined in the attached Letter of Intent and Memorandum of Economic and Financial Policies—is to continue with the implementation of policies to achieve further improvements in economic growth and poverty reduction.

5. **The authorities intend to request a multi-year PSI following the presidential and parliamentary elections in February 2006.** This two-step approach (i) promotes ownership by delaying discussions on substantive medium-term policies until after the elections; (ii) provides time for policy makers to assess options in light of the impact of the Multilateral Debt Relief Initiative (MDRI); and (iii) could allow the economic program period to be realigned with the budget cycle (July–June), assuming the multi-year PSI could be put in place in mid-2006.

II. The Sixth Review—Many Accomplishments, But Still More To Do

6. **Performance under the PRGF program has been good.** Macroeconomic developments in 2004/05 were in line with program assumptions and confirm Uganda's stable macroeconomic situation. Economic growth remained strong and inflation in check, despite drought conditions and crop diseases. Falling interest rates, a relatively stable currency, and comfortable reserve levels supported these favorable developments (Table 1 and Figures 1-5).

7. **Most of the quantitative performance criteria and objectives for the sixth review have been observed:**

- Fiscal consolidation through end-June 2005 was greater than programmed, mainly because the pace of foreign-financed development spending was slower than envisaged (Table 2). Domestic financing was well below the program ceiling.
- Core poverty alleviation spending was broadly on track, although the corresponding indicative target was missed by a small margin; the ceiling on public administration expenditures was exceeded by a small amount because of expenditure overruns (less than 0.1 percent of GDP).
- Tax collections were in line with expectations and commitments to raise domestic revenue.
- Base money and net international reserves (NIR) of the Bank of Uganda (BOU) were within the program limits (Table 7).

8. **Structural reforms are advancing.** To strengthen the Uganda Revenue Authority (URA), an amendment was submitted to the URA Act (performance criterion). This and administrative improvements at the URA have contributed to improved revenue performance and rising public confidence in the revenue authority. Management concession agreements for the Uganda Railway Corporation and Kenya Railway Corporation have been signed which should accelerate the rehabilitation of Uganda's rail link to the ocean.

9. **Two performance criteria were not observed, but these slippages did not compromise the integrity of the program.** Arrears under the commitment control system (CCS), equivalent to less than 0.2 percent of GDP, were accumulated in 2004/05. Part of these new arrears reflects unavoidable payment delays, such as disputed bills, and part reflects inadequate budget provisions. The amount of new arrears is modest relative to total spending and the ceiling on domestic financing of the government would still have been observed had these arrears been cleared during the financial year (Box 1). The Uganda Development Bank (UDB) made new loans of about U Sh 1.2 billion in August-September 2005, but these went to existing clients who had repaid existing loans and did not expand the bank's loan book on a net basis. The authorities requested waivers for these missed objectives because the amounts involved did not undermine the integrity of the economic program and because corrective actions will be taken in the context of the new PSI.

Box 1. Sources of Domestic Arrears and Corrective Actions

As of end-June 2005, the total stock of verified domestic arrears stood at U Sh 573 billion (3.9 percent of GDP). This represents an increase of U Sh 260 billion from end-June 2004. Most of this increase reflects **newly verified** arrears that were incurred in previous fiscal years, and, therefore, does not represent a deterioration in public expenditure management.

Composition. Pension arrears, most of which date to the early 1990s, are the largest component of the verified stock of arrears. Membership fees for international organizations and court awards are the next largest components and represent most of the increase in verified arrears during 2004/05.

Verified Domestic Arrears, end-June 2005

	Pensions	Wages	Court awards	Other 1/	Total
U Sh billion	304	20.0	62.0	187	573
Percent of GDP	2.0	0.1	0.4	1.2	3.9

Source: Ministry of Finance, Planning and Economic Management.

1/ Includes arrears on payments for utilities, rents, membership fees to international organizations, and other mainly nonstatutory payments.

The CCS system. The Commitment Control System (CCS) was adopted in the late-1990s to limit spending commitments at the ministry level to within their cash allocations. However, arrears continue to accumulate under the CCS. In 2004/05, an estimated U Sh 32 billion of new CCS arrears were accumulated. The government is currently rolling out an Integrated Financial Management System (IMFS) that should allow for better tracking and control of arrears. The new system appears to be effective in pilot ministries.

Sources of CCS arrears. Arrears reflect a combination of (i) expenditure pressures outside government control (e.g., court awards); (ii) unrealistic budgeting; and (iii) inadequate budgetary discipline. CCS arrears can also occur if a bill is in dispute or if an emergency expenditure is needed at the end of the financial year. These are expected to be paid in the next budget year on a priority basis.

Measures. The following measures are in place or under consideration for the 2006/07 budget: (i) more realistic budgeting including provisions for known obligations; (ii) a more flexible contingency reserve; (iii) stronger enforcement of existing rules, for example holding accounting officers responsible for over commitments (in place); (iv) higher budgetary allocations to pay down old arrears (in place); (v) strengthening of the strategy to pay off any arrears in the following financial year out of ministry budget allocations (ongoing); and (vi) the progressive roll out of the Integrated Financial Management System (IFMS).

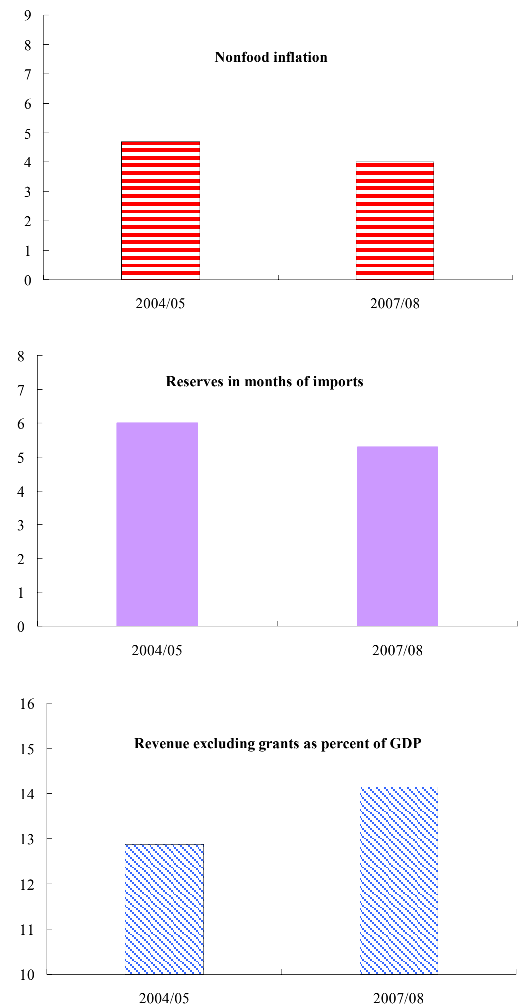
III. The Medium-Term Challenge—Setting The Stage For Private Sector-Led Growth

10. **Uganda faces a number of medium-term challenges.** Economic growth needs to increase to at least 7 percent to provide for a substantial reduction in poverty and to achieve the related MDGs. This will require continued policies aimed at macroeconomic and debt sustainability, new electric power generation capacity, and second-generation reforms to promote private sector activity. In view of Uganda's resources, growth is likely to originate in agriculture, both production and processing.

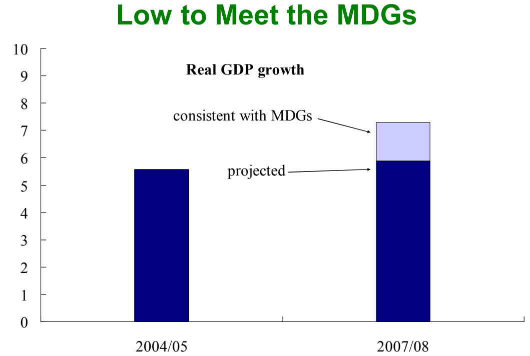
11. **Continued gradual fiscal consolidation lies at the heart of Uganda's macroeconomic strategy over the medium term.** Fiscal consolidation will help promote macroeconomic stability and sustainable private sector-led growth, and reduce donor dependency. The pace of fiscal consolidation would carefully balance these objectives with the need to channel resources to PEAP objectives and Millennium Development Goals (MDGs). The medium-term outlook, therefore, envisages continued expenditure restraint and an increase in domestic revenue by about 0.5 percent of GDP a year through either tax measures or increases in collection efficiency. Given current assumptions for donor-financed development expenditures, this revenue effort is projected to reduce the overall deficit, excluding grants, to 6.6 percent of GDP by 2007/08, from 8.8 percent in 2005/06.

12. **The efficient use of international aid flows will remain high on the policy agenda.** The government is bolstering budget and expenditure management procedures to ensure that resources are used as intended. The authorities are also reviewing their sterilization strategy.

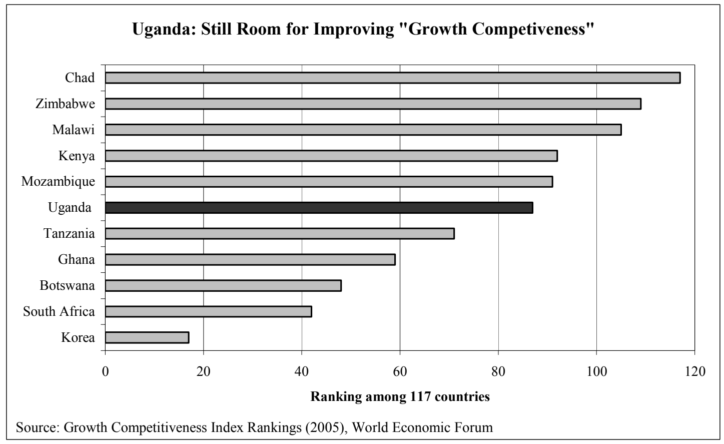
Most Medium-Term Objectives Could be Met . . .



. . . But Projected Growth is Still Too Low to Meet the MDGs



13. **Uganda's medium-term structural agenda** aims at fostering private sector growth and will include anti-corruption policies, infrastructure development, and trade enhancement. Second-generation reforms will include (i) increasing power generation to address a shortfall of about 30 percent of current demand; (ii) removing regional transport and trading obstacles, for example, by enhancing rail and road links to seaports; (iii) deepening financial sector services; and (iv) improving government services to businesses. Specific policies in these areas will be set out in the multi-year PSI. In the interim, the authorities will continue with existing projects.



IV. THE PSI—FOCUS ON MACRO STABILITY

14. **The PSI will focus on sustaining macroeconomic stability and structural reforms already under way.** Fiscal policies are based on the approved 2005/06 budget and the Medium-Term Economic Framework (MTEF). Budget management will focus on addressing domestic arrears and ensuring adequate fiscal space for critical infrastructure spending, notably the Bujagali hydroelectric project, which will benefit from guarantees for commercial financing. Monetary policies will target nonfood inflation of 5 percent or less and maintain ample international reserves in the context of a flexible exchange rate regime. Further development of Uganda's financial sector is also a priority, and this will include establishing sound management and supervision of the Uganda Development Bank. Poverty reduction policies under the proposed PSI are based on the PEAP approved in May 2005.

Macroeconomic policies

15. **The macroeconomic outlook for the remainder of 2005/06 is positive.** Real GDP growth is expected to reach 6 percent, led by a rebound in agriculture output and an expansion of power generation (Table 1). Despite a recent pickup in overall inflation due to rising food prices, average core (nonfood) inflation is expected to be contained to below 5 percent, although high world oil prices remain a risk. The external current account deficit, excluding transfers, is projected to deteriorate somewhat in 2005/06 and then improve in 2006/07 as a recovery in coffee prices offsets higher world oil prices. International reserves would decline slightly, but remain at comfortable levels. The macroeconomic outlook for 2006/07 is positive as well.

16. **Uganda could receive significant new resources under the MDRI, but this has not been included in the projections because of the uncertainties involved.** While the stock relief could reduce the NPV debt-to-exports ratio from 169 percent to 45 percent, net

cash flows could be higher or lower relative to current assumptions, depending on resources available from the World Bank and other donors (Box 2). In the event of an increase in net external inflows, any increase in domestic spending will be limited in magnitude in line with the MTEF and consistent with the budgetary envelope, given concerns about absorption capacity (Box 3).

Box 2. Achieving Debt Sustainability Under the MDRI

The full implementation of the MDRI would help Uganda achieve debt sustainability. The debt relief under the MDRI would decrease Uganda's NPV of debt to exports ratio to 51 percent in 2006/07 from 179 percent in 2004/05, while the debt service to export ratio would sharply decrease to 4 percent in 2006/07 from 16 percent in 2004/05. Uganda's external debt to GDP ratio would be reduced to 11 percent in 2006/07 from 51 percent in 2004/05. After implementing the MDRI, the LIC DSA framework is projecting an NPV of debt-to-exports ratio of 70 percent in 2009/10.

Uganda: Debt Indicators After Implementing the MDRI 1/
(In percent)

		2006 (Proj.)		2007 (Proj.)
	2005 Est.	Before MDRI	After MDRI 2/	After MDRI
NPV of PPG external debt to exports 3/	179	169	45	51
Debt service to exports 3/	16	13	11	4
PPG External debt to GDP	51	49	43	11
NPV of PPG External debt to GDP (in percent)	24	23	6	7

1/ In fiscal year, which ends in June.
2/ Assuming delivery on January 1, 2006 for the Fund and the African Development Fund, and on July 1, 2006 for IDA.
3/ Exports of goods and services for the year under consideration.

Uganda is well positioned to take advantage of the additional debt relief that is provided under the MDRI, but the resulting increase in spending would have to be gradual. Uganda is embarking upon a second generation of structural reforms that will help diversify the export base and strengthen export competitiveness. Maintaining debt sustainability would require implementing prudent debt management policies and efficient allocation of donor support. Overall, Uganda will be better guarded against external shocks after the MDRI debt relief is fully delivered.

17. **The fiscal program for 2005/06 aims at a broadly neutral fiscal stance.** The government's absorption of domestic resources as measured by the overall deficit, excluding grants, would be broadly unchanged from the previous year. To meet this objective, the value-added tax (VAT) was increased from 17 percent to 18 percent in July 2005 and some excise tax rates were raised. Reforms at the URA are also boosting collections. On the expenditure side, the budget assumes a reduction in nonpriority, nondevelopment expenditures of 0.8 percent of GDP from 2004/05. The performance in the first quarter of 2005/06 was in line with the budget projections. Some adjustments, including increases in funding for teacher salaries and transfers to local governments will be needed in a supplementary budget.

Box 3. Uganda: Macroeconomic Management of a Scaling Up of Aid Flows

Aid inflows finance nearly one-half of Uganda's budgetary expenditures, totaling about 10-11 percent of GDP per year.

The macroeconomic management of such inflows has proved controversial. In the past, the authorities stressed the challenges associated with sterilizing domestic liquidity creation, and the potential negative impact of aid inflows on competitiveness and productivity growth. As a result, the medium-term fiscal strategy in the May 2005 PEAP projected a progressive decline in aid dependency, and a corresponding strengthening in domestic revenue mobilization.

The authorities are currently taking stock of the challenges posed by aid inflows, and are revisiting their macroeconomic strategy for managing them. Currently, most government expenditures, including donor financed project spending, are governed by the Medium-Term Expenditure Framework (MTEF), which seeks to balance the need for services against the public sector's capacity to administer related programs and also the economy's capacity to supply goods and services. Looking forward, the adoption of certain policies could increase Uganda's capacity to absorb assistance. These include:

- **Orient public spending to improve growth performance and remove key business bottlenecks**. This would support sustained poverty reduction while encouraging a substantive supply-side response. Current priorities should include investments in rural infrastructure and power generation capacity.
- **Strengthen the effectiveness and efficiency of public spending** through a combination of improved public expenditure management, savings in public administration, and revitalized public sector reform;
- **Sustain improvements in domestic revenue mobilization** to minimize donor dependency and prepare for an exit strategy;
- **Agree on a strategy for liquidity sterilization**, placing an appropriate emphasis on foreign currency sales;

Adopt supporting structural reforms, including those that support the domestic supply response (financial sector deepening, anti-corruption efforts) and those that ease absorption constraints (EAC tariff reduction, improved transport links).

18. **The fiscal policy framework for 2006/07 is consistent with the MTEF.** Total domestic revenue is envisaged to rise to 13.6 percent of GDP and the overall deficit, excluding grants, is projected to narrow by about 1 percent of GDP in line with the twin objectives of making room for the private sector and reducing donor dependence. On a preliminary basis, the fiscal policy objectives will require an additional revenue effort of 0.7 percent of GDP in 2006/07. This could come from continuing improvements in tax administration, a broadening of tax bases, and a revision of the tax regime at the local level (which will help lowering transfers to the local governments). Expenditures as a share of GDP would fall slightly compared with 2005/06. Details including specific tax measures and mechanisms to address the stock of domestic arrears would be worked out during the budget planning cycle, in consultation with IMF staff. Consequently, program targets for September and December 2006 may be revisited during the first program review.

19. **The envisaged tight fiscal stance will ease the burden on monetary policy in containing inflation.** In operational terms, the monetary program will continue to target base money. The BOU will respond primarily to anticipated movements in core inflation, aiming for an average core rate of 4.9 percent in 2005/06, in line with the BOU's 5 percent ceiling. This implies relatively tight targets for base money that may need to be revised if world energy prices or adverse weather conditions push prices higher than expected.

20. **The flexible exchange rate regime will be preserved to help cushion the impact of exogenous shocks and maintain international reserves at comfortable levels.** The BOU will intervene in the foreign exchange market only to smooth out short-term fluctuations and will refrain from countering the macroeconomic fundamentals. This strategy has proven effective over the past several years, in particular during mid-2005, when limited dollar sales helped maintain an orderly market.

21. **Because of large foreign exchange inflows, effective sterilization remains critical for macroeconomic stability.** In line with earlier discussions, the BOU adjusted its sterilization strategy during 2005, from primary reliance on treasury-bill sales to foreign currency sales. The change contributed to (i) a reduction in domestic interest rates and an increase in private sector borrowing, and (ii) countered downward pressure on the exchange rate. Uganda's international reserve coverage is programmed to dip slightly, but remain at comfortable levels.

22. **Uganda's banking sector has been expanding its loan portfolio while maintaining sound prudential ratios.** Banks have been able to extend more credit to the private sector as interest rates on treasury bills fell as a result of reduced government borrowing and the shift by the BOU from open market operations to foreign exchange sales. As a result, credit to the private sector grew by 21 percent in 2004/05 and is projected to grow faster in 2005/06. At the same time, banks remain highly capitalized and nonperforming loans represent less than 3 percent of total exposure.

Structural reforms

23. **The structural agenda over the next few months will address ongoing projects related to macro stability and, as a matter of urgency, the electric power shortage**.

- The Bujagali hydropower project is critical to future economic growth. The government intends to approve financing (including guarantees for commercial borrowing of up to US$400 million, or about 4 percent of GDP) and construction contracts in the near future. The project will be undertaken by a private sector consortium and the construction will take about 5 years. Until then, the government will refund duties on diesel fuel used for electricity generation to help smooth costs to business.

- Discussions on a tax policy code of conduct with Tanzania and Kenya are ongoing. The government hopes to address inconsistencies in tax incentives across the region. The objective is to achieve transparency in tax and other investment incentives, including in export processing zones, so that governments and investors can allocate scarce resources efficiently and to avoid mutually damaging tax competition in the region.

- The government intends to restructure the UDB as a source of longer-term credit—not currently available from Uganda's commercial banks. The restructuring will bring in a new professional management team that will oversee a merger of UDB operations with those of the BOU's Development Finance Department. To further safeguard government resources, a new regulator will be established and rigorous supervision and regular audits conducted. The UDB will not increase its lending on a net basis until the restructuring is complete (MEFP, paragraph 20).

24. **Policies are being further strengthened to more effectively tackle the continuing problem of domestic expenditure arrears** (Box 1). The authorities are committed to strengthening enforcement of existing regulations to ensure that policies undertaken are backed up by adequate budget provisions (MEFP, paragraph 11). The strategy also involves a scaled-up effort to repay the stock of old arrears by separate budget allocations, while requiring spending ministries to pay arrears incurred during 2005/06 from their own resources (MEFP, paragraphs 12).

25. **Public sector pay and pension reforms have moved ahead more slowly than envisaged because of weak capacity in the lead ministry and inadequate resources in the MTEF framework.** The proposals that are being considered include harmonization of pay grades across the public sector and introduction of a contributory pension scheme. In addition, the activities of the existing pension fund—the National Social Security Fund—will eventually fall under an independent regulator for all nonbank financial institutions that is currently being set up.

V. Program Monitoring

26. **To monitor Uganda's performance under the PSI, quantitative and structural assessment criteria and structural benchmarks have been set.** Quarterly quantitative targets will be set, including on base money, net claims on government by the banking system, NIR of the BOU, and contracting new nonconcessional external debt. These quantitative targets will be adjusted should budget support, HIPC assistance, and external debt service payments differ from the program projections. The structural assessment criteria will cover the measures related to domestic budgetary arrears. The benchmarks will be related to the stock of arrears and lending by the UDB (MEFP, Table 2). Assessment dates will be end-June and end-December 2006 and will be followed by program reviews. The standard provisions on the exchange system and trade issues that apply to the use of the Fund's financial resources will apply as continuous assessment criteria under the PSI.

27. **The authorities have expressed interest in updating the safeguards assessment in the first half of 2006 or in the context of the multi-year PSI**. There are no outstanding issues from the last safeguards assessment that was completed in April 2003.

28. **Executive Board endorsement of Uganda's request for support under the PSI would automatically place Uganda on the 24-month Article IV consultation cycle**.

VI. Staff Appraisal

29. **Uganda comes to the end of its PRGF arrangement with a strong record of macroeconomic performance, most first-generation reforms completed, and an enviable external position.** Sustained high economic growth rates and reasonable price stability have been supported by responsible fiscal policy, prudent monetary management, and large external inflows. These conditions have contributed to improved living standards for Uganda's fast-growing population and investments in health, education, and physical infrastructure.

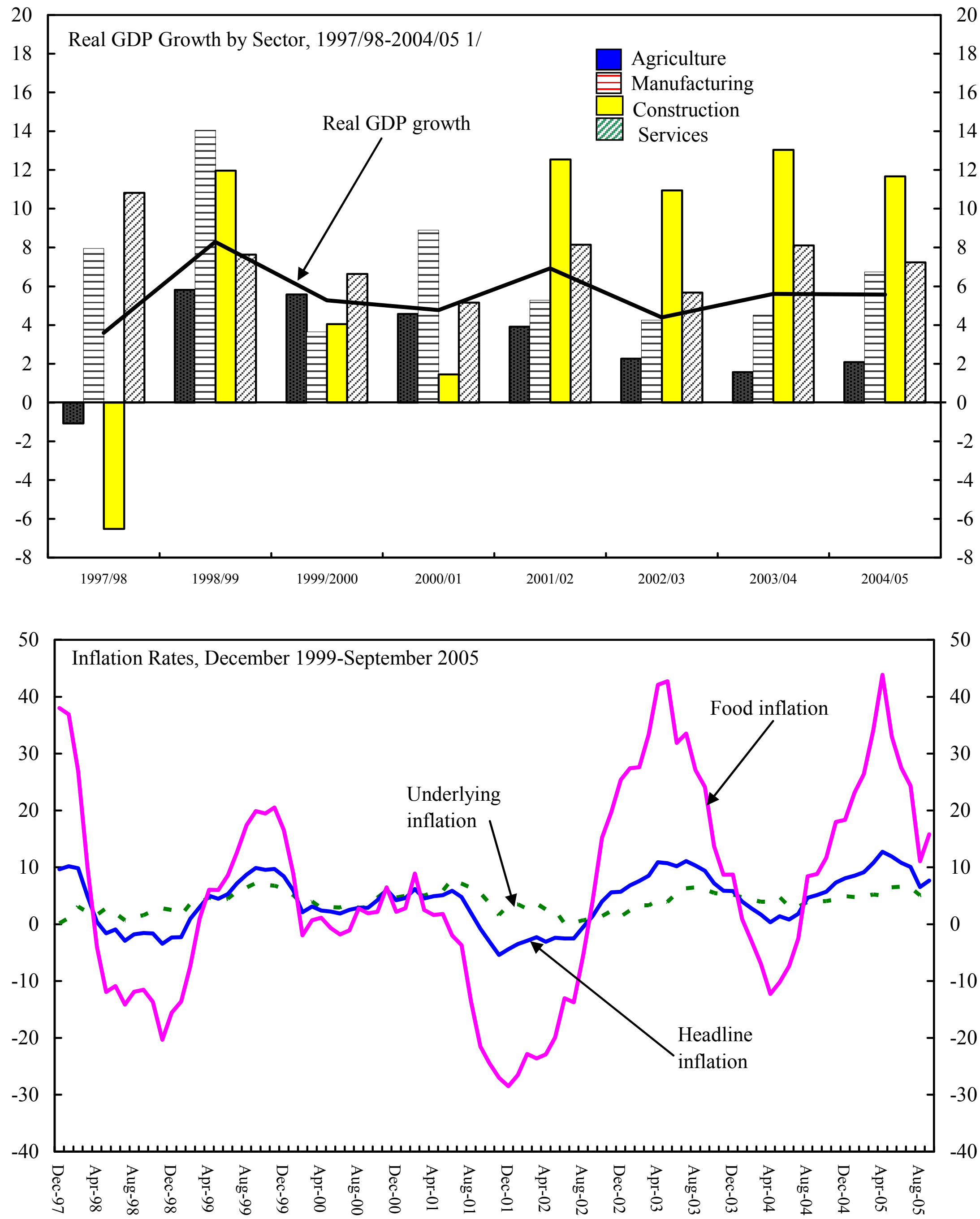
30. **The staff recommends completion of the sixth review under the PRGF arrangement and supports the authorities' request for waivers for the nonobservance of performance criteria on accumulation of domestic arrears and on new lending by the UDB.** Most quantitative performance criteria were observed and progress in most structural areas continued. Two program targets—avoidance of domestic arrears and no new lending by the UDB—were missed, by modest margins, and this has not jeopardized program objectives. The staff welcomes the measures being taken to address the missed targets in the requested PSI.

31. **The staff supports the authorities' request for the PSI.** The requested program aims at maintaining macroeconomic stability in the pre-election period and addresses slippages in structural reforms. The PSI is based on the approved 2005/06 budget and the MTEF. The authorities have committed (i) to reducing both the stock of arrears and its future buildup and (ii) to ring-fencing the UDB's operations until the proper safeguards are in place.

32. **The PSI could be replaced by a multi-year PSI sometime during 2006.** This would ensure ownership, provide time to incorporate debt relief into the medium-term framework, and allow the economic program period to be aligned with the budget cycle under the multi-year PSI. The multi-year program would include structural measures to spur the private sector activity, lower business costs, and improve Uganda's competitiveness. Macroeconomic policies would emphasize stability and sound management of potentially scaled-up aid flows.

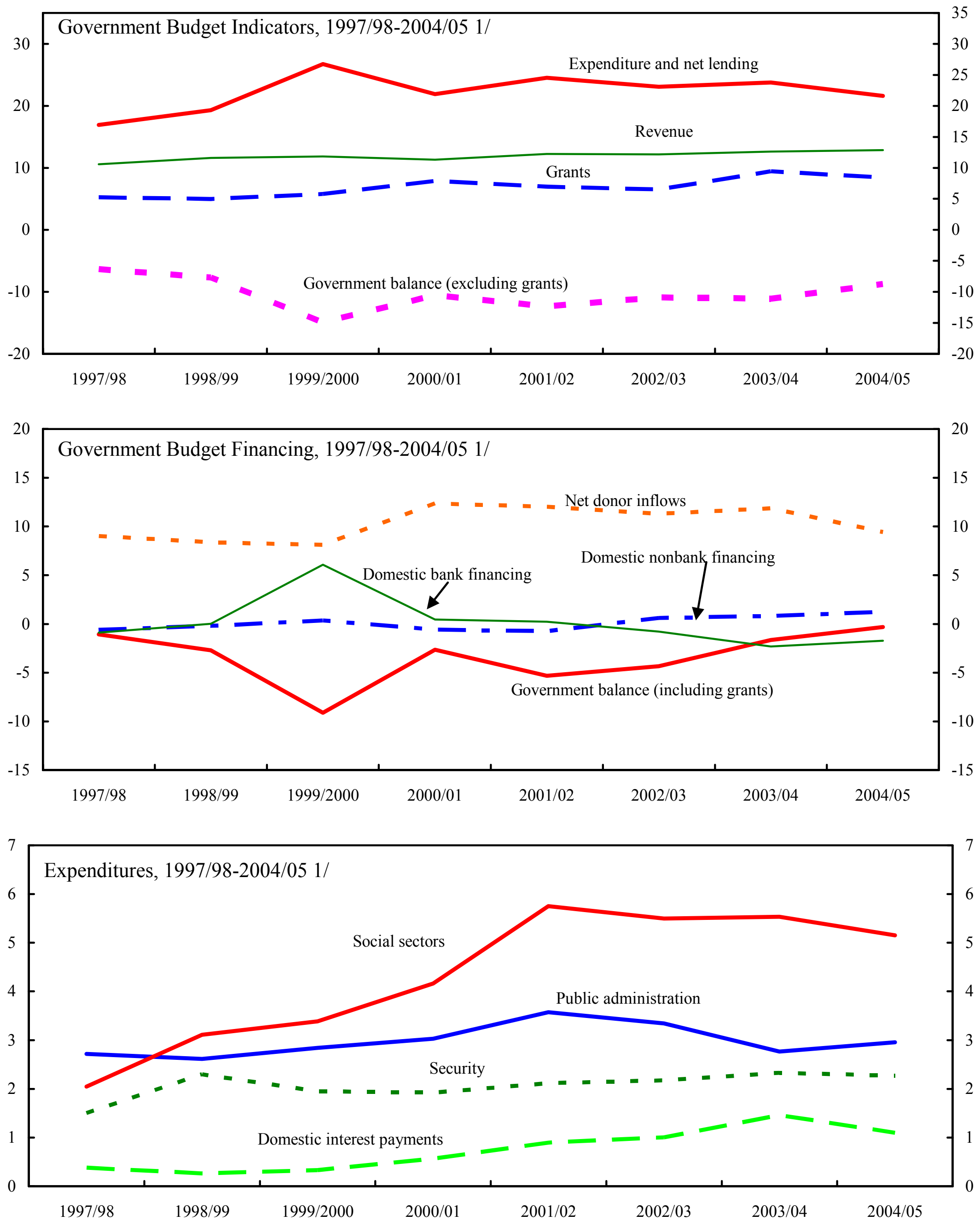
33. **The main short-term risk to the economic program is loss of investor and donor confidence due to uncertainty in the run-up to the February 2006 elections.** The donors have so far reacted with caution to the recent arrest of an opposition leader and financial markets have remained calm. High world oil prices represent another short-term risk that could cause the inflation target to be temporarily exceeded. In this case, the BOU should adjust monetary policy appropriately. Uganda's electric power shortages could jeopardize medium-term economic prospects if current plans to build the Bujagali dam are delayed. The risk of debt distress in Uganda is moderate, as shown in the Joint Fund-World Bank Debt Sustainability Analysis (Appendix VI).

Figure 1. Uganda: Real Sector Indicators 1/
(Annual percentage changes)



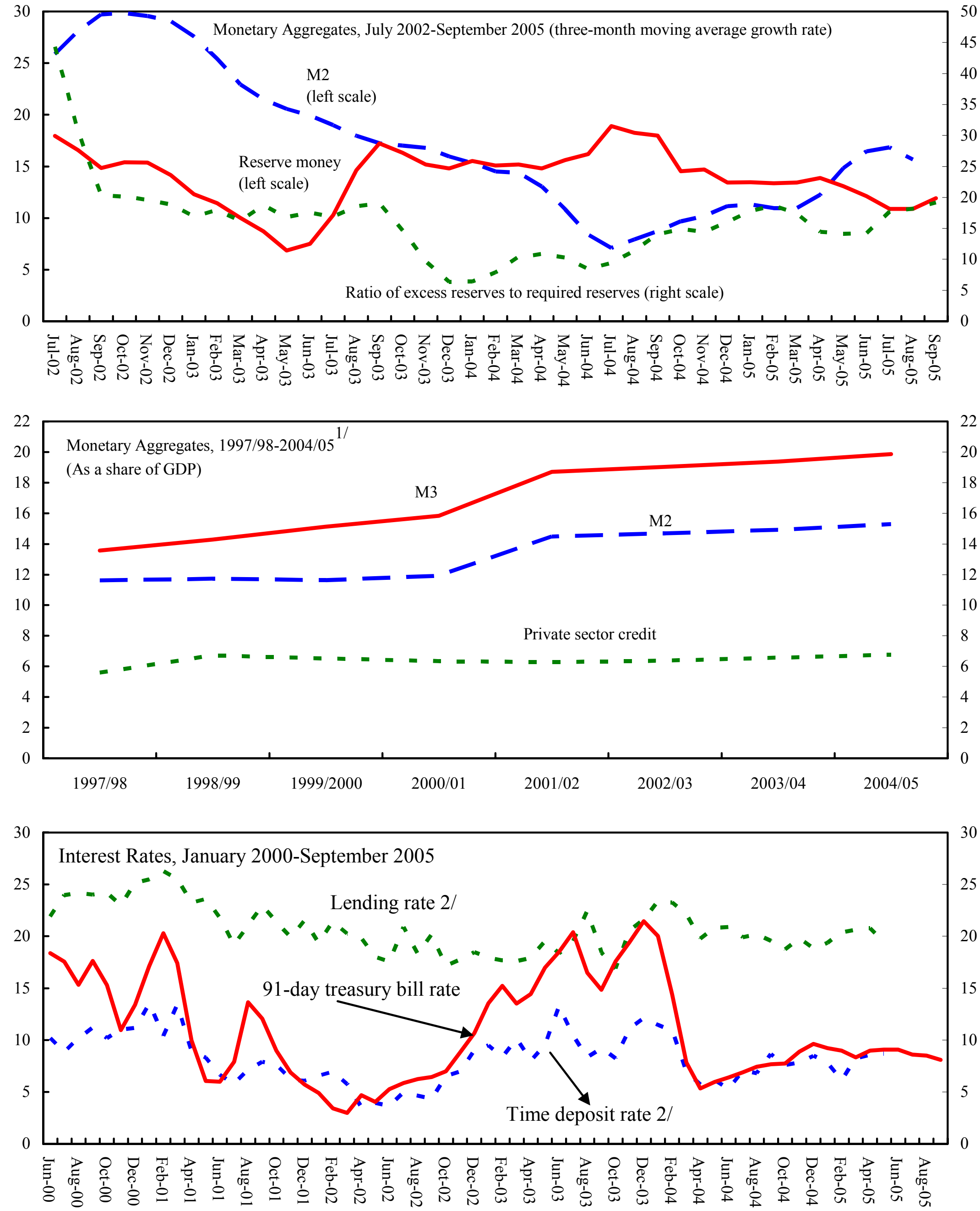
Sources: Ugandan authorities; and IMF staff estimates.
1/ Fiscal year begins in July .

Figure 2. Uganda: Fiscal Indicators 1/
(As a share of GDP at market prices, in percent)



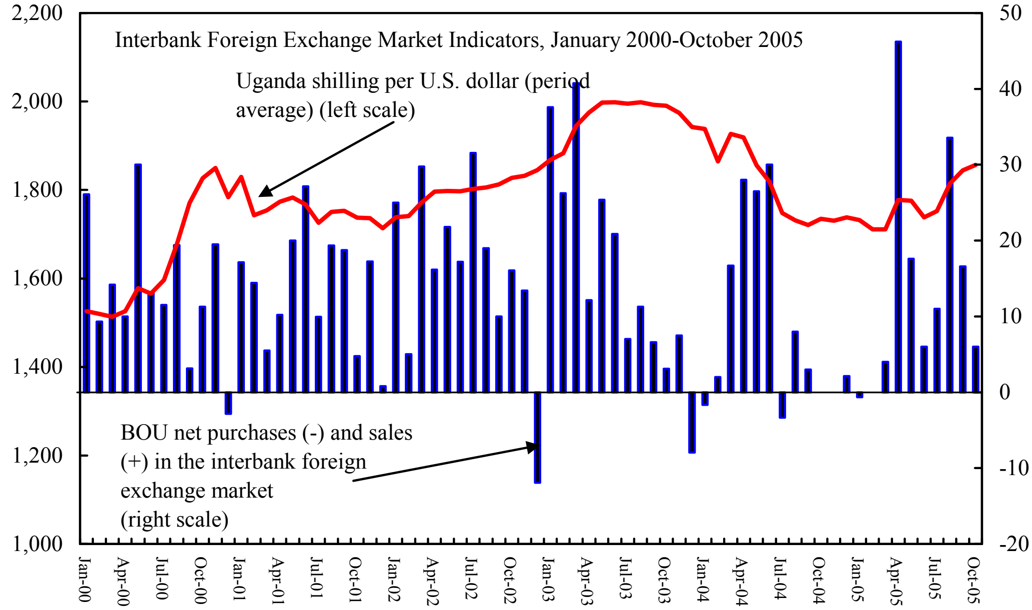
Sources: Ugandan authorities; and IMF staff estimates.
1/ Fiscal year begins in July.

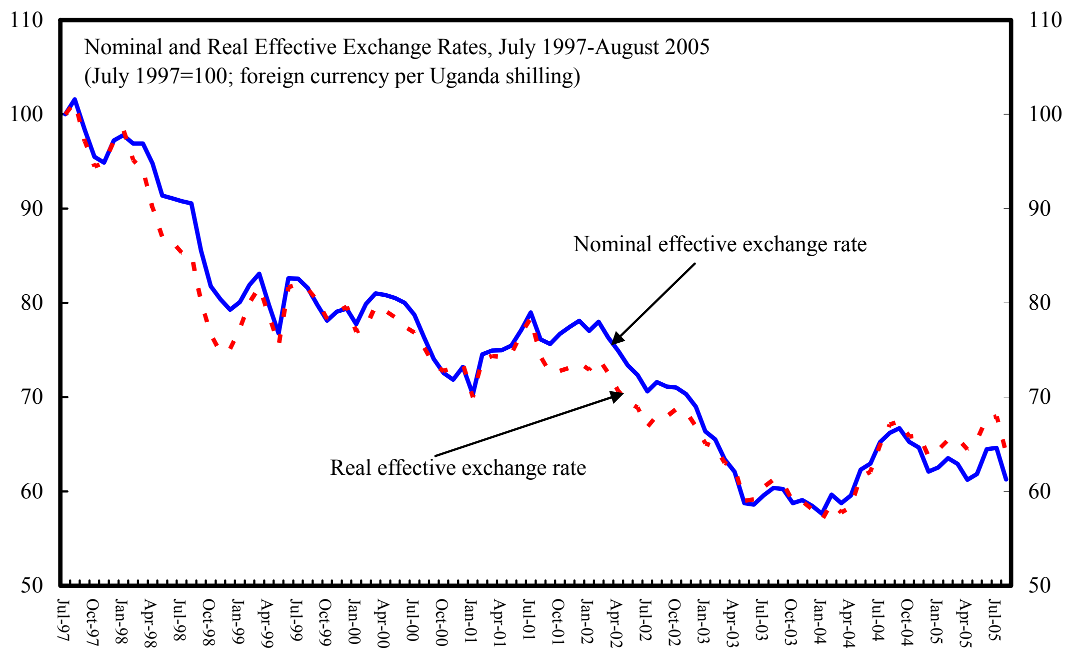
Figure 3. Uganda: Monetary Aggregates and Interest Rates
(In percent, end-period)



Source: Uganda authorities; and IMF staff estimates.
1/ Fiscal year begins in July.
2/ Weighted averages of assets and liabilities denominated in Uganda shillings.

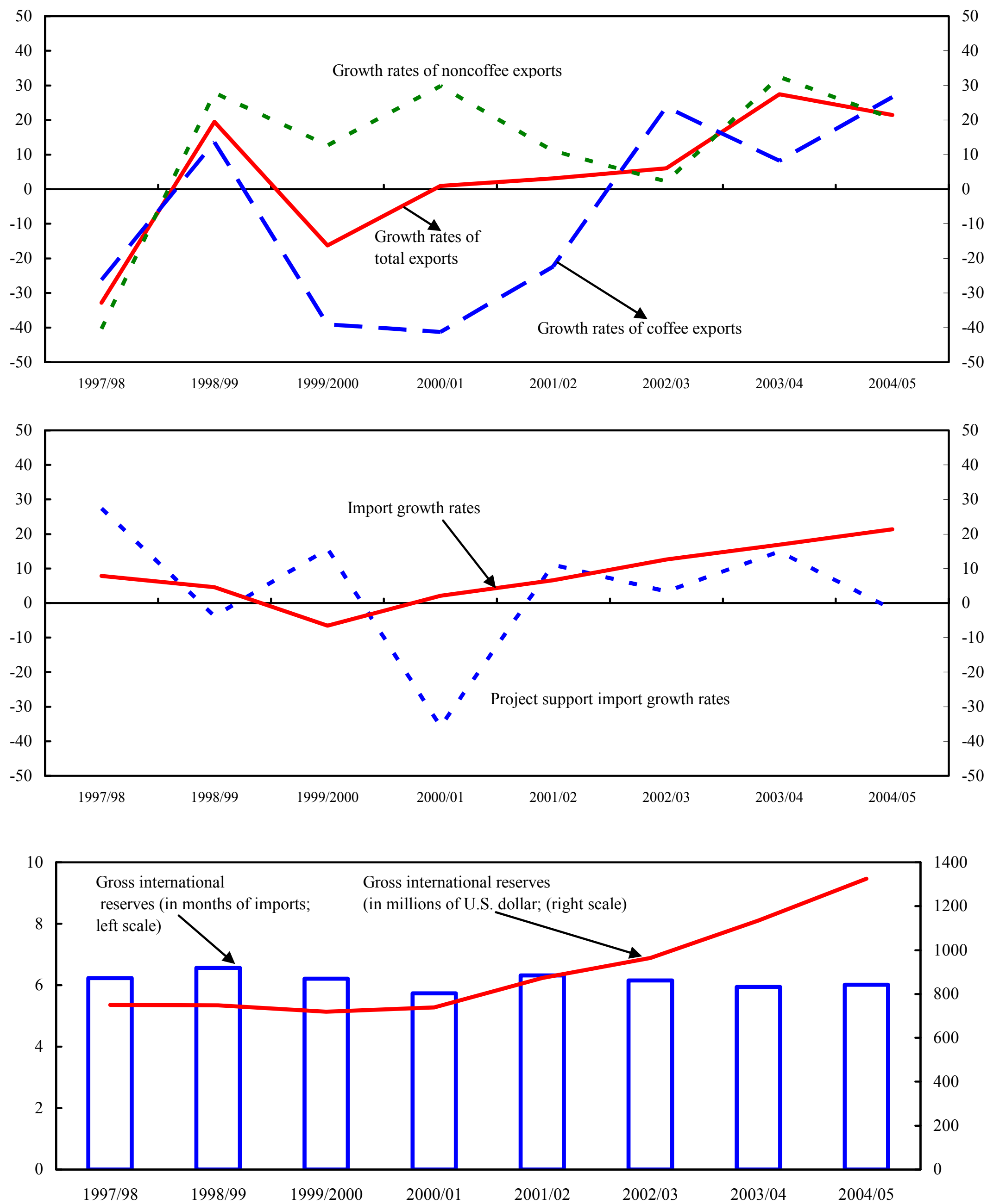
Figure 4. Uganda: Interbank Foreign Exchange Market Indicators, Real and Nominal Effective Exchange Rate





Sources: Ugandan authorities; IMF, Information Notice System and staff estimates.

Figure 5. Uganda: External Sector Indicators, 1997/98-2004/05 1/
(Annual growth rates in percent, unless otherwise indicated)



Sources: Ugandan authorities; and IMF staff estimates.
1/ Fiscal year begins in July.

Table 1. Uganda: Selected Economic and Financial Indicators, 2003/04–2007/08 1/

	2003/04	2004/05 Prog.	2004/05 Act.	2005/06 Prog.	2006/07 Proj.	2007/08 Proj.
	(Annual percentage change, unless otherwise indicated)					
National income and prices						
GDP at constant prices	5.6	5.9	5.6	6.0	5.9	5.9
GDP deflator	6.1	9.4	9.0	8.7	4.6	3.9
GDP at market prices						
(in billions of Uganda shillings)	13,200	15,149	15,134	17,536	19,373	21,359
Consumer prices (average)						
Headline	5.0	8.2	8.0	6.5	4.0	4.0
Underlying	5.0	4.5	4.7	4.9	4.0	4.0
External sector						
Exports (volume)	8.3	9.8	7.0	3.3	10.5	7.6
Imports (volume)	8.5	13.9	16.6	10.2	8.3	9.7
Terms of trade (deterioration -)	7.5	-3.7	4.0	13.7	4.0	-1.1
Average exchange rate						
(Uganda shillings per U.S. dollar)	1,935	...	1,738	...	...	...
Real effective exchange rate (depreciation -)	-8.5	…	10.4	…	…	…
	(Annual changes in percent of beginning-of-period stock of money, unless otherwise indicated)					
Money and credit						
Net foreign assets	11.3	19.3	10.7	24.0	8.4	7.8
Net domestic assets	-2.3	-4.2	-2.1	-7.5	2.8	3.4
Domestic credit	-5.8	-3.7	-2.1	2.3	4.7	5.2
Central government	-12.9	-10.3	-10.0	-8.6	-4.5	-3.0
Private sector	6.8	6.8	8.2	11.1	9.2	8.2
M2	10.0	15.0	12.1	14.5	10.5	11.4
Velocity (GDP/M2) 3/	7.2	7.3	7.4	7.6	7.4	7.4
Interest rate (in percent) 4/	14.1	...	8.5	...	...	...
	(In percent of GDP at market prices)					
National income accounts						
Gross domestic investment	22.5	23.8	22.7	23.4	24.0	24.2
Public	5.2	5.2	5.0	5.2	5.3	5.0
Private	17.3	18.6	17.7	18.2	18.7	19.2
Gross domestic savings (excluding grants)	10.6	11.1	12.5	12.0	14.0	15.0
Public	-5.9	-4.6	-3.8	-3.1	-2.3	-1.2
Private	16.4	15.7	16.3	15.1	16.3	16.1
Gross national savings (including grants)	20.8	20.6	21.5	19.4	19.7	19.4
External sector						
Current account balance						
(including official grants)	-1.7	-3.2	-1.2	-4.0	-4.3	-4.8
(excluding official grants)	-12.0	-12.7	-10.2	-11.4	-10.0	-9.2
External debt (including Fund)	54.9	49.6	47.0	47.8	46.9	45.8
Government budget						
Overall balance	-1.6	-0.7	-0.3	-2.0	-2.3	-2.2
(excluding grants)	-11.1	-9.7	-8.7	-8.8	-7.7	-6.6
Revenue 5/	12.6	12.6	12.9	12.9	13.6	14.1
Grants	9.5	9.0	8.4	6.8	5.4	4.4
Total expenditure and net lending	-23.8	-22.3	-21.6	-21.7	-21.3	-20.7
Net donor inflows	11.9	11.2	9.4	9.8	8.0	6.4
Debt indicators	(In percent of exports of goods and nonfactor services, unless otherwise indicated)					
Net present value of external debt 6/	193.0	185.7	179.1	168.6	50.7	57.6
External debt service ratio, including Fund obligations 6/ 7/	10.0	10.0	10.3	11.5	9.7	8.3
Stock of domestic debt (in percent of GDP)	9.6	10.2	9.8	8.5	7.8	7.0
	(In millions of U.S. dollars, unless otherwise indicated)					
Overall balance of payments	214	285	237	121	99	45
External payments arrears (end of period)	0	0	0	0	0	0
Gross foreign exchange reserves	1,135	1,373	1,326	1,386	1,423	1,427
(in months of imports of goods and services)	5.9	6.6	6.0	5.9	5.7	5.3

Sources: Ugandan authorities; and Fund staff estimates and projections.
1/ Fiscal year begins in July.
2/ Average exchange rate was USh 1,857 per U.S. dollar at end-October 2005; average real effective exchange rate has appreciated 8.8 percent to end-August 2005; annual average interest rate was 8.7 percent at end-October.
3/ Nominal GDP divided by average of current-year and previous-year end-period money stocks.
4/ Weighted annual average rate on 91-day treasury bills.
5/ The revenue projections are based on a revenue target as a share of GDP, and accordingly include unidentified revenue measures in 2006/07 and 2007/08.
6/ In relation to the current year of exports of goods and services.
7/ The debt-service ratios reflect actual debt service paid, that is, after debt relief including that attributable to the HIPC Initiative, deferment of payments to non-Paris Club creditors with whom bilateral agreements have not yet been reached, and the settlement of arrears.

Table 2a. Uganda: Fiscal Operations of the Central Government, 2003/04–2007/08 1/

	2003/04	2004/05		2005/06	2006/07	2007/08
		Prog.	Act.	Prog.	Proj.	Proj.
	(In billions of Uganda shillings)					
Total revenue and grants	2,918.3	3,277.3	3,222.1	3,456.0	3,682.3	3,959.1
Revenue 2/ 3/	1,669.2	1,915.5	1,948.1	2,262.5	2,643.2	3,021.0
Tax	1,550.5	1,800.6	1,827.5	2,146.1	2,517.8	2,885.5
International trade taxes	135.3	151.6	161.7	194.8	202.2	209.6
Income taxes	436.9	564.3	560.1	673.6	762.5	860.2
Excises	447.2	497.8	498.1	553.7	601.8	654.2
Value-added tax	531.0	586.9	607.7	724.0	815.6	913.4
Additional revenue effort	0.0	0.0	0.0	0.0	135.7	248.1
Nontax	118.7	114.9	120.5	116.4	125.4	135.5
Grants	1,249.1	1,361.8	1,274.0	1,193.5	1,039.1	938.0
Budget support	816.2	864.0	811.4	712.2	554.6	503.6
Project grants	432.9	497.8	462.6	481.3	484.5	434.5
Expenditures and net lending 4/	3,135.6	3,383.5	3,271.6	3,808.8	4,133.2	4,423.6
Current expenditures	1,865.3	1,922.0	1,978.5	2,150.7	2,377.4	2,442.4
Wages and salaries	683.0	773.2	774.2	835.2	878.4	933.4
Interest payments	261.8	217.9	229.5	295.4	336.5	320.8
Domestic	192.8	156.1	166.4	231.8	262.6	243.2
External interest	69.0	61.9	63.1	63.7	73.9	77.5
Transfers to the Uganda Revenue Authority	59.2	59.7	63.4	68.0	66.1	69.2
Other current	861.3	871.2	911.5	952.0	996.3	1,040.1
Additional spending 5/	0.0	0.0	0.0	0.0	100.0	79.0
Development expenditures	1,155.3	1,342.1	1,227.3	1,533.7	1,523.4	1,692.2
Donor-supported projects	716.1	861.3	740.2	992.7	990.1	913.6
Domestic	439.2	480.7	487.1	541.0	533.3	778.5
Additional spending 5/	0.0	0.0	0.0	0.0	0.0	0.0
Net lending and investment	33.8	-9.7	-7.6	-26.4	-25.4	-26.0
Other 6/	81.2	119.7	65.8	124.0	292.8	360.0
Cash balances						
Overall balance						
Including grants	-217.2	-106.2	-49.5	-352.9	-450.8	-464.5
Excluding grants	-1,466.3	-1,468.0	-1,323.5	-1,546.4	-1,490.0	-1,402.5
Primary balance						
Including grants	44.6	111.8	179.9	-57.4	-114.3	-143.7
Excluding grants	-1,204.5	-1,250.0	-1,094.1	-1,250.9	-1,153.5	-1,081.8
Financing	99.8	106.2	52.6	352.9	450.8	464.5
External financing (net)	299.8	335.4	126.1	495.6	528.9	505.6
Disbursement	427.4	476.6	284.9	689.6	749.8	722.7
Budget support	57.0	38.9	11.2	110.3	244.2	243.5
Project loans	370.3	437.7	273.7	579.2	505.6	479.2
Amortization (-)	-143.4	-143.5	-162.0	-180.5	-177.1	-191.6
Exceptional financing	15.8	2.3	3.2	-13.4	-43.7	-25.4
Domestic financing (net)	-200.0	-229.3	-73.5	-142.7	-78.1	-41.1
Bank financing	-307.0	-266.3	-259.8	-242.7	-148.1	-111.1
Bank of Uganda	-279.6	-483.0	-359.0	-160.0	-143.1	-77.2
Commercial banks	-27.4	216.7	99.3	-82.7	-5.1	-33.9
Nonbank financing	107.0	37.0	186.2	100.0	70.0	70.0
Errors and omissions/financing gap	117.4	-0.2	-3.1	0.0	0.0	0.0

Sources and footnotes: See Table 2b.

Table 2b. Uganda: Fiscal Operations of the Central Government, 2002/03–2007/08 1/

	2003/04	2004/05		2005/06	2006/07	2007/08
		Prog.	Act.	Prog.	Proj.	Proj.
			(In percent of GDP)			
Total revenue and grants	22.1	21.6	21.3	19.7	19.0	18.5
Revenue 2/ 3/	12.6	12.6	12.9	12.9	13.6	14.1
Tax	11.7	11.9	12.1	12.2	13.0	13.5
International trade taxes	1.0	1.0	1.1	1.1	1.0	1.0
Income taxes	3.3	3.7	3.7	3.8	3.9	4.0
Excises	3.4	3.3	3.3	3.2	3.1	3.1
Value-added tax	4.0	3.9	4.0	4.1	4.2	4.3
Additional revenue effort	0.0	0.0	0.0	0.0	0.7	1.2
Nontax	0.9	0.8	0.8	0.7	0.6	0.6
Grants	9.5	9.0	8.4	6.8	5.4	4.4
Budget support	6.2	5.7	5.4	4.1	2.9	2.4
Project grants	3.3	3.3	3.1	2.7	2.5	2.0
Expenditures and net lending 4/	23.8	22.3	21.6	21.7	21.3	20.7
Current expenditures	14.1	12.7	13.1	12.3	12.3	11.4
Wages and salaries	5.2	5.1	5.1	4.8	4.5	4.4
Interest payments	2.0	1.4	1.5	1.7	1.7	1.5
Domestic	1.5	1.0	1.1	1.3	1.4	1.1
External interest	0.5	0.4	0.4	0.4	0.4	0.4
Transfers to the Uganda Revenue Authority	0.4	0.4	0.4	0.4	0.3	0.3
Other current	6.5	5.8	6.0	5.4	5.1	4.9
Additional spending 5/	0.0	0.0	0.0	0.0	0.5	0.4
Development expenditures	8.8	8.9	8.1	8.7	7.9	7.9
Donor-supported projects	5.4	5.7	4.9	5.7	5.1	4.3
Domestic	3.3	3.2	3.2	3.1	2.8	3.6
Additional spending 5/	0.0	0.0	0.0	0.0	0.0	0.0
Net lending and investment	0.3	-0.1	-0.1	-0.2	-0.1	-0.1
Other 6/	0.6	0.8	0.4	0.7	1.5	1.7
Cash balances						
Overall balance						
Including grants	-1.6	-0.7	-0.3	-2.0	-2.3	-2.2
Excluding grants	-11.1	-9.7	-8.7	-8.8	-7.7	-6.6
Primary balance						
Including grants	0.3	0.7	1.2	-0.3	-0.6	-0.7
Excluding grants	-9.1	-8.3	-7.2	-7.1	-6.0	-5.1
Financing	0.8	0.7	0.3	2.0	2.3	2.2
External financing (net)	2.3	2.2	0.8	2.8	2.7	2.4
Disbursement	3.2	3.1	1.9	3.9	3.9	3.4
Budget support	0.4	0.3	0.1	0.6	1.3	1.1
Project loans	2.8	2.9	1.8	3.3	2.6	2.2
Amortization (-)	-1.1	-0.9	-1.1	-1.0	-0.9	-0.9
Exceptional financing	0.1	0.0	0.0	-0.1	-0.2	-0.1
Domestic financing (net)	-1.5	-1.5	-0.5	-0.8	-0.4	-0.2
Bank financing	-2.3	-1.8	-1.7	-1.4	-0.8	-0.5
Bank of Uganda	-2.1	-3.2	-2.4	-0.9	-0.7	-0.4
Commercial banks	-0.2	1.4	0.7	-0.5	0.0	-0.2
Nonbank financing	0.8	0.2	1.2	0.6	0.4	0.3
Errors and omissions/financing gap	0.9	0.0	0.0	0.0	0.0	0.0
Memorandum items:			(In percent of GDP, unless otherwise indicated)			
Identified domestic revenue measures	...	...	...	0.6	...	...
Total defense expenditures	2.3	2.3	2.3	2.0	1.9	1.8
Total public administration expenditure	2.8	2.8	3.0	2.6	2.4	2.3
Poverty Action Fund	5.5	5.4	5.1	5.1	5.2	5.2
Total HIPC assistance	1.3	1.0	1.0	0.8	0.5	0.5
Nominal GDP at market prices (in U Sh billions)	13,200	15,149	15,134	17,536	19,373	21,359

Sources: Ugandan authorities; and Fund staff estimates and projections.

1/ Fiscal year begins in July.
2/ The revenue projections are based on a revenue target as a share of GDP, and accordingly include unidentified revenue effort.
3/ Revenue projections for 2004/05 onwards include collections costs due to the East African Community.
4/ Not including the Bujagali project, since its financing has not been determined yet.
5/ These additional expenditures refer to revenue from new and yet to be identified tax policy measures relative to the authorities' framework.
6/ Arrears payments and contingency.

Table 3. Uganda: Monetary Survey, 2003/04–2007/08 1/
(In billions of Uganda shillings; end of period, unless otherwise indicated)

	2003/04	2004/05 Prog.	2004/05 Est.	2005/06 Prog.	2006/07 Proj.	2007/08 Proj.
			Banking system			
Net foreign assets (NFA)	2,371	2,870	2,648	3,323	3,598	3,882
Net domestic assets	217	107	163	-49	44	168
Domestic credit	1,107	1,011	1,054	1,120	1,273	1,461
Claims on public sector (net) 2/	97	-175	-168	-414	-564	-676
Claims on private sector	1,010	1,185	1,222	1,535	1,837	2,137
Valuation	-444	-457	-526	-804	-864	-928
Other items (net)	-447	-447	-365	-365	-365	-365
Broad money (M3)	2,587	2,976	2,811	3,275	3,642	4,050
M2	1,925	2,214	2,158	2,471	2,730	3,041
Foreign exchange deposits	662	762	653	803	912	1,008
			Monetary authorities			
Net foreign assets	1,680	2,226	2,051	2,561	2,838	3,072
Foreign assets	2,049	2,505	2,324	2,778	2,982	3,165
Of which : foreign reserves	2,029	2,485	2,307	2,681	2,808	2,872
Foreign liabilities	369	279	274	217	144	93
Of which : liabilitites to IMF	365	275	270	214	140	90
Net domestic assets	-871	-1,307	-1,123	-1,514	-1,678	-1,775
Domestic credit	-374	-799	-678	-824	-934	-973
Claims on public sector (net) 2/	-472	-956	-832	-992	-1,135	-1,212
Claims on commercial banks (net)	99	156	154	169	201	240
Valuation	-440	-451	-520	-765	-819	-877
Other items (net)	-81	-81	55	55	55	55
Base money	810	918	928	1,047	1,160	1,297
Currency outside banks plus cash in vaults	605	678	699	767	852	948
Commercial bank deposits with Bank of Uganda (BOU)	205	240	230	279	308	349
			Commercial banks			
Net foreign assets	690	644	597	762	760	810
Net domestic assets	1,368	1,728	1,609	1,854	2,150	2,425
Domestic credit	1,738	2,100	2,035	2,312	2,615	2,896
Claims on public sector (net) 2/	570	781	664	578	571	536
Claims on private sector	986	1,161	1,202	1,515	1,817	2,117
Of which : foreign exchange loans	215	229	301	408	463	512
Claims on BOU (net)	182	158	169	220	227	243
Total reserves	235	270	361	323	356	402
Required reserves	227	255	239	279	308	339
Excess reserves	-22	-15	84	0	0	10
Reservable cash-in-vault	30	29	37	44	48	54
Valuation	-3	-6	-6	-38	-45	-51
Other items (net)	-366	-366	-420	-420	-420	-420
Deposit liabilities to nonbank residents	2,058	2,372	2,206	2,617	2,910	3,236
Shilling deposits	1,396	1,610	1,553	1,813	1,998	2,227
Foreign currency deposits	662	762	653	803	912	1,008
Memorandum items:						
Base money (12-month change in percent) 3/	13.0	13.0	14.2	12.8	10.8	11.8
Money and quasi money (12-month change in percent)	9.0	15.0	8.7	16.5	11.2	11.2
Broad money (12-month change in percent)	10.0	15.0	12.1	14.5	10.5	11.4
M3-to-GDP ratio (percent)	19.6	19.6	18.6	18.7	18.8	19.0
M2-to-GDP ratio (percent)	14.6	14.6	14.3	14.1	14.1	14.2
Foreign currency deposits-to-M3 ratio (percent)	25.6	25.6	23.2	24.5	25.0	24.9
Credit to the private sector (12-month change in percent)	19.0	17.4	21.0	25.5	19.7	16.3
Base money multiplier (M2/base money)	2.38	2.41	2.32	2.36	2.35	2.35
Gross reserves of BOU (millions of U.S. dollars)	1,135	1,373	1,326	1,386	1,423	1,427

Sources: Ugandan authorities; and Fund staff estimates and projections.
1/ Fiscal year begins in July.
2/ The public sector includes the central government, the public enterprises and the local government.
3/ The daily average of June of each financial year is used to calculate the annual percentage change.

Table 4. Uganda: Selected Banking Sector Information, March 2003-June 2005

	2003				2004				2005	
	Mar.	June	Sep.	Dec.	Mar.	June	Sep.	Dec.	Mar.	June
	(In billions of Uganda shillings)									
Adjusted assets	2,542	2,723	2,845	2,896	3,061	3,184	3,206	3,294	3,378	3,526
Liquid assets	1,232	1,292	1,351	1,314	1,373	1,279	1,389	1,538	1,515	1,374
Tier I	238	237	239	219	257	276	295	313	300	316
Tier II	36	33	34	38	33	32	29	30	26	26
Total capital	274	270	273	257	291	309	325	343	326	342
Risk-weighted assets (RWA)	1,209	1,317	1,492	1,515	1,519	1,624	1,575	1,674	1,695	1,881
Nonperforming assets (NPA)	24	59	60	61	58	14	23	21	22	33
Loans and advances	723	741	774	847	887	884	891	977	1,016	1,114
Foreign exchange advances	218	189	203	212	226	218	219	267	283	327
Foreign exchange depostis	574	708	689	746	789	806	805	817	765	838
Deposits	1,910	2,109	2,157	2,210	2,321	2,396	2,378	2,438	2,508	2,549
	(In percent)									
Return on average assets	3.7	3.5	4.0	4.5	4.7	5.0	4.1	3.0	3.3	3.4
Core capital/ RWA	19.7	18.0	16.0	14.4	16.9	17.0	18.7	18.7	17.7	16.8
Total capital/ RWA	22.7	20.5	18.3	16.9	19.1	19.0	20.6	20.5	19.2	18.2
NPAs/Total advances	3.4	8.0	7.8	7.2	6.6	1.6	2.6	2.2	2.2	2.9
Loan loss provision/ NPA	70.8	46.8	69.8	76.5	84.9	139.6	87.8	97.8	110.3	78.1
Liquid assets/Total deposits	64.5	61.3	62.7	59.5	59.0	53.4	58.4	63.1	60.4	53.9
Advances/Deposits	37.8	35.1	35.9	38.3	38.2	36.9	34.6	37.4	38.1	40.5
Foreign exchange exposure/Core capital 1/	4.0	6.1	2.3	23.0	22.6	4.7	5.9	-2.0	-1.1	-2.7
Foreign exchange advances/Foreign exchange deposits	37.9	26.7	29.5	28.4	28.7	27.0	27.2	32.6	37.0	39.1

Source: Ugandan authorities.

1/ Starting in November 2002, the foreign exchange exposure is calculated using the shorthand method.

Table 5. Uganda: Balance of Payments, 2003/04-2007/08 1/
(In millions of U.S. dollars)

	2003/04	2004/05 IMF Country Report No. 05/306	2004/05 Act.	2005/06 Prog.	2006/07 Proj.	2007/08 Proj.
Current account	-117	-281	-102	-379	-429	-513
Trade balance	-674	-857	-817	-1,025	-1,014	-1,082
Exports, f.o.b.	647	719	786	863	994	1,077
Coffee	114	116	145	201	224	233
Noncoffee	533	603	642	662	770	844
Imports, f.o.b	-1,321	-1,575	-1,604	-1,888	-2,007	-2,159
Government related	-161	-182	-158	-1,457	-189	-169
Private sector	-1,161	-1,393	-1,446	-225	-1,818	-1,991
Services (net)	-227	-295	-322	-352	-372	-367
Inflows	331	357	365	403	444	472
Outflows	-559	-651	-687	-756	-816	-840
Income (net)	-139	-177	-167	-160	-159	-159
Inflows	40	41	42	70	80	88
Outflows	-179	-218	-209	-230	-239	-248
Of which: Interest on public debt	-39	-37	-37	-35	-39	-40
Transfers	923	1,047	1,205	1,159	1,115	1,095
Private transfers	225	228	419	464	546	620
Of which: Nongovernmental organizations	145	164	192	211	241	270
Official transfers	698	819	786	695	569	475
Of which : Project support	224	285	266	259	249	218
Budget support	360	427	402	330	232	205
HIPC assistance 2/	62	65	65	53	52	48
Capital and financial account	298	565	295	500	528	558
Capital account	0	0	0	0	0	0
Financial account	298	565	295	500	528	558
Foreign Direct Investment (FDI) 3/	202	299	245	267	284	316
Portfolio investment	28	32	-11	35	38	42
Other investment	68	234	61	199	206	200
Medium and long-term	148	200	69	283	304	282
Public sector (net)	148	190	71	273	294	267
Disbursements	222	272	164	371	385	363
Project support	191	250	158	312	260	241
Budget support	31	22	6	59	125	122
Amortization due	-74	-82	-93	-98	-91	-96
Private sector (net)	0	10	-2	10	10	15
Short-term	-80	34	-8	-84	-98	-82
Errors and omissions	34	0	43	0	0	0
Overall balance	214	284	237	121	99	45
Financing	-214	-284	-237	-121	-99	-45
Central bank reserves (- = increase)	-222	-286	-239	-102	-77	-30
Of which: Gross reserve change	-170	-237	-191	-60	-37	-4
IMF (net)	-52	-49	-49	-42	-39	-27
HIPC rescheduling 2/	3	2	2	-9	-24	-15
Memorandum items:						
Gross international reserves 4/	5.9	6.6	6.0	5.9	5.7	5.3
Currrent account balance (in percent of GDP)						
Including official transfers	-1.7	-3.2	-1.2	-4.0	-4.3	-4.8
Excluding official transfers	-12.0	-12.7	-10.2	-11.4	-10.0	-9.2
Exports of goods and nonfactor services						
Current year	979	1,075	1,151	1,266	1,437	1,550
Three-year moving average	817	940	966	1,132	1,285	1,418
Coffee export volume (in millions of 60-kg. bags)	2.6	2.6	2.5	2.6	2.7	2.9
Coffee price (U.S. cents per kg.)	74.5	65.7	95.6	129.1	136.5	134.3
Foreign Direct Investment—Gross Inflows (in percent of GD	3.6	3.9	3.3	3.3	3.3	3.5
Debt service before HIPC debt relief (including IMF)	168	174	185	180	169	163
Debt service (in percent of exports)						
Before HIPC debt relief (including IMF)	17.1	18.4	16.1	14.2	11.8	10.5
After HIPC debt relief (including IMF)	10.0	10.0	10.3	11.5	9.7	8.3
Net donor support (in percent of GDP)	11.9	11.2	9.4	9.8	8.0	6.4
Net donor support	811	975	822	924	800	687
Of which: Import support	391	449	409	389	358	327
Project support	415	535	424	570	508	459
Total debt relief including HIPC assistance	87	91	91	66	48	52
HIPC savings due to cancellation 5/						
Amortization	16	18	18	17	16	15
Interest payments	6	5	5	5	4	3

Sources: Bank of Uganda and Ministry of Finance, Planning and Development; and IMF staff estimates and projections.
1/ Fiscal year begins on July 1.
2/ Components of debt relief are treated as separate items. HIPC grants are included in official transfers, and debt rescheduling is included in exceptional financing.
3/ Excluding the Bujagali project, which is incorporated as an alternative scenario in the Joint Debt Sustainability Analysis.
4/ In months of imports of goods and services of the following year.
5/ Debt cancellation is shown for fiscal purposes as a flow of debt service.

Table 6. Uganda: External Debt and Debt Service Indicators, 2003/04-2007/08 1/

(In millions of U.S. dollars)

	2003/04	2004/05	2005/06 Prog.	2006/07 Proj.	2007/08 Proj.
NPV of total debt	1,889	2,062	2,135	729	893
Existing debt	1,889	2,062	2,002	403	376
Multilateral	1,720	1,817	1,813	246	240
Paris Club bilateral	52	52	47	43	39
Non-Paris Club bilateral	99	179	132	108	94
Commercial	18	14	10	7	3
New debt	. . .	. . .	133	326	516
Total debt service	98	118	119	58	52
Existing debt	98	118	118	56	47
Multilateral	82	103	50	14	18
Paris Club bilateral	7	7	7	6	6
Non-Paris Club bilateral	4	4	56	31	19
Commercial	5	5	4	4	4
New debt	. . .	. . .	1	2	5
NPV of debt-to-exports ratio 2/	193	179	169	51	58
NPV of debt-to-revenue ratio	219	184	175	54	59
NPV of debt-to-GDP ratio	28	24	23	7	8
NPV of new debt-to-exports ratio 2/	. . .	. . .	10	23	33
Debt service-to-exports ratio	10	10	9	4	3
Debt service-to-revenue ratio	11	11	10	4	3
Memorandum items:					
Gross domestic product	6,823	8,710	9,432	9,947	10,737
Exports of goods and services					
Current year	979	1,151	1,266	1,437	1,550
Three-year average	817	966	1,132	1,285	1,418
Revenue	863	1,121	1,217	1,357	1,519
New borrowing (annual flow)	222	164	371	385	363

Sources: Bank of Uganda and Ministry of Fnance, Planning and Development; and World Bank/Fund staff estimates and projections.

1/ Assumes full delivery of HIPC and MDRI debt relief. The Fund and the AfDF will deliver on January 1, 2006 and IDA on July 1, 2006.

2/ In relation to the current year of exports of goods and services.

Table 7. Uganda: Quantitative Performance Criteria and Benchmarks for end-March and end-June 2005 1/ 2/
(Cumulative change from end-June 2004, unless otherwise stated)

	March 31 3/				June 30 4/			
	Prog.	Adj. prog.	Actual	Observed (√)/ Not Observed (×)	Prog.	Adj. prog.	Actual	Observed (√)/ Not Observed (×)
	(In billions of Uganda shillings; end of period, unless otherwise stated)							
Ceiling on the increase in base money liabilities of the Bank of Uganda 5/	105.0	120.0	98.5	√	108.0	123.0	108.8	√
Ceiling on the increase in net claims on the central government by the banking system	32.2	128.6	11.7	√	-34.3	-202.3	-239.5	√
Ceiling on the issuance of promissory notes by the government 6/	0	0	0	√	0	0	0	√
Accumulation of new domestic budgetary arrears under the Commitment Control System (CCS) 6/ 7/	0	0	7.6	×	0	0	31.8	×
New lending by Uganda Development Bank Ltd. (UDB), including on-lending on behalf of the government or the Bank of Uganda, pending divestiture 6/	0	0	0	√	0	0	0	× 8/
	(In millions of U.S. dollars; end of period)							
Ceiling on the stock of external payments arrears incurred by the government or the Bank of Uganda 6/	0	0	0	√	0	0	0	√
Ceiling on new nonconcessional external borrowing with maturities greater than one year contracted or guaranteed by the government or the Bank of Uganda 6/	0	0	0	√	0	0	0	√
Minimum increase in net international reserves of the Bank of Uganda	41.5	-85.9	194.4	√	81.2	98.0	240.0	√
Indicative targets	(In billions of Uganda shillings; end of period)							
Minimum expenditures under the Poverty Action Fund (including the Universal Primary Education component of development expenditure)	603.6	603.6	544.5	×	780.5	780.5	779.4	×
Ceiling on public administration expenditure	191.4	191.4	192.4	×	256.9	256.9	268.0	×

1/ Fiscal year begins on July 1.
2/ The performance criteria and benchmark targets under the program, and their adjusters, are defined in the technical memorandum of understanding (TMU), IMF Country Report 05/306.
3/ Benchmarks, unless measure is a continuous performance criterion.
4/ Performance criteria.
5/ Cumulative changes from the average of June 2004 and June 2005 for the 2004/05 and 2005/06 program respectively, as defined in the TMU, IMF Country Report 05/306.
6/ Continuous performance criterion.
7/ This item is an indicative target to September 2004 and March 2005, and a performance criteria to December 2004 and June 2005, as defined in the TMU.
8/ This continuous performance criteria was breached in August and September 2005 when the UDB made new commitments to existing clients in the amount of U Sh 1.2 billion.

Table 8. Uganda: Structural Performance Criteria and Benchmarks for 2004/05 and 2005/06

Policy Measure	Date of Implementation	Implementation Status
Structural Performance Criterion		
1. Submit to parliament amendments to the URA Act in line with the IMF technical assistance report.	June 30, 2005	Observed.
Structural Benchmarks		
2. Approval by Cabinet of the Pay Policy Paper.	September 30, 2005	Not observed. The paper has been submitted to Cabinet, but the policies are still under discussion.
3. Pay-off arrears accumulated under the Commitment Control System (CCS) in 2002/03 and 2003/04.	June 30, 2005	Not observed.
4. The verification of arrears under the CCS for end-June 2005 will be completed, and a report issued to cabinet on the execution of the strategy to clear the overall stock of arrears.	September 30, 2005	Observed, but with delay.
5. The offer for sale of a minority share and management responsibilities of UDB will be approved by the government.	September 30, 2005	Not observed. Minority shares of UDB were offered for sale, but no interested parties were identified. A new restructuring plan is now being put in place (see MEFP, paragraph 22).

Table 9. Uganda: Millennium Development Goals

	1990	1995	2001	2002
Eradicate extreme poverty and hunger	2015 target = halve 1990 $1 a day poverty and malnutrition rates			
Percentage share of income or consumption held by poorest 20 percent	...	...	5.9	...
Prevalence of child malnutrition (in percent of children under 5)	23.0	25.5	22.8	...
Population below minimum level of dietary energy consumption (in percent)	23.0	25.0	19.0	...
Achieve universal primary education	2015 target = net enrollment to 100			
Net primary enrollment ratio (in percent of relevant age group)	...	87.3	...	...
Youth literacy rate (in percent of ages 15-24)	70.1	74.7	79.4	80.2
Promote gender equality	2015 target = education ratio to 100			
Ratio of girls to boys in primary and secondary education (in percent)	76.8	81.0	...	...
Ratio of young literate females to males (in percent of ages 15-24)	75.8	80.4	85.0	85.7
Share of women employed in the nonagricultural sector (in percent)	43.2	...	...	...
Proportion of seats held by women in national parliament (in percent)	...	17.0	...	...
Reduce child mortality	2015 target = reduce 1990 under 5 mortality by two-thirds			
Under 5 mortality rate (per 1,000)	160.0	156.0	145.0	141.0
Infant mortality rate (per 1,000 live births)	93.0	92.0	85.0	83.0
Immunization, measles (in percent of children under 12 months)	52.0	57.0	61.0	77.0
Improve maternal health	2015 target = reduce 1990 maternal mortality by three-fourths			
Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	...	880.0	...
Births attended by skilled health staff (in percent of total)	38.3	37.8	39.0	...
Combat HIV/AIDS, malaria, and other diseases	2015 target = halt, and begin to reverse, AIDS, etc.			
Prevalence of HIV, female (in percent of ages 15-24)	...	...	4.6	...
Contraceptive prevalence rate (in percent of women ages 15-49)	4.9	14.8	22.8	...
Number of children orphaned by HIV/AIDS (in thousands)	...	...	880.0	...
Incidence of tuberculosis (per 100,000 people)	...	...	324.0	377.4
Tuberculosis cases detected under DOTS (in percent)	...	61.0	52.0	46.6
Ensure environmental sustainability	2015 target = various			
Forest area (in percent of total land area)	25.9	...	21.3	...
Nationally protected areas (in percent of total land area)	...	9.7	9.7	24.9
CO2 emissions (metric tons per capita)	0.0	0.0	0.1	...
Access to an improved water source (in percent of population)	45.0	...	52.0	...
Access to improved sanitation (in percent of population)	...	...	79.0	...
Develop the Global Partnership for Development	2015 target = various			
Fixed line and mobile telephones (per 1,000 people)	1.7	2.1	13.9	18.1
Personal computers (per 1,000 people)	...	0.5	2.9	3.3
General indicators				
Population (in millions)	17.4	20.3	23.9	24.6
Adult literacy rate (in percent of people ages 15 and over)	56.1	61.8	68.0	68.9
Total fertility rate (births per woman)	7.0	6.7	6.2	6.0
Life expectancy at birth (years)	46.8	43.8	42.5	43.1

Source: World Development Indicators database, October 2004.

Table 10. Uganda: Status of HIPC Agreements by Creditor 1/

	Enhanced HIPC Relief US$ millions	Agreement to Provide HIPC Relief	Modalities/Comments
Total	655.8		
Total relief agreed upon	642.1		98 percent of the total debt relief agreed under HIPC has been provided.
Relief not agreed	13.7		2 percent of claims identified under the HIPC Initiative are still subject to negotiations.
Multilateral	545.7		
IDA	356.6	yes	Debt-service reduction on eligible stock outstanding as at 30/6/1999 except on PPFs and IDA administered EEC loan
IMF	90.9	yes	Debt-service reduction on principal of stock outstanding as at 30/6/1999
AfDB/F	59.3	yes	Debt-service reduction commenced January 2002 details at discretion of creditor
IFAD	10.1	yes	Debt-service reduction on eligible stock. IFAD to advise details of application periodically
EU/EIB	14.1	yes	One loan cancelled and another partially canceled
NDF	3.7	yes	Reconciliation complete. Not servicing outside eligible period and awaiting final agreement.
OPEC Fund	5.1	yes	Agreement signed August 2003 for both HIPC I and II but is yet to be approved by parliament
BADEA	4.1	yes	Delivering through rescheduling of all loans outstanding at completion point
EADB	0.7	yes	Agreement signed June 14, 2004 for both HIPC I and II, but is yet to be approved by parliament
IDB	0.5	yes	Delivering through rescheduling of all loans outstanding at completion point
PTA Bank	0.5	no	No decision taken on participation
Shelter Afrique	0.1	no	In June 2003, government paid in full to avoid court action that had been initiated.
Paris Club creditors	73.1		
Austria	6.8	yes	Agreement signed for 18 percent cancellation on post-cutoff debt
Finland	1.1	yes	Cancelled the debt
France	6.7	yes	100 percent cancellation on pre-cut-off date debt. Initially cancelled 18 percent of post-cod debt. Recently signed new agreement for the balance of 82 percent.
Germany	0.4	yes	100 percent cancellation on pre-cutoff debt
Israel	1.9	yes	100 percent cancellation on pre-cutoff debt
Italy	20.3	yes	100 percent cancellation on pre-cutoff and post-cutoff debt
Japan	16.5	yes	Agreed to cancel payments as they fall due
Norway	0.1	yes	Agreement signed for 18 percent cancellation on pre-cutoff debt
Spain	13.5	yes	Agreement signed for 18 percent cancellation on pre-cutoff debt
Sweden	1.7	yes	Agreement signed for 18 percent cancellation on pre-cutoff debt
U.K.	4.0	yes	Agreement signed for 100 percent cancellation for pre-cutoff debt
U.S.A.	0.1	yes	Agreement signed for 100 percent cancellation for pre-cutoff debt
Non-Paris Club creditors	29.0		
UAE	0.3	no	No response
Burundi	0.1	no	Bank/IMF have agreed to facilitate dialogue.
China	2.8	yes	Written off part of the loan. Negotiating terms for remaining balance 5 loans, 3 remain to be considered after other countries have received relief
India	3.7	yes	Government to government claims were cancelled (US$4.9 million). In September 2005, the Export Credit Corporation of India provided debt relief on claims amounting to US$50.6 million.
Iraq	0.0	no	Judgment reached. Court awarded US$6.4 million. Interest to accrue at 2.5 percent until paid. The government of Uganda plans to appeal. Government has requested the holders of the Powers of Attorney to get them renewed by the current Iraq authorities.
Kuwait	6.6	yes	Agreement signed for delivery of old HIPC and enhanced HIPC
Libya	8.2	yes	Agreement signed in May 2005 for delivery some debt relief on overdue maturities.
Nigeria	0.9	no	No agreement in place, no communication.
North Korea	0.3	no	Repaid in full before enhanced HIPC Initiative
Pakistan	0.3	no	No communication.
Rwanda	0.6	yes	Loan has been cancelled
Saudi Arabia	1.5	yes	Agreement signed for provision of enhanced HIPC relief.
South Korea	0.6	yes	Agreement signed October 2003 for delivery of old HIPC and enhanced HIPC
Tanzania	3.2	partial	Bought back 15 percent, balance needs verification.
Commercial creditors	8.0		
Italy (Industrial Developmen	0.1	no	Repaid in full before enhanced HIPC Initiative
Panama	0.0	no	Repaid in full before enhanced HIPC Initiative
Spain (Banco Arabe)	0.5	no	Judgment reached. Court awarded US$2.7 million. Government of Uganda has fully paid
U.K.	5.0	no	Judgment reached. Court awarded US$9.4 million. The government of Uganda negotiated a lower settlement figure of US$7.9 million, which was paid in 2003/04.
Yugoslavia (14 Oktobar and Sours Fab Famos)	2.4	no	Judgment reached. Total court award of US$10.3 million. The government of Uganda has fully repaid the court award.

Sources: Ugandan authorities; and IMF staff estimates.

1/ Figures are based on end-June 1999 data including exchange rates and the six-month average Commercial Interest Reference Rate (CIRR).

Kampala, Uganda
December 13, 2005

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. de Rato:

1. On behalf of the Government of Uganda, I would like to inform you on the progress made under our economic program supported by the International Monetary Fund with a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF), and request continued cooperation through a Policy Support Instrument (PSI).

2. Macroeconomic performance continued to be strong in 2004/05 (July-June) with high growth and stable prices. Most of the quantitative performance criteria for the sixth review were observed, notably the envisaged fiscal deficit and monetary policy targets were met. However, domestic arrears continued to accumulate for nonwage and nonpension expenditures, notwithstanding the Commitment Control System (CCS). Also, a few small loans were extended by the Uganda Development Bank (UDB), despite the performance criterion on no lending.

3. On structural policies, the reforms in the Uganda Revenue Authority (URA) are progressing well and the revenue performance suggests that these have already contributed to tax collection efficiency gains. The structural performance criterion on submitting an amendment on the URA Act was observed. In the area of public expenditure management, progress has been made in monitoring domestic arrears. The implementation of the new Financial Institutions Act is on track and the performance of the banking system remains solid.

4. In light of the progress achieved in the implementation of the program for 2004/05 and the clarifications provided below, the Government of Uganda requests waivers for nonobservance of the performance criteria for end-June 2005 on the accumulation of domestic CCS arrears, as well as the continuous performance criterion on new lending by UDB.

5. The Government will make every effort to pay off accumulated domestic arrears. The 2005/06 budget already allocates U Sh 85 billion for this purpose. We will endeavor to ensure that, if our domestic revenue collections exceed the projected amounts in 2005/06, consideration will be given to retiring additional verified arrears. In addition, we have further

strengthened the reporting arrangements under the CCS, and have reinstated penalties for ministries that do not report their monthly purchase commitments.

6. The Cabinet has approved a plan to strengthen the UDB, under which a new board of directors was appointed. The board will soon put in place a new professional management team. The UDB will continue to function as a development bank, but will provide lending strictly on commercial terms. Until the new management team is in place and pending new supervision arrangements, we will ensure that the UDB does not increase net lending.

7. In support of our objectives and policies, the Government of Uganda hereby requests the release of the seventh and final disbursement under the PRGF in the amount of SDR 2 million (1.1 percent of quota) upon completion of the sixth review.

8. The PSI is described in the attached Memorandum of Economic and Financial Policies (MEFP). The policies outlined in the memorandum are based on continued fiscal consolidation and implementation of the broader policy agenda as envisaged in the Poverty Eradication Action Plan.

9. The Government of Uganda believes that the policies set forth in the attached statement are adequate to achieve the objectives of our PSI program. Given our interest in macroeconomic stability, we stand ready to take additional measures as may be necessary to achieve needed objectives. Our PSI proposes assessment criteria for review dates of end-June and end-December 2006 for the first and second reviews, expected to be completed on October 31, 2006 and May 31, 2007, respectively. We stand ready to work with the Fund and the World Bank in partnership in the implementation of our program and will consult in advance should revisions be contemplated to the policies contained in the PSI.

10. The Government of Uganda authorizes the publication and distribution of this letter, its attachments, and all reports prepared by Fund staff regarding the sixth PRGF review and the PSI.

Sincerely yours,

/ s /

Dr. Ezra Suruma
Minister of Finance, Planning, and Economic Development

Memorandum of Economic and Financial Policies
of the Government of Uganda January-December 2006

1. The Government of Uganda is committed to achieving sustained economic growth and poverty reduction through the pursuit of prudent macroeconomic policies and structural reforms. The strategy to achieve these goals is set out in the Poverty Eradication Action Plan (PEAP). The Government and the International Monetary Fund (IMF) are cooperating on the economic program through a Policy Support Instrument (PSI) for the period January–December 2006. This memorandum of economic and financial policies (MEFP) reviews the performance under the program supported by the IMF's Poverty Reduction and Growth Facility (PRGF), which expires in January 2006, and describes the policies and targets for the remainder of the calendar year 2006 and the medium term.

I. Recent Performance Under the PRGF-Supported Program

2. The Government continued to implement sound macroeconomic policies and economic reforms. These efforts resulted in robust growth, private investment, and price stability.

3. **Real GDP growth was sustained at close to 6 percent in 2004/05.** The construction and communications sectors maintained strong growth, while agriculture output was subdued because of difficult weather conditions and plant diseases. Underlying (core) inflation, which excludes food crops, remained below the target of 5 percent. Net donor inflows stayed high, and the central bank built up its international reserves to a healthy position equivalent to about six months of imports of goods and services.

4. **Fiscal performance was better than budgeted.** The overall budget deficit, excluding grants, amounted to 8.7 percent of GDP in 2004/05, below the deficit targeted under the program. Tax revenues increased because of reforms at the Uganda Revenue Authority (URA) and tax measures. Current expenditures were broadly in line with the budget, while development expenditures fell short due to delays in some donor-financed projects. Domestic arrears continued to accumulate for nonwage and nonpension expenditures under the Commitment Control System (CCS), despite renewed efforts to improve expenditure management.

5. **The monetary program was on track.** The target for base money growth was met, and after a buildup in inflationary expectations from higher prices on food and fuel, prices have stabilized. A combination of the tight fiscal policy and a reliance on foreign exchange sales for liquidity sterilization led to a decline in interest rates, which in turn promoted a rise in private sector credit. The banking sector remains healthy with a very low level of nonperforming loans. The ongoing implementation of the regulations under the Financial Institutions Act should provide for additional safeguards.

II. The Policy Agenda for 2006

6. **The key objective in 2005/06 is to maintain policies consistent with the medium-term goals of achieving sustainable economic growth and poverty reduction.** To this end, an important element of the strategy is a gradual reduction in the fiscal deficit in line with the approved budget and medium-term expenditure framework (MTEF). As envisaged in the PEAP, this will free up resources for the private sector, reduce donor dependency, and help sustain a competitive economy.

7. **Real GDP growth is expected to be about 6 percent this year.** Underlying inflation is projected to remain under 5 percent. The external current account deficit, excluding transfers, is projected to be largely unchanged as a recovery in coffee prices offsets higher world oil prices. International reserves are expected to remain at a comfortable level.

A. Fiscal Policy

8. **The key fiscal priorities** will be to: (i) implement the 2005/06 budget as envisaged and further strengthen fiscal performance in 2006/07; (ii) improve the monitoring and control of domestic arrears and reducing their stock; and (iii) continue reforms at the URA.

9. **The fiscal consolidation framed by the 2005/06 budget will be maintained.** The fiscal deficit, excluding grants, is projected to be maintained at around 9 percent of GDP, to be achieved by lower growth of current spending. Development expenditures are projected to recover after a temporary shortfall in 2004/05. The Government intends to submit a supplementary budget to parliament that would be financed within the current budget and any additional revenue. Among other areas, it will cover additional spending for the following:

- Primary teachers' salaries;
- Transfers to local governments to compensate for the elimination of the graduated tax; and
- Additional payments of domestic arrears accumulated in 2004/05 under the CCS.

10. **The fiscal framework for 2006/07 will be consistent with the MTEF.** The strategy of gradual fiscal consolidation will continue through increased revenue collection and expenditure control. As envisaged in the MTEF, tax revenues will be targeted to increase by about 0.5 percent of GDP through URA efficiency gains and broadening of tax bases. The Government is also looking at options for new local taxes to supplement the central government transfers to the local governments.

11. **The Government will undertake a range of measures to improve public expenditure management.** To address the arrears problem, we will emphasize compliance with the existing regulations under the CCS/IFMS and back required expenditures and

planned policies with adequate budget provisions. The Government recognizes that budget discipline is central in minimizing new arrears. We will implement the following measures:

- The Minister of Finance, Planning and Economic Development will strengthen the existing strategy paper to address new CCS arrears in the line ministries that accumulated arrears of more than U Sh 0.5 billion during 2004/05. This strategy paper will back policy objectives with realistic estimates of their costs and will be submitted to Cabinet completed by end-May 2006.

- Starting in January 2006, the Minister of Finance, Planning and Economic Development will submit to Cabinet quarterly CCS reports prepared by the Treasury Inspectorate, including details of ministries' arrears.

- The 2006/07 budget will provide for payment of all CCS arrears accumulated during 2005/06 as a first call on respective ceilings.

- Complete verification of all pre-CCS arrears by June 2006.

- Submit to parliament for approval the statutory instrument for the Public Finance and Accountability (Contingency Fund) regulations.

12. **The Government is committed to meeting quantitative program targets on accumulation and payments of domestic arrears.** Our overall strategy is to pay old arrears first from the central budget, while requiring spending ministries to honor arrears incurred during the 2005/06 budget from their own current resources. For this purpose, the stock of domestic arrears is divided into two groups: (A) the stock of pre-CCS, non-CCS, and CCS arrears incurred before end-June 2004; and (B) the stock of CCS arrears incurred after end-June 2004. The following targets will be adhered to:

- Repayment of U Sh 79 billion of group (A) arrears during 2005/06 as provided in the approved budget by end-June 2006.

- Reduce the stock of group (B) arrears by U Sh 6 billion by June 2006. Total budget appropriations for group (B) arrears clearance will be U Sh 16 billion (of which U Sh 6 billion already are in the budget and U Sh 10 billion will be appropriated in a supplementary budget bill). This would allow for up to U Sh 10 billion in technical arrears to develop at the end of the financial year without jeopardizing the targeted repayment.

- Reduce the stock of group (B) arrears to a level of U Sh 10 billion by December 2006.

- If tax collection exceed the programmed amount for 2005/06, we will consider giving priority to arrears repayment.

- The allocation for payments of group (A) verified arrears will be increased to U Sh 155 billion in the 2006/07 budget.

13. **The Government is making progress with public sector pay and pension reforms.** The Ministry of Public Service, in collaboration with MFPED, has produced a cabinet paper on ways to control the size of the public administration and ensure cost efficiency. These initiatives will be fit within budget constraints and the current MTEF. Therefore, full implementation of two main proposals, equalization of pay grades across the public sector and a contributory pension, may take some time. Action on the new pension system has been put on hold pending a cost review.

14. **The Government recognizes the challenge of ensuring the long-run performance of the NSSF**. A new Board of Directors has been appointed and a professional management team is in place. As a temporary measure, the BOU is serving as an advisor to the NSSF at the request of the Minister of Finance. We are currently setting up an independent regulator for all nonbank financial institutions that are not regulated by the BOU, and this agency will take over regulatory and supervision responsibilities of the NSSF.

15. **The reform process in URA will continue, in support of the revenue mobilization objectives.** The remaining challenge is to maximize the impact of the new organizational structure, including computerization of the URA.

16. **The Government is considering the introduction of Export Processing Zones (EPZs).** Any such proposal will be in line with international best practice and exclude elements that would seriously erode the tax base. To avoid harmful tax competition for investment, Uganda will work with other East African Community (EAC) partner states to establish a Code of Conduct to harmonize investment incentives. Moreover, the Government will continue to submit to Parliament, in line with the Budget Act, a comprehensive list of companies that have benefited from tax expenditures, Government subsidies, loan guarantees, and other incentives. More generally, the Government remains committed to maintaining a level business playing field by avoiding granting preferential tax treatment, lending or guarantees to specific investors or firms.

B. Decentralization

17. **The effective implementation of the fiscal decentralization strategy (FDS) is essential for improved services.** The Government is currently strengthening the public expenditure management systems at the subnational level, including pilot CCS for some local governments. Abolition of the graduated tax, which was a key revenue source for local governments, has been compensated by a broadening of the property tax and additional transfers from central government, including the forthcoming supplementary budget

allocation. At the same time, the creation of several new districts has added to the urgency of identifying new local revenue sources. The Government will by April 2006 work out a plan to increase revenue collection at the local level, with the assistance from the World Bank and the IMF.

C. Monetary and Financial Sector Policies

18. **The authorities are committed to keeping annual average underlying inflation below 5 percent** through the reserve money targeting framework. The monetary policy stance is expected to remain largely unchanged. In this regard, the BOU will use sales of foreign exchange for sterilization of the liquidity injection related to the inflow of external donor funds, with appropriate consideration to the market conditions in the short term. The phased transfer of project accounts to the central bank has proceeded smoothly, and is expected to be completed by June 2006.

19. **The Government remains committed to fostering a more efficient and deeper financial system.** The Government intends to continue implementing all the remaining key recommendations of the Financial Sector Assessment Program (FSAP) update. In this respect, the regulations for the establishment of a credit reference bureau were gazetted and are now in effect. In the near term, we will focus on the following areas:

- Establishment of a credit reference bureau;
- Improvements to transparency of bank account charges and interest paid;
- Assign an incentive-based management contract of UDB; and
- Issue investment regulations to insurance companies.

20. **The Government has approved a plan to strengthen the Uganda Development Bank (UDB) and appointed a new board of directors.** The Government's strategy is to target a few sectors that will boost Uganda's value added, especially in agricultural products. The UDB will make longer-term loans that are currently not available from Uganda's commercial banks. A new professional management team will make lending decisions on commercial terms and loans will carry market-based interest rates. Over time, the new management team can be expected to establish a track record and the Government will consider share sales to raise capital. The UDB's lending will be increased by transferring lines of credit currently under the Department of Finance at the Bank of Uganda or through partnerships with other banks such as the European Investment Bank. Until the new management team is in place and pending establishment of new supervision arrangements, we will ensure that UDB lending is not increased on a net basis. These necessary precautions will help safeguard government resources and avoid a buildup in nonperforming loans.

D. Other Structural Reforms

21. **Key elements of the Government's broad anti-corruption strategy are to strengthen confidence in public institutions** by the implementation of reforms at the URA and to increased role and independence of the Inspectorate General of Government (IGG). In particular, the 2006/07 budget resources for the IGG will be raised to expand its prosecution capacity. Regarding the possible mismanagement of resources received from the Global Fund to Fight Aids, Tuberculosis, and Malaria, the Government will take action as necessary on the basis of the forthcoming report from the Commission of Enquiry.

22. **The Government is addressing the shortage in power generation with urgency.** The Government is currently finalizing the bid process for the Bujagali hydropower project. Construction financing, estimated at US$400 million, will be provided on commercial terms, with a government guarantee. Until the plant becomes operational in 2010-11, our generating capacity will be increased through more expensive thermal power generation. With the end-users covering only a share of the higher costs of this short-term measure, the Government will continue subsidizing the power sector to allow for a more gradual increase in electricity tariffs. However, the current subsidy scheme will not be extended to the period after commissioning of the Bujagali plant. Furthermore, the Government will encourage the newly privatized electricity distribution company to implement measures to reduce the currently very high distribution losses and increase the billing collection rate.

23. **The EAC customs union became effective on February 1, 2005.** The authorities have completed discussions on a list of raw materials that would remain as zero-rated inputs in support of the Ugandan industry. The government intends to harmonize EPZ incentives and regulations under the EAC. Aiming at increasing exports, the Government will pursue broader regional integration in terms of regional roads, railway, and communications/energy infrastructure.

III. Medium-Term Policies

24. **Uganda is committed to implement prudent macroeconomic policies and a second generation of reforms** that will strengthen its economic performance over the medium term. The fiscal policy framework aims to reduce further the fiscal deficit, excluding grants, and increase domestic revenue. This strategy will help strengthen competitiveness and lower interest rates, and thereby provide a boost to export and private investment performance. The success of this strategy will depend on stronger annual increases in government revenues, notably through an improvement in tax administration, coupled with a better allocation and efficiency of expenditures. Poverty-reducing expenditures in the PEAP will continue to be ring-fenced in order to contribute to the achievement of the MDGs.

25. **Emphasis will be placed on strengthening the investment climate, increasing productivity, and enhancing Uganda's international competitiveness.** These objectives will be supported by the Government's Medium-Term Competitiveness Strategy, and Plan for the Modernization of Agriculture. There is a need to strengthen agricultural policies,

mainly by re-focusing the sectoral strategy towards improving productivity, market access and standards, and infrastructure (mainly rural roads and power).

26. **Implementation of the Multilateral Debt Relief Initiative (MDRI) will result in a sharp decrease of Uganda's external debt**. The authorities intend to use the financial resources released by the MDRI to help achieve PEAP objectives and the MDGs, in a manner consistent with our fiscal and monetary policies. The government will continue to exercise caution in contracting external debt by using grants and then concessional loans. Nonconcessional borrowing or loan guarantees will be limited to the power sector. The Government is committed to avoid the accumulation of an unsustainable debt burden over the medium term. Aiming at maintaining debt sustainability, the authorities will establish clear procedures for contracting, managing, and monitoring external debt according to best practices and international standards, and selecting high productivity projects.

Table 1. Uganda: Quantitative Assessment Criteria and Indicative Targets for January-December 2006 1/

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

	Mar. 31 2006 3/ Prog.	Jun. 30 2006 Prog.	Sep. 30 2006 3/ Prog.	Dec. 31 2006 Prog.
Assessment criteria	(In billions of Uganda shillings)			
Ceiling on the increase in base money liabilities of the Bank of Uganda 4/	98.8	118.6	37.7	75.3
Ceiling on the increase in net claims on the central government by the banking system	86.6	-242.7	148.5	-78.3
	(In millions of U.S. dollars)			
Ceiling on the stock of external payments arrears incurred by the government or the Bank of Uganda 5/	0	0	0	0
Ceiling on new nonconcessional external borrowing with maturities greater than one year contracted or guaranteed by the government or the Bank of Uganda 5/ 6/				
Bujagali hydropower plant	400	400	400	400
Other	0	0	0	0
Ceiling on new external debt with maturity up to one year contracted or guaranteed by the government or the Bank of Uganda 5/ 7/	0	0	0	0
Minimum increase in net international reserves of the Bank of Uganda	4.1	103.1	-74.3	34.8
Indicative targets	(In billions of Uganda shillings)			
Stock of domestic budgetary arrears under the Commitment Control System (CCS) 8/	27	21	15	10
Minimum expenditures under the Poverty Action Fund (including the Universal Primary Education component of development expenditure)	631.2	857.1	234.0	490.0
Ceiling on public administration expenditure	172.9	232.1	55.0	116.0

1/ The assessment criteria and indicative targets under the program, and their adjusters, are defined in the technical memorandum of understanding (TMU).
2/ Fiscal year begins on July 1.
3/ Indicative targets.
4/ For March and June 2006, cumulative changes from the average of June 2005; for September and December 2006, cumulative changes from the average of June 2006, as defined in the TMU.
5/ Continuous performance criterion.
6/ Cumulative change from January 1, 2006.
7/ Excluding normal import-related credits.
8/ Arrears incurred after end-June 2004. The stock amounted to USh 27 billion at end-June 2005.

Table 2. Uganda: Structural Assessment Criteria and Benchmarks for January–December 2006[1]

Policy Measure	Date of Implementation
Structural Assessment Criteria	
1. Minister of Finance, Planning and Economic Development will submit to Cabinet a strategy paper for avoiding new CCS arrears in the line ministries that accumulated arrears in 2004/05 in excess of U Sh 0.5 billion. The paper will list policy objectives with cost estimates.	End-May 2006
2. The allocation for payments of group (A) verified arrears will be increased to U Sh 155 billion in the 2006/07 budget.[2]	End-June 2006
3. Repayment of U Sh 79 billion of group (A) arrears during 2005/06.[2]	End-June 2006
Structural Benchmarks	
4. Provide for clearing arrears that accumulated during 2005/06 within the 2006/07 budget as a first call on respective sector ceilings.	At the time the budget is submitted to Cabinet
5. Complete verification of all pre-CCS arrears.	End-June 2006
6. Submit to Parliament the Public Finance and Accountability (Contingency Fund) regulations.	End-June 2006
7. Until the new management of Uganda Development Bank (UDB) is in place and supervision arrangements are completed, net lending by the UDB will not be increased.	Continuous
8. The Minister of Finance will approve and implement guidelines on contracting, managing, and monitoring external debt.	End-June 2006

[1] Assessment criteria will also apply on a continuous basis to the standard provisions on the exchange and trade issues that apply to programs supported by the Fund's financial resources.

[2] Group (A) arrears comprise the stock of pre-CCS, non-CCS, and CCS arrears incurred before end-June 2004.

Uganda: Technical Memorandum of Understanding (January-December 2006)

A. Introduction

1. This memorandum defines the indicative targets described in the memorandum of economic and financial policies (MEFP) for the January–December 2006 financial program that would be supported by the IMF Policy Support Instrument (PSI), and sets forth the reporting requirements under the instrument.

B. Base Money

2. Base money is defined as the sum of currency issued by Bank of Uganda (BOU) and the commercial banks' deposits in the BOU. The commercial bank deposits include the statutory required reserves and excess reserves held at the BOU and are net of the deposits of closed banks at the BOU and Development Finance Funds (DFF) contributed by commercial banks held at the BOU. The base money limits will be cumulative changes from the daily average of June 2005 to the daily average of March 2006 and June 2006, and cumulative changes from the daily average of June 2006 to the daily average of September 2006 and December 2006.

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

3. Net claims on the central government (NCG) by the banking system is defined as the difference between the outstanding amount of bank credits to the central government and the central government's deposits with the banking system, excluding deposits in administered accounts and project accounts with the banking system, including the central bank. Credits comprise bank loans and advances to the government and holdings of government securities and promissory notes. NCG will be calculated based on data from balance sheets of the monetary authority and commercial banks as per the monetary survey. The quarterly limits on the change in NCG by the banking system will be cumulative beginning end-June in the previous fiscal year.

D. Net International Reserves of the Bank of Uganda

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

5. For program-monitoring purposes, reserve assets and short-term liabilities (excluding liabilities to the IMF) at the end of each test period will be calculated in U.S. dollars by converting reserve assets measured in Uganda shillings, as reported by the BOU, using the end-month Uganda shilling per U.S. dollar exchange rate. The U.S. dollar value of outstanding purchases and loans from the IMF will be calculated by converting the outstanding SDR amount reported by the Finance Department of the IMF using the U.S. dollar per SDR exchange rate at the end of each quarter.

E. Expenditures Under the Poverty Action Fund

6. The expenditures under the Poverty Action Fund (PAF) include both wage and nonwage current expenditures under the PAF, and domestic development expenditures under the PAF. The program's minimum cumulative expenditures under the PAF will be measured based on checks printed for the central government spending units and line ministries, and cash releases to local governments.

F. Ceiling on Domestic Budgetary Arrears of the Central Government

7. The stock of domestic payment arrears under the Commitment Controls System (CCS) will be monitored on a quarterly basis. Domestic payments arrears under the CCS are defined as the sum of all bills that have been received by a central government spending unit or line ministry delivered in that quarter, and for which payment has not been made within 30 days under the recurrent expenditure budget (including rents and utilities) or the development expenditure budget. For the purpose of program monitoring, the monthly CCS reports, which will include arrears accumulated at IFMIS and non-IFMIS sites, prepared by the Treasury Inspectorate will be used to monitor arrears. A verified report on the June 2006 arrears for nonwage recurrent and development expenditure will be prepared by the Internal Audit Office at the Ministry of Finance, Planning and Economic Development. The verified report will cover both IFMIS and non-IFMIS sites, and will be available no later than end-October 2006. Arrears can be cleared in cash or through debt swaps.

8. The *payments* of pre-CCS, non-CCS, and CCS arrears accumulated up to end-June 2004 ("group A arrears") are covered by specific budget allocations for 2005/06 and 2006/07. The program ceiling on the *stock* of CCS arrears only covers accumulation of arrears after end-June 2004 ("group B arrears"). According to the verified report prepared by the Internal Audit Office, this stock of arrears is estimated to U Sh 27 billion as of June 2005.

G. Ceiling on Public Administration Expenditures

9. For the purpose of program monitoring, the public administration sector includes all expenditure (excluding that financed by donor projects) of the following votes: Office of the Prime Minister (003) (excluding development), Foreign Affairs (006), Missions Abroad (201-222), National Planning Authority (108), State House (002), Public Service (005), Public Service Commission (146), Local Government (011) (excluding development), Mass

Mobilization (135), Office of the President (001) (excluding ISO/ESO and E&I), Specified Officers' Salaries (100), Parliamentary Commission (104), Local Government Finance Commission (147), Uganda Human Rights Commission (106), and Electoral Commission (102). Any supplementary allocation of votes in the public administration sector that would exceed program ceilings will be accommodated by cuts in votes belonging to other categories within this same sector. Public administration expenditures will be measured by the cash releases to the line ministries and other government units listed above.

H. Adjusters

10. The NIR target is based on program assumptions regarding budget support, assistance provided under the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI), and external debt-service payments. The NCG target, in addition to being based on the aforementioned assumptions, is also based on assumptions regarding domestic nonbank financing of central government fiscal operations.

11. The Uganda shilling equivalent of budget support (grants and loans) plus HIPC Initiative assistance in the form of grants on a cumulative basis from July 1 of the fiscal year is presented under Schedule A. The ceiling on the cumulative increase in NCG will be adjusted downward (upward), and the floor on the cumulative increase in NIR of the BOU will be adjusted upward (downward) by the amount by which budget support, grants and loans, plus HIPC Initiative and MDRI assistance, exceeds (falls short of) the projected amounts.

Schedule A: Budget Support Plus Total HIPC Initiative Assistance
(In cumulative billions of Uganda shillings, beginning July 1 of the fiscal year)

Quarter	Mar 31, 2006	Jun 30, 2006	Sep 30, 2006	Dec 31, 2006
Budget support including HIPC Initiative grants	496.4	828.0	40.6	388.2

12. The ceiling on the increases in NCG will be adjusted downward (upward) and the floor on the increase in NIR will be adjusted upward (downward) by the amount by which debt service due[1] plus payments of external debt arrears less deferred payments (exceptional financing) falls short of (exceeds) the projections presented in Schedule B. Deferred payments are defined to be (i) all debt service rescheduled under the HIPC Initiative; and (ii) payments falling due to all non-HIPC Initiative creditors that are not currently being serviced by the authorities (that is, gross new arrears being incurred).

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

Schedule B: Debt Service Due, before HIPC Initiative Assistance (In cumulative billions of Uganda shillings, beginning July 1 of the fiscal year)				
Quarter	Mar 31, 2006	Jun 30, 2006	Sep 30, 2006	Dec 31, 2006
Debt service due before HIPC excluding exceptional financing	207.6	258.4	105.0	171.0

13. The ceiling on the increase in NCG will be adjusted downward (upward) by any excess (shortfall) in nonbank financing[2] less payment of domestic group A arrears (up to a maximum amount of U Sh 45.0 billion) relative to the programmed cumulative amounts presented in Schedule C.

Schedule C: Nonbank Financing Minus Repayment of Domestic Arrears (In cumulative billions of Uganda shillings, beginning July 1 of the fiscal year)				
Quarter	Mar 31, 2006	Jun 30, 2006	Sep 30, 2006	Dec 31, 2006
(A) Nonbank financing	7.9	100.0	-64.1	-39.5
(B) Domestic arrears repayment	87.7	89.0	6.0	115.1
(C) Total = (A) - (B)	-79.8	11.0	-70.1	-154.6

14. The base money ceiling will be adjusted upward up to a maximum of U Sh 15 billion in March, June, September, and December 2006 if the average amount of currency issued by the BOU exceeds those projected in Schedule D.

Schedule D: Currency Issued by the BOU (In cumulative billions of Uganda shillings, beginning July 1 of the fiscal year)				
Quarter	Mar 31, 2006	Jun 30, 2006	Sep 30, 2006	Dec 31, 2006
Currency issued by BOU	61.5	68.9	24.3	51.8

[2] Comprising the check float and the change in government securities and government promissory notes held by the nonbank public sector. The change in government securities held by the nonbank public will be calculated from the data provided by the Central Depository System (CDS).

I. External Borrowing Contracted or Guaranteed by the Central Government, Statutory Bodies, or the Bank of Uganda, and Arrears

15. The performance criterion on short-term debt refers to contracting or guaranteeing external debt with original maturity of one year or less by the government or the Bank of Uganda. Excluded from this performance criterion are normal import-related credits. The definition of "debt" is set out in paragraph 17.

16. The program includes a ceiling on new nonconcessional borrowing with maturities greater than one year contracted or guaranteed by the government, statutory bodies, or the BOU[3]. Nonconcessional borrowing is defined as loans with a grant element of less than 35 percent, calculated using average commercial interest rates references (CIRRs) published by the Organization for Economic Cooperation and Development (OECD). In assessing the level of concessionality, the 10-year average CIRRs should be used to discount loans with maturities of at least 15 years, while the 6-month average CIRRs should be used for loans with shorter maturities. To both the 10-year and 6-month averages, the following margins for differing payment periods should be added: 0.75 percent for repayment periods of less than 15 years; 1 percent for 15–19 years; 1.15 percent for 20–25 years; and 1.25 percent for 30 years or more. The ceiling on nonconcessional external borrowing or guarantees is to be observed on a continuous basis. The coverage of borrowing includes financial leases and other instruments giving rise to external liabilities, contingent or otherwise, on nonconcessional terms. Excluded from the limits are changes in indebtedness resulting from refinancing credits and rescheduling operations, and credits extended by the IMF. For the purposes of the program, arrangements to pay over time obligations arising from judicial awards to external creditors that have not complied with the HIPC Initiative do not constitute nonconcessional external borrowing.

17. The definition of debt, for the purposes of the limit, is set out in point 9 of the Guidelines on Performance Criteria with Respect to External Debt (Executive Board's Decision No. 12274-(00/85), August 24, 2000). It not only applies to the debt as defined in Point 9 of the Executive Board decision, but also to commitments contracted or guaranteed for which value has not been received. The definition of debt set forth in No. 9 of the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements reads as follows:

> (a) For the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some

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

future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor 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.

18. The ceiling on the accumulation of new external payments arrears is zero. This limit, which is to be observed on a continuous basis, applies to the change in the stock of overdue payments on debt contracted or guaranteed by the government, the BOU, and statutory bodies[4] from their level at end-June 2005. It comprises those external arrears reported by the Trade and External Debt Department of the BOU, the Macro Department of the Ministry of Finance that cannot be rescheduled because they were disbursed after the Paris Club cutoff date.

J. Monitoring and Reporting Requirements

19. The authorities will inform the IMF staff in writing at least ten business days (excluding legal holidays in Uganda or in the United States) prior to making any changes in economic and financial policies that could affect the outcome of the financial program. Such

[4] This definition is consistent with the coverage of public sector borrowing defined by the Fund (includes the debt of the general government, monetary authorities, and entities that are public corporations which are subject to the control by government units, defined as the ability to determine general corporate policy or by at least 50 percent government ownership).

policies include but are not limited to customs and tax laws (including tax rates, exemptions, allowances, and thresholds), wage policy, and financial support to public and private enterprises. The authorities will similarly inform the IMF staff of any nonconcessional external debt contracted or guaranteed by the government, the BOU, or any statutory bodies, and any accumulation of new external payments arrears on the debt contracted or guaranteed by these entities. The authorities will on a regular basis submit information to IMF staff with the frequency and submission time lag as indicated in Table 1. The information should be mailed electronically to AFRUGA746@IMF.ORG .

Table 1. Summary of Reporting Requirements

Reporting institution	Report/Table	Frequency	Submission lag
I. Bank of Uganda	Issuance of government securities.	Weekly	5 working days
	Interest rates on government securities.	Weekly	5 working days
	Operations in the foreign exchange market, and daily average exchange rates.	Weekly	5 working days
	Consumer price index.	Monthly	2 weeks
	Balance sheet of the BOU, consolidated accounts of the commercial banks, and monetary survey. The Internal Audit Department (IAD) of the BOU will review the reconciliations of monetary survey data with the financial records and the audited financial statements. Any revisions to monetary survey data, in line with the recommendations of the IMF safeguards mission, will be documented and reconciled with the previous presentation to ensure accurate reporting.	Monthly	4 weeks
	Statement of (i) cash balances held in project accounts at commercial banks; (ii) total value (measured at issue price) of outstanding government securities from the Central Depository System (CDS); and (iii) the stock of government securities (measured at issue price) held by commercial banks from the CDS.	Monthly	6 weeks
	Summary of (i) monthly commodity and direction of trade statistics; (ii) stock of external debt, disbursements, principal and interest, flows of debt rescheduling and debt cancellation, arrears, and committed undisbursed balances—by creditor category; and (iii) composition of nominal HIPC Initiative assistance, disaggregated into grants, flow rescheduling, and stock-of-debt reduction by creditor.	Monthly	6 weeks
	Summary of external debt; external arrears; and committed undisbursed loan balances by creditor.	Quarterly	6 weeks
	Standard off-site bank supervision indicators for deposit money banks.	Quarterly	4 weeks
	Summary table of preliminary program performance comparing actual monthly outcome with adjusted program targets for (i) base money; (ii) net claims on central government by the banking system; (iii) stock of external arrears; (iv) new nonconcessional external borrowing; and (v) net international reserves	Monthly	5 weeks
II. Ministry of Finance	Summary of central government accounts. Revenues shall be recorded on a cash basis. Expenditures shall be	Monthly	6 weeks

Table 1. Summary of Reporting Requirements

Reporting institution	Report/Table	Frequency	Submission lag
	recorded when checks are issued, except for domestic and external debt-service payments, cash transfers to districts, and externally funded development expenditures. Expenditures on domestic interest will be recorded on an accrual basis and external debt service will be recorded on a commitment basis (i.e., when payment is due). Cash transfers to districts will be recorded as expenditures of the central government when the transfer is effected by the BOU. Expenditures on externally funded development programs will be recorded as the sum of estimated disbursements of project loans and grants by donors, less the change in the stock of government project accounts held at the BOU and domestic commercial banks.		
	Summary of expenditure cash limits of the central government.	Quarterly	2 weeks
	Summary of contingent liabilities of the central government. For the purpose of the program, contingent liabilities include all borrowings by statutory bodies, government guarantees, claims against the government in court cases that are pending, or court awards that the government has appealed.	Quarterly	6 weeks
	Summary of Status of Submission of District Monthly Accounts Returns.	Monthly	6 weeks
	Outstanding stock of checks issued by the Uganda Computer Services of the MFPED, disaggregated into checks issued for (i) outstanding commitments, and (ii) settlement of intraministerial payment obligations.	Monthly	6 weeks
	Detailed central government account of disbursed budget support grants and loans; HIPC support; and external debt service due and paid.	Monthly	4 weeks
	Detailed central government account of disbursed donor project support grants and loans.	Monthly	6 weeks
	Statement on (i) new loans contracted during the period according to loan agreement; and (ii) creditor participation in the HIPC Initiative, status of creditor litigation cases, and cash payments relating to the settlement of awards.	Quarterly	6 weeks
	Updated national accounts statistics (real and nominal) according to UBOS and medium-term projections.	Quarterly	4 weeks

Uganda: Relations with the Fund
(As of October 31, 2005)

I. Membership Status: Joined 09/27/1963; Article VIII

II. General Resources Account:	SDR Million	% Quota
Quota	180.50	100.0
Fund holdings of currency	180.51	100.0

III. SDR Department:	SDR Million	% Allocation
Net cumulative allocation	29.40	100.0
Holdings	6.71	22.84

IV. Outstanding Purchases and Loans:	SDR Million	% Quota
Enhanced Structural Adjustment Facility (ESAF)/Poverty Reduction and Growth Facility (PRGF) arrangements	105.01	58.18

V. Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	09/13/2002	01/31/2006	13.50	11.50
ESAF/PRGF	11/10/1997	03/31/2001	100.43	100.43
ESAF	09/06/1994	11/09/1997	120.51	120.51
ESAF	04/17/1989	06/30/1994	219.12	219.12

VI. Projected Payments to Fund (without HIPC assistance)
(based on existing use of resources and present holdings of SDRs)

	Overdue	Forthcoming				
		2005	2006	2007	2008	2009
Principal		13.28	30.57	22.43	14.36	9.80
Charges/interest		0.42	1.06	0.92	0.82	0.76
Total		13.70	31.63	23.34	15.18	10.56

Projected Payments to the Fund (with Board-approved HIPC assistance)
(based on existing use of resources and present holdings of SDRs)

	Forthcoming				
	2005	2006	2007	2008	2009
Principal	9.49	23.80	19.25	13.80	9.80
Charges/interest	0.42	1.06	0.92	0.82	0.76
Total	9.91	24.85	20.16	14.62	10.56

VII. Implementation of HIPC Initiative:

	Original framework	Enhanced framework	Total
Commitment of HIPC assistance			
Decision point date	4/23/1997	2/7/2000	
Assistance committed (1999 NPV terms)[1]			
Total assistance (US$ million)	347.00	656.00	
Of which: Fund assistance (SDR million)	68.90	91.00	
Completion point date	April 1998	May 2000	
Delivery of Fund assistance (SDR million)			
Assistance disbursed to the member	51.51	68.10	119.61
Interim assistance	…	8.20	8.20
Completion point	51.51	59.90	111.41
Additional disbursement of interest income[2]		2.06	2.06

VIII. Safeguards Assessments

Under the Fund's safeguards assessment policy, the Bank of Uganda (BOU) was subject to a safeguards assessment with respect to the PRGF arrangement, which was approved on September 13, 2002. Since that assessment, the BOU has strengthened the safeguards framework, including timely finalization and publication of the financial statements, establishing a functioning audit committee, regularly reconciling monetary data, and formalizing the follow-up of implementation of internal and external audit recommendations. The authorities are considering updating the safeguards assessment in the context of the PSI.

IX. Exchange Rate Arrangement

On November 1, 1993, the BOU stopped the auction of foreign exchange and created an interbank market for foreign exchange, through which the official exchange rate is determined. As of September 30, 2005, the official exchange rate was U Sh 1,862.7 per U.S. dollar. The exchange system is free of restrictions on the making of payments and

[1] Net present value (NPV) terms at the completion point under the original framework, and NPV terms at the decision point under the enhanced framework.

[2] Under the enhanced Initiative for Heavily Indebted Poor Countries (HIPC Initiative), an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

transfers for current international transactions. Uganda is classified as an independently floating exchange rate regime.

X. Article IV Consultation

The Executive Board concluded the last Article IV consultation on February 14, 2005. The next Article IV consultation with Uganda will be held on the 24-month cycle, subject to the provisions of the decision on consultation cycles approved on July 15, 2002.

In February and April 2001, joint World Bank/Fund missions visited Kampala as part of the Financial Sector Assessment Program (FSAP). A final report was provided to the authorities in November 2001, and an MFD mission discussed the report with the authorities during the Article IV consultation discussion in November 2002, and the Financial System Stability Assessment was prepared for Board discussion in February 2003. In November 2004, a joint World Bank/Fund missions visited Kampala for a FSAP update.

XI. Technical Assistance

Uganda has received extensive technical assistance from the Fund in recent years.[3]

An FAD mission visited Kampala in April 1998 to advise the authorities on public service pension reform issues, and another mission visited Kampala in September 1998 to assist the authorities in improving customs administration procedures. A resident advisor in the area of local government budgeting began a six-month assignment in August 1998, which was subsequently extended to October 1999. An FAD resident advisor on budgeting and commitment control commenced a six-month assignment in November 1998, which was extended until June 2002. In October 2000, an FAD mission visited Kampala to provide technical assistance in tax policy and administration. A joint Bank/Fund TA mission visited Kampala in October 2003 to help harmonize tax investment incentives among the member countries of the EAC. An FAD TA mission on tax administration also visited Uganda in October 2004 to develop a comprehensive reform plan for the Uganda Revenue Authority (URA).Two FAD resident advisors (coordinated through AFRITAC-East) are currently in the field assisting the implementation of a CCS at the local government level and the Fiscal Decentralization Strategy.

A STA multisector statistics mission visited Kampala in December 1998 to conduct a comprehensive assessment of Uganda's macroeconomic statistics, including data compilation and dissemination, and to provide recommendations for improvements. Follow-up STA missions in national accounts and money and banking statistics visited Kampala in March–April 2000 to examine the status of implementation of the previous recommendations. A STA mission on government financial statistics (GFS) visited Uganda in December 2001 to

[3] For a description of technical assistance provided prior to 1998, see the staff report for Uganda's request for a three-year arrangement under the PRGF (IMF Country Report No. 02/213).

assist authorities in improving fiscal reporting by establishing regular reporting systems that are aligned with the *GFS Manual 2001*, as well as ensuring consistency within monetary sector data for the government. A follow-up mission on GFS visited Uganda in May 2003. A mission visited Uganda during February–March 2002 to review balance of payment statistics and the progress in implementing the recommendations of the multisector mission of 1998 and of the national accounts mission of 2000 with respect to the measurement of goods imports. A follow-up mission on balance of payments statistics visited Uganda in August 2003. Uganda is participating in the General Data Dissemination System (GDDS) and its metadata were initially posted on the Fund's Dissemination Standards Bulletin Board in May 2000. A STA mission was in Uganda during February 2005 to prepare a data ROSC.

Since the 2001 FSAP, MFD's TA to Uganda has focused on liquidity management, exchange rate intervention, central bank accounting and auditing, and banking supervision. The authorities have effectively used TA advice on these topics, and they have made good use of an MFD resident advisor, who took up her initial appointment in mid-July 2001. The advisor was fully integrated into the supervision function and has been involved in all aspects of the work, including participating in on-site examinations. Her contract was extended through July 2004, and the authorities are now in the process of selecting a new MFD resident advisor to follow up on the progress made so far. MFD has fielded two TA missions (July 2001 and January 2002) to assist the authorities with liquidity management and address the problems of interest rate volatility and exchange rate interventions. The BOU has started implementing the recommendations made in the report, and now clearly separates sterilization operations and liquidity management; however, they are still having problems with interest rate and exchange rate volatility and have requested follow-up TA in this area. In March and September–October 2002, MFD provided TA to improve central bank accounting and the Bank of Uganda's accounting manual. A TA evaluation visit was conducted in June 2003, and an MFD mission following up on monetary and exchange rate operations, public debt, and liquidity management was conducted in March 2004. An FSAP update mission was conducted in November 2004 and focused on access, outreach, and stability issues, which also updated progress made since the last FSAP. Finally, a TA mission on enhancing the effectiveness of monetary policy implementation and developing financial markets was conducted in August 2005.

XII. Future Technical Assistance Priorities

The priorities for Fund technical assistance in the next few years will be in the areas of tax administration, public expenditure management, especially control and monitoring of public arrears at both central and local government levels, monetary and exchange rate management, bank supervision, national accounts statistics, reporting standards for government finance statistics, monetary and balance of payments statistical reporting, central bank accounting, and audit and debt management.

XIII. Resident Representative

The Fund has maintained a resident representative in Uganda since July 1982.

Uganda: Relations with the World Bank Group
(As of August 31, 2005)

I. Partnership in Uganda's Development Strategy

1. The development strategy of the government of Uganda is based on the Poverty Eradication Action Plan (PEAP), a medium-term development framework that guides government policy and provides a framework for detailed sector and district plans. Because the PEAP's objectives are fully consistent with those of the poverty reduction strategy paper (PRSP) process, a summary of the revised PEAP was used as a basis for Uganda's PRSP, which was presented to the Boards of the World Bank and IMF in May 2000.

2. A new PEAP has been formally launched by the government in May 2005. The revised PEAP along with a Joint-Staff Advisory Note (JSAN) were presented to the Boards of the World Bank and IMF in June 2005. The new PEAP has five pillars: (1) economic management; (2) production, competitiveness and income; (3) security, conflict-resolution, and disaster management; (4) good governance; and (5) human development.

3. The Bank and Fund support the government's efforts to implement the strategy in a complementary fashion. The Fund provides its support through a second three-year arrangement under the Poverty Reduction and Growth Facility (PRGF), and continues concentrating on macroeconomic and financial sector issues, focusing specifically on short- and medium-term macroeconomic stability, which falls under the first PEAP/PRSP pillar. The structural program of the Fund addresses the areas of tax administration, budget management, monitoring of local government finances, financial sector regulations and supervision, and improvement of the national accounts and statistics.

4. The Bank is supporting the implementation of PEAP/PRSP, specifically focusing on structural and sectoral reforms to alleviate poverty and increase growth. The assistance is delivered in the form of budget and project support, with a heavy focus also on analytic work.

II. Bank Group Strategy

5. The World Bank Group's current Country Assistance Strategy (CAS) for Uganda was approved by the Board on November 16, 2000. The objective of the CAS is to support Uganda's economic transformation and poverty reduction strategy. The emphasis on maintaining macroeconomic stability continues, but the focus is increasingly shifting to sector-level and cross-cutting public sector management issues. The new PEAP forms the basis for ongoing preparations of a new CAS, the Uganda Joint Assistance Strategy (UJAS), where World Bank, together with AfDB, Germany, UK, Netherlands, Norway, and Sweden are aligning their support around comparative advantages. The UJAS is scheduled to be presented to the IDA Board in fiscal year 2005/06 (July–June).

6. Consistent with this strategy, the Bank has been increasingly shifting to programmatic lending through a series of annual Poverty Reduction Support Credits (PRSC) that support the implementation of Uganda's PEAP/PRSP. The first annual single-tranche PRSC (PRSC1) for Uganda was approved by the Board in May 2001. A subsequent operation, PRSC2, was approved in July 2002, and PRSC3 and PRSC4 were approved by the Board in September 2003 and 2004, respectively. PRSC 5 is scheduled to go to the Board in November 2005. PRSCs support a medium-term program, with each annual operation linked to specific reform actions. The support provided by PRSCs aims to improve public service delivery and agricultural production, since basic services critical to development are still inadequate in Uganda with about 70 percent of the population deriving their livelihood from agriculture.

7. The World Bank Group's assistance program is fully consistent with and supports the five pillars of the PEAP/PRSP through a combination of lending and analytical activities as follows:

8. **PEAP/PRSP Pillar 1—Economic Management.** Growth in private investment, fiscal consolidation, and increased revenue generation is one of the main objectives of Uganda's economic policy. The Bank's activities under this pillar aim to help the government achieve rapid and sustainable economic growth to reduce poverty**.** Through the PRSCs, the Bank supports the government's efforts to strengthen public expenditure and budgetary management, enhance the results orientation of sector expenditure programs, rationalize and strengthen monitoring and evaluation systems, and proceed with gradual fiscal decentralization by streamlining the intergovernmental fiscal transfer system. PRSCs also support development of the legal and regulatory framework for microfinance, pension reform, and the strengthening of the insurance sector.

9. **PEAP/PRSP Pillar 2—Enhancing production, competitiveness, and incomes**. The Bank supports several activities that aim to promote production, competitiveness, and incomes, and to enhance environmentally sustainable rural development and reduce regional disparities. Support is provided through a demand-driven National Agricultural Services Project and the Second Agricultural Research and Training Project. Furthermore, the series of PRSCs support the government to promote agricultural diversification and modernization, mainstreaming of environmental concerns in government programs, land tenure reforms, and expansion of nonfarm activities in rural areas. The Second Environmental Management and Capacity Building Project, the Second Protected Areas Management and Sustainable Use Project, and the second phase of the regional Lake Victoria Project help address the environmental challenges. The Bank group also supports infrastructure development, especially roads, power, and reform of key utilities. The Fourth Power project aims to address some of the key constraints to private sector investments. The Bank also supports the government's ten-year Road Development Program through a series of road sector projects. The Privatization and Utility Sector Reform Project supports the reform of key utilities and divestiture of the remaining public enterprises. On a regional basis, the Bank continues to provide advisory support to the Nile Basin Initiative.

10. **PEAP/PRSP Pillar 3—Security Conflict-Resolution and Disaster Management**. To reduce regional disparities, the Second Northern Uganda Social Action Fund targets the relatively poor districts of northern and eastern Uganda, which have not benefited proportionately from economic reform and liberalization.

11. **PEAP/PRSP Pillar 4—Good Governance**. The Bank plays a key role in supporting the government's efforts to improve governance, including in the areas of combating corruption and implementing broad-based public sector reform. The Bank supports through the PRSCs a variety of cross-cutting public sector management reforms to increase accountability and transparency, and reduce corruption. These include reforms in public procurement, financial management, public sector pay, payroll and personnel management, and anti-corruption legislation. Ongoing work on financial accountability through the Second Economic and Financial Management Project (EFMP II) and Local Government Development Project (LGDP) complements these efforts.

12. **PEAP/PRSP Pillar 5—Human Development.** The Bank supports the government's efforts to improve access to, and quality of, education, health care, and water and sanitation services, primarily through the series of PRSCs. Support under this pillar is critical to furthering Millennium Development Goals (MDGs). The HIV/AIDS Control Project supports Uganda's effort to fight the HIV/AIDS epidemic by supporting local initiatives that are providing prevention, treatment, and care.

III. Bank Portfolio

13. As of August 31, 2005, Uganda's portfolio of IDA operations comprised 20 active projects, with total net commitments of US$1,214 million and an undisbursed balance of US$703 million.

14. For FY06, projects in the pipeline include PRSC5 (US$150 million), Public Service Performance Enhancement Program (US$70 million), Private Power Generation Project (US$45 million), and the EAC Transport/Trade Project (US$10 million). In fiscal year FY05, PRSC 4 (US$150 million grant), Road Development Program Phase 3 (US$107.6 million of which US$40 million is grant), and Private Sector Export Competitiveness Project Phase 2 (US$70 million), totaling US$327.6 million, were approved by the IDA Board. In FY04, PRSC3, a Supplemental Credit to the Second Economic and Financial Management Project and the Sustainable Management of Mineral Resources Project were approved.

IV. Bank-Fund Collaboration in Specific Areas

15. The IMF and World Bank staffs maintain a close collaborative relationship in supporting the government's structural reforms. As part of its overall assistance, the Bank supports policy reforms in the following areas in collaboration with the Fund:

16. **Poverty reduction strategy paper.** The Bank and Fund are assisting the government in the implementation of its poverty reduction strategy. The staffs of the two institutions prepare joint assessments of the PRSP or the PRSP progress report on an annual basis.

17. **Debt sustainability.** The staffs of the Bank and Fund continue collaborating on issues related to the Initiative for Heavily Indebted Poor Countries (HIPC Initiative), and prepared jointly a debt sustainability analysis for Uganda in calendar-year 2002, which has been updated in June 2005.

18. **Public expenditure management.** Strengthening public expenditure management is the critical first step in improving the efficiency of public service delivery. The Bank, Fund, and other donors are working closely to provide the government the support needed for institutional and policy reforms. The Fund is leading the dialogue on fiscal policy, while the Bank is focusing on strategic expenditure allocation and efficiency of public expenditures through its work on the public expenditure review and PRSC. The staffs of the two institutions prepare, on an annual basis, a report that tracks HIPC Initiative poverty-reducing spending, analyzes the quality of public expenditure management in Uganda, and identifies areas needing strengthening. On FY04/05 PER, CFAA and CPAR were coordinated through an integrated fiduciary assessment approach and the outcome of that is the Country Integrated Financial Assessment (CIFA) report. The report synthesizes the finding of each of the components in an integrated way and also provides an action plan.

19. **Financial sector reform.** Both the Bank and Fund are supporting the government's efforts to reform the financial sector. The Bank supports these efforts through PRSC measures to strengthen the insurance sector, reform the pension system, and develop the legal and regulatory framework for microfinance. The work is closely coordinated with a program supported by the Fund's PRGF arrangement, which addresses selected aspects of pension reform.

20. **Trade reforms.** The Bank and Fund are working closely to assist Uganda in establishing a pro-growth trade framework. Both institutions are involved in the dialogue on trade reforms in the context of the East African Community at the regional level. The Bank is undertaking a diagnostic trade integrated study (DTIS) schedule to be completed by the end of FY06.

Questions may be referred to Dino Merotto, Country Economist, Tel. (202) 458-1987.

Uganda: Statistical Issues

Uganda participates in the General Data Dissemination System (GDDS); its metadata were initially posted on the Fund's Dissemination Standards Bulletin Board in May 2000. Partial updates of external sector metadata were completed in August 2005.

An STA mission visited Uganda in February 2005 to prepare a data ROSC. It assessed data compilation and dissemination practices against international standards in national accounts, prices, government finance, and balance of payments statistics; the monetary and financial statistics were not assessed.

Real sector statistics

The 2005 data ROSC mission found that that the national accounts do not follow up-to-date international standards and have a limited scope, but do use international classifications and a generally adequate base for recording. The mission recommended undertaking an agricultural census supplemented with annual sample surveys and an economy-wide business survey at least every five years, supplemented with annual sample surveys. Compilation of the consumer price index conforms to international standards, but is of limited scope; the mission recommended expansion of coverage to rural areas, along with updating the reference and weight base to 2003-2004. No wholesale or producer price indices or labor market information are produced.

Government finance statistics

The 2001 Government Finance Statistics (GFS) technical assistance mission discussed several data classification issues with the Ministry of Finance and proposed a summary framework for the reporting of GFS according to the *GFS Manual 2001 (GFSM 2001)* framework. A 2003 follow-up mission identified some weaknesses in the proposed new chart of accounts. A revised chart of accounts was implemented for use by all budgetary central government and local government units from July 1, 2004. Uganda commenced reporting GFS data compiled according to the *GFSM 2001* framework for the 2004 GFS Yearbook. However, data coverage is limited to the budgetary central government and local government accounts and excludes the activities of extrabudgetary central government units and the National Social Security Fund. The 2005 data ROSC mission echoed these findings and recommended migration to the *GFSM 2001*.

Monetary and financial statistics

An STA multisector statistics mission to Uganda (December 2–15, 1998) determined that Uganda's monetary statistics, which had been compiled from a bank reporting system, were broadly adequate for policy purposes. However, the quality of data is compromised by various methodological problems, such as an arbitrary application of the residency criterion, an inadequate disaggregation of the resident sector data, a large discrepancy in the reported interbank positions, and misclassifications of some accounting data related to monetary aggregates. To address these issues, the mission recommended that the Bank of Uganda instruct commercial banks to classify accounts according to their clients' properly determined residency and to use a more detailed scheme for disaggregating the resident sector data. The mission also recommended a symmetrical treatment of government lending in the central bank's and commercial banks' data in order to narrow discrepancies in the reported interbank positions. Reclassification of the accounting data was also recommended to facilitate proper measurement of key monetary aggregates, in particular, broad money, claims on central government, claims on the private sector, and foreign liabilities.

The authorities recently requested further technical assistance to adapt compilation to meet the recommendations of the *Monetary and Financial Statistics Manual.* The monetary and financial statistics mission, tentatively scheduled for January 2006, will assist with in proper sectorization of institutional units, classification of financial assets, and expansion of institutional coverage.

External sector statistics

The 2005 ROSC mission found that the balance of payments statistics broadly follow the fifth edition of the *Balance of Payments Manual (BPM5)*, but that there are some departures from recommended definitions, scope, and classifications. Some issues noted in the report were that the data source covered foreign exchange transactions only, unidentified flows were included under services, and that timeliness was poor. The mission urged completion of the conversion to the *BPM5* and the development of new source data and estimation techniques in the following areas: exports of freight and imports of passenger transportation, compensation of employees, direct investment abroad, portfolio investment and financial derivatives. International trade data could be improved by incorporation of results from the Survey of Informal Cross-Border Trade and greater use of trade partner country data sources.

Uganda: Common Indicators Required for Surveillance
(As of November 30, 2005)

	Date of latest observation	Date received	Frequency of Data[5]	Frequency of Reporting[5]	Frequency of publication[5]
Exchange Rates	08/31/05	09/01/05	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	08/31/05	09/20/05	M	M	M
Reserve/Base Money	09/30/05	11/21//05	D	D	M
Broad Money	09/30/05	11/21/05	M	M	M
Central Bank Balance Sheet	09/30/05	11/21/05	M	M	M
Consolidated Balance Sheet of the Banking System	09/30/05	11/21/05	M	M	M
Interest Rates[2]	10/31/05	11/21/05	M	M	M
Consumer Price Index	July 2005	Aug. 2005	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	June 2005	July 2005	M	M	M
Stocks of Central Government and Central Government-Guaranteed Domestic Debt[4]	June 2005	July 2005	M	M	M
External Current Account Balance	Mar. 2005	June 2005	A	Q	Q
Exports and Imports of Goods and Services	June 2005	July 2005	M	M	M
GDP/GNP	2003/04	Oct. 2004	A	A	A
Gross External Debt	12/31/04	July 2005	M	Q	...

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] Including maturity composition.
[5] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); or Not Available (NA).

Uganda: Joint Fund-World Bank Debt Sustainability Analysis

1. **Uganda's risk of debt distress is moderate.** Its net present value (NPV) of debt-to-exports ratio stands at 179 percent in 2004/05, or below its policy-dependent threshold of 200 percent, but this threshold is breached under various stress tests during the projection period. Debt-service payments remain manageable at about 16 percent of exports in 2004/05. The implementation of the Multilateral Debt Relief Initiative (MDRI) would provide additional debt relief that could decrease Uganda's NPV of debt-to-exports ratio to 46 percent in 2006/07.[1] The Fund-World Bank staff agreed that this joint debt sustainability analysis (DSA) will focus mainly on Uganda's situation before the full implementation of the MDRI, as certain technical aspects of International Development Association (IDA) and African Development Fund (AfDF) debt relief are not yet defined. A reassessment of Uganda's debt sustainability after implementation of MDRI may become necessary once the technical details with respect to the Initiative are finalized.

2. **This joint DSA has been prepared using the Fund-World Bank debt sustainability framework for low-income countries**. The debt data underlying this DSA was updated jointly by the Ugandan authorities and the World Bank in July 2005. New information on some creditors that became available after 2002 has been included.[2] The macro economic framework is based on the Fund's macro framework agreed with the authorities during the discussions for the Policy Support Instrument (PSI) in October 2005.[3]

I. Evolution of Uganda's External Debt Since the HIPC Completion Point

3. **Uganda graduated from the HIPC Initiative with an NPV of debt-to-exports of 171 percent in 2000/01.**[4] A DSA for Uganda for 2002, using the HIPC methodology, projected that Uganda's NPV of debt-to-exports ratio would continue to increase from 2000/01 onwards, peaking at 209 percent in 2002/03 and declining to 198 percent in 2004/05. The current DSA, however, shows that Uganda's NPV of debt-to-exports ratio, based on the HIPC methodology, would have amounted to 229 percent in 2004/05, exceeding projections by about 31 percentage

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[1] These figures are based on the assumption that debt relief under the MDRI is provided on debt outstanding as of end-2004 for the IMF and the AfDF and end-2003 for IDA. Implementation dates for MDRI are January 2006.for IMF and AfDF, and July 2006 for IDA. Any possible effect on disbursement projections has been ignored. Uganda received US$1.95 billion in total debt service relief under the HIPC Initiative, out of which US$1.3 billion under the Enhanced HIPC Initiative.

[2] The new data refers to bilateral non-Paris Club creditors, as well as the East African Development Bank and the Islamic Development Bank.

[3] See the statistical tables attached to this staff report.

[4] See "Uganda: Updated Debt Sustainability Analysis and Assessment of Public External Debt Management Capacity," August 2002 (available on the IMF website).

points (Text Table 1). The depreciation of the US dollar explains the bulk of the increase in the NPV of debt-to-exports ratio, raising it by 41 percentage points.

Table 1. Uganda: Projected Versus Actual NPV of Debt-to-Export Ratio in FY05 1/

NPV of debt-to-exports ratio (as projected in FY02) 2/ 3/	**198.0**
Total change in ratio (based on HIPC methodology) 4/	**31.5**
1. Due to changes in the parameters	65.3
Off which : due to changes in the discount rates	24.8
Of which : due to changes in the exchange rates	40.5
2. Due to unanticipated new borrowing 5/	-14.3
Off which : due to higher than expected disbursements	-16.2
Off which : due to lower concessionality of loans	1.9
3. Due to unanticipated change in exports	-27.0
4. Other factors 6/	7.4
Actual NPV of debt-to-exports ratio (HIPC Methodology) 3/	**229.4**

Source: WB Staff estimates

1/ NPV of debt-to-exports ratio under assumption of full delivery of HIPC assistance in percent.
2/ See "Uganda: Updated Debt Sustainability Analysis and Assessment of Public External Debt Management Capacity," August 2002.
3/ Exports are three-year backward looking moving average of exports of goods and services.
4/ Changes are expressed in percentage points.
5/ Reflects calculation error in the calculation of NPV of new debt in the DSA 2002.
6/ Other factors capture arrears accumulation, revision of debt relief agreements and data since FY02.

4. **Nominal export growth exceeded projections**, largely due to strong export performance of noncoffee exports, such as fish, cotton and flowers. Exports of goods and services grew by 18 percent in this fiscal year, raising the average export growth rate between 2001/02 and 2004/05 to 14 percent. Average export growth had been projected to amount to only 10 percent during this period. Since export growth outperformed projections, the NPV of debt to three-year average of exports ratio is 27 percentage points lower than projected.

II. External Debt Sustainability Analysis[1]

5. **Uganda's debt burden indicators remain below their policy-dependent thresholds throughout the projection period under the baseline scenario**.[2] The NPV of debt-to-GDP ratio amounts to 24 percent in 2004/05, lying well below its policy-dependent threshold of 50 percent. It is projected to decline continuously thereafter, dropping below 13 percent by the end of the projection period.[3] Uganda's NPV of debt-to-exports ratio in 2004/05 amounts to 179 percent, below its policy-dependent debt burden threshold. Debt-service payments continue to be manageable, reflecting the delivery of HIPC assistance as well as the fact that most of Uganda's debt has been contracted on concessional terms. Uganda's debt service-to-exports ratio was 16 percent in 2004/05 and is projected to decline to 6 percent by 2010/11.

Box 1. Macroeconomic Assumptions

Real GDP growth averages 6.percent between 2006 and 2025, equal to its ten-year historical average.

Exports of goods and services are projected to grow about 9 percent on average between 2005/06 and 2010/11, driven largely by an increase in the export volume of fish, maize, cotton and coffee. After 2010/11 export growth slows down to about 7 percent.

The current account deficit (including official transfers) in terms of GDP is above its historical average of 4.7 percent by about 0.4 percent of GDP between 2005/06-2010/11 and is projected to increase to 5.5 percent on average thereafter.

Fiscal policy. Tax revenues are assumed to increase gradually from 13 percent of GDP 2004/05 to 15 percent of GDP in 2010/11 and thereafter. With grants tapering off to about 4½ percent, noninterest expenditures are projected to decline gradually to a level of 18½ percent of GDP, consistent with a primary deficit of 1 percent of GDP in the outer years.

Official external loan financing is projected to amount to US$350 million on average throughout the entire projection period. The DSA assumes that only IDA grants committed before June 2005 will be disbursed.

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[1] The Low-Income Countries (LIC) DSA methodology differs from the HIPC on a number of aspects, notably on (i) the current year exports are used as denominators for estimating debt-to-exports ratio rather than the backward-looking three-year moving average of exports; (ii) the use of the WEO exchange rate projections instead of exchange rates at the end of the base year; and (iii) a 5 percent discount rate instead of currency specific discount rates.

[2] Uganda's policies and institutions rank as a "strong performer" according to the latest World Bank's Country Policy and Institutional Assessment (CPIA). Under this rank, policy-dependent, debt burden thresholds are NPV of debt to GDP ratio of 50 percent, NPV of debt-to-exports ratio of 200 percent, NPV of debt to revenue ratio of 300 percent, debt service to exports ratio of 25 percent and debt service to revenue ratio of 35 percent.

[3] Similarly, the NPV of debt-to-revenue of 169 percent in 2004/05 is well below its policy-dependent threshold.

6. **Adverse macroeconomic shocks would worsen Uganda's NPV of debt-to-exports ratio significantly.** If exports were to grow less by one standard deviation in 2006/07, Uganda's NPV of debt-to-exports ratio would jump up to 208 percent in 2006/07. An export shock would have long lasting negative effects on Uganda's debt dynamics, keeping the NPV of debt-to-exports ratio above 200 percent until 2020/21. However, Uganda's NPV of debt-to-exports ratio would remain below its policy-dependent threshold when key macroeconomic variables are set at their historical average.

7. **Imprudent debt management would worsen Uganda's NPV of debt-to-exports ratio significantly.** If new borrowing were to be contracted on less concessional terms during the projection period, Uganda's NPV of debt-to-exports ratio would increase substantially. Reducing the grant element by 8 percentage points[4] would lead to an increase in the NPV of debt-to-exports ratio by 17 percentage points in 2011/12.

8. **Uganda is projected to continue to rely heavily on donor support in order to finance its projected current account deficit.** In 2004/05, net donor support amounts to 9.4 percent of GDP, with grants constituting approximately 8.4 percent of GDP.

III. Fiscal Sustainability Analysis

9. **The fiscal DSA is based on the assumption of continued fiscal consolidation in the context of lower grant inflows.** Specifically, it is assumed that grants will decline from about 8½ percent of GDP in 2004/05 to about 5 percent of GDP during the projection period, reflecting increased autonomy from donor support. Domestic public revenues are projected to rise to 15 percent of GDP, from currently at 13 percent, reflecting authorities' efforts to raise domestic revenues. This should allow noninterest public expenditures to level off at about 18½ percent of GDP, while limiting the deficit of the primary balance to 1 percent of GDP.

10. **Under the baseline scenario,** NPV of public debt is projected to decline from 36 percent of GDP in 2004/5 to about 11 percent at the end of the projection period. In terms of public sector revenues, the NPV of Uganda's public debt under the baseline scenario remains at about 160 percent in the first several years. After 2010, reflecting continued fiscal consolidation, the decline of the NPV of debt-to-revenue ratio accelerates, and falls to about 60 percent at the end of the projection period. Debt-service indicators also seem to remain manageable.

11. **Uganda's achievement of public debt sustainability remains valid even under alternative scenarios** and most of them continue to decline over the projection period. It is noticeable that under the nonreform scenario, which assumes unchanged primary balance from 2004/05, debt indicators remain better than under the baseline scenario.

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[4] This would correspond to an increase in the average interest rate on new disbursements by 1 percentage point.

12. **Standard bound tests suggest that under the standardized alternative shocks,** NPV of Uganda's public debt stays below 40 percent of GDP. The 30 percent one-time depreciation shock takes the NPV of debt to 40 percent of GDP and 200 percent of revenues, but after about ten years the two indicators returns to figures close to the baseline.

IV. THE EFFECTS OF MDRI

13. **Uganda is at a moderate risk of debt distress before the implementation of the MDRI.** While all debt burden indicators are below their policy-dependent debt burden thresholds under the baseline, Uganda remains vulnerable to exogenous shocks. The MDRI debt relief would improve Uganda's debt sustainability outlook substantially by leading to a drastic reduction in Uganda's debt burden indicators (Text Table 2). The NPV debt-to-export ratio will remain volatile year-on-year, but like other indicators will stay well within presently defined policy-dependent thresholds.[5]

Table 2. Uganda: MDRI and Bujagali Project: Likely Impact on DSA Baseline Scenarios (In percent)

	Estimate	Projections			
	2006	2009	2012	2015	2025
	NPV of debt-to-GDP ratio				
Before MDRI	23	23	22	21	12
With Bujagali Project 1/	23	25	24	22	12
After MDRI	6	9	11	12	10
With Bujagali Project 1/	6	11	13	13	10
	NPV of debt-to-exports ratio				
Before MDRI	169	160	160	155	106
With Bujagali Project 1/	169	175	175	161	106
After MDRI	45	64	80	90	83
With Bujagali Project 1/	45	79	95	96	83
	Debt service ratio				
Before MDRI	13	8	6	6	7
With Bujagali Project 1/	13	9	9	8	7
After MDRI	13	3	2	2	4
With Bujagali Project 1/	13	4	5	4	4

Source: Staff projections and simulations.

1/ Assuming Bujagali is built during 2008-11 and fully financed in commercial terms.

14. **The authorities are planning to build the Bujagali hydropower plant to address power shortage constraints that negatively affect Uganda's growth prospects**. Building Bujagali will guarantee a steady and secure supply of energy and strengthen private sector confidence. While the terms and conditions for financing the project are not finished, the staffs have prepared a DSA scenario, in which it is assumed that Bujagali would be financed on commercial terms and commissioned by 2010/11. Under the baseline scenario, the NPV of debt-to-exports ratio increases by 6 percentage points in 2015. However, if a combination of shocks impact Uganda, the NPV of debt-to-exports ratio would increase by 11 percentage points to 247 percent in 2015. These risks show the importance of maintaining a prudent debt management policy even under the debt relief scenario.

15. **The full implementation of the MDRI would substantially lower Uganda's probability of debt distress.** The debt relief under the MDRI would decrease Uganda's NPV of debt-to-exports ratio to 46 percent in 2006/07 from 179 percent in 2004/05 while the debt service

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[5] The MDRI scenario assumes that disbursement projections remain the same as under the baseline. Netting out IDA's MDRI debt relief from disbursement projections could lower debt burden indicators significantly.

to export ratio would sharply decrease to 4 percent in 2006/07 from 16 percent in 2004/05. Uganda's NPV debt-to-GDP ratio will be reduced to 7 percent in 2006/07 from 24 percent in 2004/05.

V. Conclusion

16. **While Uganda is at a moderate risk of debt distress, it will be better protected against the risk of shocks by embarking upon a second generation of structural reforms.** These reforms will help diversify the export base and strengthen export competitiveness. While these measures would reduce Uganda's vulnerability to exogenous shocks, the implementation of prudent debt management policies and efficient allocation of donor support would be required in order to ensure that debt burden indicators remain low in the long term.

Table 1a. Uganda: External Debt Sustainability Framework, Baseline Scenario, 2005—25 1/
(In percent of GDP, unless otherwise indicated)

			Historical	Standard	Estimate	Projections								
	2004	2005	Average 7/	Deviation 7/	2006	2007	2008	2009	2010	2011	2006-11 Average	2024	2025	2012-25 Average
External debt (nominal) 2/	**63.1**	**44.5**			**41.8**	**42.6**	**42.2**	**41.6**	**41.3**	**40.1**		**21.4**	**20.0**	
o/w public and publicly guaranteed (PPG)	63.1	44.5			41.8	42.6	42.2	41.6	41.3	40.1		21.4	20.0	
Change in external debt	0.3	-18.6			-2.8	0.8	-0.4	-0.6	-0.3	-1.2		-1.5	-1.4	
Identified net debt-creating flows	-5.8	-15.0			0.3	-0.7	-0.1	-0.5	0.0	0.1		1.8	1.9	
Non-interest current account deficit	**1.2**	**0.7**	**4.7**	**2.7**	**3.8**	**3.8**	**4.5**	**4.3**	**4.6**	**4.7**		**6.1**	**6.2**	5.5
Net current transfers (negative = inflow)	-13.5	-13.8	-8.7	3.7	-12.3	-11.2	-10.2	-11.5	-11.5	-11.5		-11.5	-11.5	-11.5
o/w official	-10.2	-9.0			-7.4	-5.7	-4.4	-5.0	-5.0	-5.0		-5.0	-5.0	
Net FDI (negative = inflow)	**-2.4**	**-2.5**	**-2.1**	**0.5**	**-2.5**	**-2.5**	**-2.6**	**-2.6**	**-2.6**	**-2.6**		**-3.2**	**-3.2**	-2.7
Endogenous debt dynamics 3/	**-4.6**	**-13.2**			**-1.0**	**-2.1**	**-2.1**	**-2.2**	**-2.1**	**-2.0**		**-1.1**	**-1.0**	
Contribution from nominal interest rate	0.6	0.4			1.5	0.2	0.3	0.3	0.3	0.3		0.2	0.2	
Contribution from real GDP growth	-2.8	-2.8			-2.5	-2.4	-2.3	-2.4	-2.3	-2.3		-1.3	-1.2	
Contribution from price and exchange rate changes	-2.3	-10.9			…	…	…	…	…	…		…	…	
Residual 4/	**6.1**	**-3.6**			**-2.1**	**1.4**	**0.5**	**0.6**	**-0.1**	**-0.5**		**-2.8**	**-2.9**	
o/w exceptional financing	-0.1	0.0			0.2	0.2	0.1	0.1	0.0	0.0		0.0	0.0	
NPV of external debt 5/	...	23.7			22.6	23.1	22.9	22.8	22.9	22.5		13.4	12.5	
In percent of exports	...	179.1			168.6	159.7	158.8	159.7	159.9	159.8		112.0	106.1	
NPV of PPG external debt	**...**	**23.7**			**22.6**	**23.1**	**22.9**	**22.8**	**22.9**	**22.5**		**13.4**	**12.5**	
In percent of exports	...	179.1			168.6	159.7	158.8	159.7	159.9	159.8		112.0	106.1	
Debt service-to-exports ratio (in percent)	17.1	16.1			12.9	9.4	8.2	7.5	6.8	5.8		7.3	7.1	
PPG debt service-to-exports ratio (in percent)	17.1	16.1			12.9	9.4	8.2	7.5	6.8	5.8		7.3	7.1	
Total gross financing need (billions of U.S. dollars)	82.4	35.2			285.9	270.6	337.9	322.0	371.7	398.3		1384.7	1521.5	
Non-interest current account deficit that stabilizes debt ratio	0.9	19.3			6.5	3.0	5.0	4.9	4.9	5.9		7.6	7.6	
Key macroeconomic assumptions														
Real GDP growth (in percent)	4.9	5.6	5.9	2.3	6.0	5.9	5.9	6.2	6.0	6.0	6.0	6.0	6.0	6.0
GDP deflator in US dollar terms (change in percent)	3.8	20.9	-0.8	13.3	2.2	-0.5	1.9	1.7	0.4	2.0	1.3	2.0	2.0	2.0
Effective interest rate (percent) 6/	1.0	0.9	1.1	0.3	3.6	0.6	0.6	0.7	0.7	0.7	1.1	0.8	0.8	0.7
Growth of exports of G&S (US dollar terms, in percent)	27.7	17.7	6.6	31.5	10.0	13.5	7.8	6.7	6.7	6.7	8.6	6.7	6.7	6.7
Growth of imports of G&S (US dollar terms, in percent)	13.5	21.8	6.6	19.6	15.4	6.8	6.2	9.5	7.9	7.9	8.9	7.9	7.9	7.9
Grant element of new public sector borrowing (in percent)	...	...	...	...	56.3	56.9	56.9	56.9	56.9	56.9	56.8	56.9	56.9	56.9

Source: Staff simulations.

1/ In fiscal year, which ends in June.
2/ The stock of external debt in 2005 includes a simulated stock reduction operation related to the debt relief provided by the Fund, AfDF and IDA under the enhanced HIPC Initiative.
3/ Derived as $[r - g - \rho(1+g)]/(1+g+\rho+g\rho)$ times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.
4/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
5/ Assumes that NPV of private sector debt is equivalent to its face value.
6/ Current-year interest payments devided by previous period debt stock.

Table 1b. Uganda: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2006–25 1/
(In percent)

	Estimate	Projections								
	2006	2007	2008	2009	2010	2011	2012	2015	2016	2025
					NPV of debt-to-GDP ratio					
Baseline	23	23	23	23	23	23	22	21	**20**	12
A. Alternative Scenarios										
A1. Key variables at their historical averages in 2004-23 2/	23	24	24	25	26	26	27	27	**27**	19
A2. New public sector loans on less favorable terms in 2004-23 3/	23	24	25	25	26	26	26	25	**25**	18
B. Bound Tests										
B1. Real GDP growth at historical average minus one standard deviation in 2004-05	23	23	24	24	24	23	23	21	**21**	13
B2. Export value growth at historical average minus one standard deviation in 2004-05 4/	23	24	26	26	26	25	25	23	**22**	14
B3. US dollar GDP deflator at historical average minus one standard deviation in 2004-05	23	26	29	29	29	29	28	26	**26**	16
B4. Net non-debt creating flows at historical average minus one standard deviation in 2004-05 5/	23	26	29	28	28	28	27	25	**24**	14
B5. Combination of B1-B4 using one-half standard deviation shocks	23	28	34	33	33	32	32	29	**28**	17
B6. One-time 30 percent nominal depreciation relative to the baseline in 2004 6/	23	33	33	33	33	32	32	30	**29**	18
					NPV of debt-to-exports ratio					
Baseline	169	160	159	160	160	160	160	155	**152**	106
A. Alternative Scenarios										
A1. Key variables at their historical averages in 2004-23 2/	169	164	169	177	181	186	191	200	**201**	161
A2. New public sector loans on less favorable terms in 2004-23 3/	169	166	171	177	181	184	187	190	**190**	155
B. Bound Tests										
B1. Real GDP growth at historical average minus one standard deviation in 2004-05	169	160	159	160	160	160	160	155	**152**	106
B2. Export value growth at historical average minus one standard deviation in 2004-05 4/	169	208	263	263	263	262	261	252	**247**	167
B3. US dollar GDP deflator at historical average minus one standard deviation in 2004-05	169	160	159	160	160	160	160	155	**152**	106
B4. Net non-debt creating flows at historical average minus one standard deviation in 2004-05 5/	169	182	199	199	198	197	196	188	**184**	122
B5. Combination of B1-B4 using one-half standard deviation shocks	169	206	249	249	248	247	245	236	**231**	152
B6. One-time 30 percent nominal depreciation relative to the baseline in 2004 6/	169	160	159	160	160	160	160	155	**152**	106
					Debt service ratio					
Baseline	13	9	8	8	7	6	6	6	**6**	7
A. Alternative Scenarios										
A1. Key variables at their historical averages in 2004-23 2/	13	9	9	8	7	7	7	7	**7**	12
A2. New public sector loans on less favorable terms in 2004-23 3/	13	9	9	8	8	7	8	8	**8**	10
B. Bound Tests										
B1. Real GDP growth at historical average minus one standard deviation in 2004-05	13	9	8	8	7	6	6	6	**6**	7
B2. Export value growth at historical average minus one standard deviation in 2004-05 4/	13	12	12	11	10	9	9	9	**9**	11
B3. US dollar GDP deflator at historical average minus one standard deviation in 2004-05	13	9	8	8	7	6	6	6	**6**	7
B4. Net non-debt creating flows at historical average minus one standard deviation in 2004-05 5/	13	9	9	8	7	6	6	6	**7**	8
B5. Combination of B1-B4 using one-half standard deviation shocks	13	11	11	10	9	8	8	8	**9**	10
B6. One-time 30 percent nominal depreciation relative to the baseline in 2004 6/	13	9	8	8	7	6	6	6	**6**	7
Memorandum item:										
Grant element assumed on residual financing (i.e., financing required above baseline) 7/	56	56	56	56	56	56	56	56	**56**	56

Source: Staff projections and simulations.

1/ In fiscal years ending in June of the calendar year.
2/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
4/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
5/ Includes official and private transfers and FDI.
6/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
7/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 2a.Uganda: Public Sector Debt Sustainability Framework, Baseline Scenario, 2003-2026
(In percent of GDP, unless otherwise indicated)

	Actual			Estimate					Projections				
	2005	Historical Average 5/	Standard Deviation 5/	2006	2007	2008	2009	2010	2011	2006-11 Average	2016	2026	2012-26 Average
Public sector debt 1/	56.8			54.9	52.4	50.1	46.6	42.3	40.2		28.9	18.2	
Of which: foreign-currency denominated	44.6			45.4	44.7	43.8	42.5	41.2	40.7		33.1	17.9	
Change in public sector debt	-7.6			-1.9	-2.5	-2.3	-3.6	-4.3	-2.1		-2.4	-1.0	
Identified debt-creating flows	-9.3			-1.9	-2.5	-2.3	-3.6	-4.3	-2.1		-2.4	-1.0	
Primary deficit	-1.2	1.9	2.6	0.3	0.6	0.7	-0.8	-0.9	-1.0	-0.2	-1.0	-1.0	-1.0
Revenue and grants	21.3			19.7	19.0	18.5	17.2	18.0	19.4		19.4	19.4	
Of which : grants	8.4			6.8	5.4	4.4	4.4	4.4	4.4		4.4	4.4	
Primary (noninterest) expenditure	20.1			20.0	19.6	19.2	16.4	17.1	18.4		18.4	18.4	
Automatic debt dynamics	-8.1			-1.8	-2.6	-2.6	-2.4	-3.1	-0.8		-1.1	0.0	
Contribution from interest rate/growth differential	-3.1			-3.0	-2.4	-2.5	-2.5	-2.0	-1.4		-0.6	0.3	
Of which : contribution from average real interest rate	0.3			0.2	0.6	0.4	0.4	0.6	0.9		1.2	1.4	
Of which : contribution from real GDP growth	-3.4			-3.2	-3.1	-2.9	-2.9	-2.6	-2.4		-1.8	-1.1	
Contribution from real exchange rate depreciation	-5.0			1.2	-0.2	0.0	0.1	-1.1	0.7		...	...	
Other identified debt-creating flows	0.0			-0.5	-0.4	-0.4	-0.3	-0.3	-0.3		-0.2	0.0	
Privatization receipts (negative)	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0			-0.5	-0.4	-0.4	-0.3	-0.3	-0.3		-0.2	0.0	
Other (specify, e.g., bank recapitalization)	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	1.7			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
NPV of public sector debt	35.9			33.4	31.1	29.3	26.5	23.1	21.5		14.7	11.1	
Of which: foreign-currency denominated	23.7			23.9	23.4	23.0	22.5	22.0	22.0		18.9	10.8	
Of which: external	23.7			23.9	23.4	23.0	22.5	22.0	22.0		18.9	10.8	
NPV of contingent liabilities (not included in public sector debt)	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	2.0			3.5	3.4	3.1	1.5	1.4	1.3		1.2	1.4	
NPV of public sector debt-to-revenue ratio (in percent) 3/	168.7			169.3	163.8	158.3	154.2	128.5	110.7		75.7	57.3	
Of which: external	111.3			121.1	123.3	124.3	130.7	122.3	113.3		97.5	55.8	
Debt service-to-revenue ratio (in percent) 3/ 4/	15.1			16.0	15.0	13.1	13.5	12.7	11.9		11.7	12.4	
Primary deficit that stabilizes the debt-to-GDP ratio	6.5			2.3	3.1	2.9	2.8	3.4	1.1		1.3	0.0	
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	5.6	5.9	1.7	6.0	5.9	5.9	6.2	6.0	6.0	6.0	6.0	6.0	6.0
Average nominal interest rate on forex debt (in percent)	0.8	1.1	0.3	0.7	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Average real interest rate on domestic currency debt (in percent)	10.9	13.7	13.6	3.8	12.4	13.1	17.2	30.6	140.7	36.3	-43.9	-520.5	-114.2
Real exchange rate depreciation (in percent, + indicates depreciation)	-9.1	3.2	9.8	2.9	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	8.6	5.2	4.8	9.3	4.3	4.1	4.0	3.2	2.2	4.5	2.8	2.8	2.8
Growth of real primary spending (deflated by GDP deflator, in percent)	-2.5	9.3	17.7	5.6	3.6	3.8	-9.2	7.7	13.8	4.2	6.0	6.0	6.0
Grant element of new external borrowing (in percent)	0.0	0.0	0.0	56.9	56.9	56.9	56.9	56.9	56.9	56.9	56.9	56.9	...

Sources: Uganda authorities; and Fund staff estimates and projections.
1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]
2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.
3/ Revenues including grants.
4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.
5/ Historical averages and standard deviations are generally derived over the past ten years, subject to data availability.

Table 2b.Uganda: Sensitivity Analysis for Key Indicators of Public Debt 2006-2026

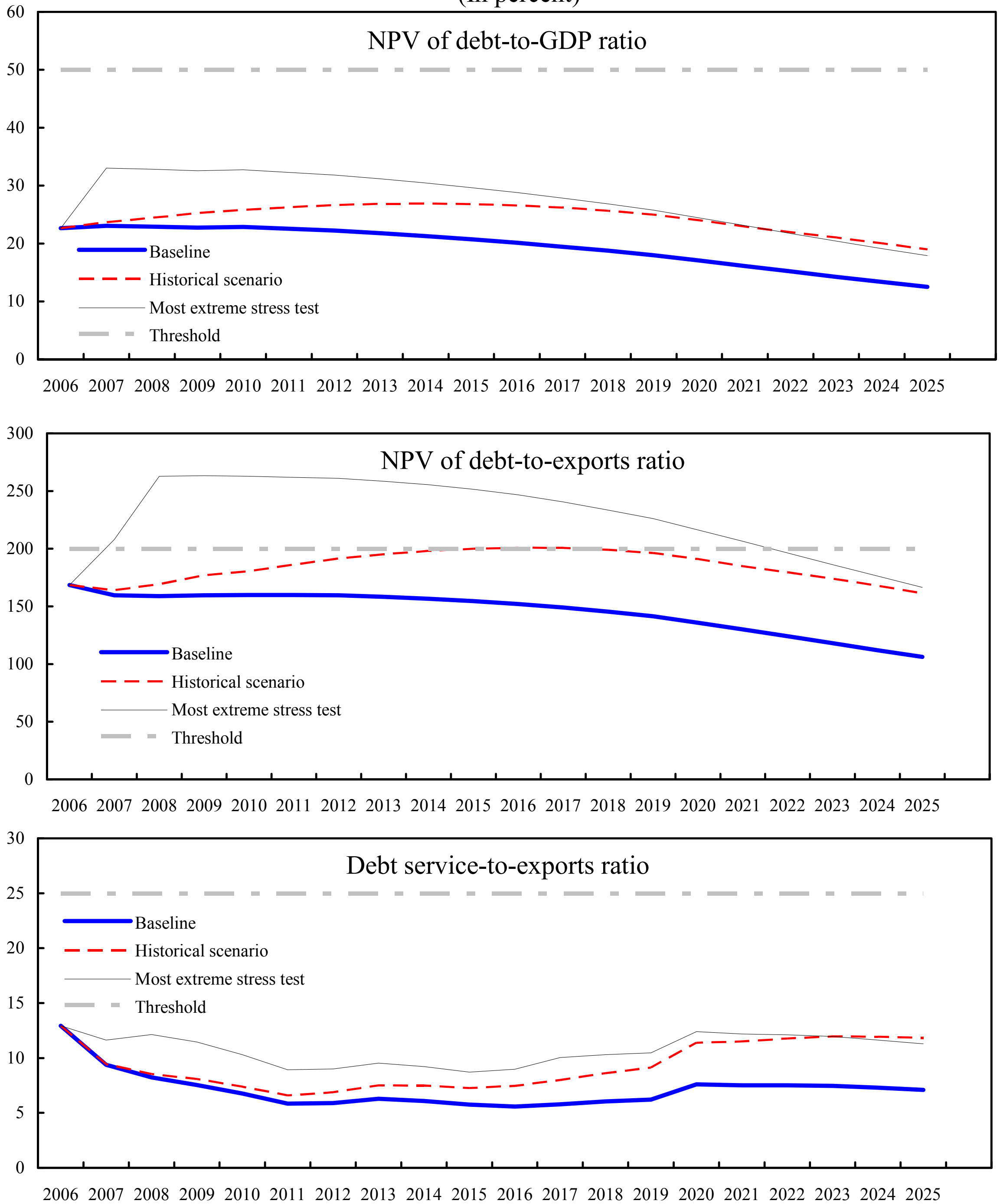
	Estimate	Projections						
	2006	2007	2008	2009	2010	2011	2016	2026
	NPV of Debt-to-GDP Ratio							
Baseline	33	31	29	27	23	21	15	11
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	33	32	30	29	27	27	25	28
A2. Primary balance is unchanged from 2005	33	30	27	24	21	20	13	9
A3. Permanently lower GDP growth 1/	33	31	30	27	24	22	16	14
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2007-2008	33	32	31	28	25	23	16	12
B2. Primary balance is at historical average minus one standard deviations in 2007-2008	33	33	33	30	26	25	16	10
B3. Combination of B1-B2 using one half standard deviation shocks	33	33	32	29	26	24	16	10
B4. One-time 30 percent real depreciation in 2007	33	40	37	34	30	27	17	11
B5. 10 percent of GDP increase in other debt-creating flows in 2007	33	36	34	31	27	26	18	13
	NPV of Debt-to-Revenue Ratio 2/							
Baseline	169	164	158	154	128	111	76	57
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	169	167	164	168	152	138	129	145
A2. Primary balance is unchanged from 2005	166	156	146	141	119	102	66	48
A3. Permanently lower GDP growth 1/	169	164	160	156	134	115	81	71
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2007-2008	169	166	164	161	138	120	83	63
B2. Primary balance is at historical average minus one standard deviations in 2007-2008	169	174	177	173	148	127	85	54
B3. Combination of B1-B2 using one half standard deviation shocks	169	171	173	169	144	123	81	51
B4. One-time 30 percent real depreciation in 2007	169	213	202	196	166	142	90	57
B5. 10 percent of GDP increase in other debt-creating flows in 2007	169	189	182	178	153	133	93	65
	Debt Service-to-Revenue Ratio 2/							
Baseline	16	15	13	14	13	12	12	12
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	16	15	14	15	14	13	14	17
A2. Primary balance is unchanged from 2005	16	14	12	12	12	11	11	11
A3. Permanently lower GDP growth 1/	16	15	13	14	13	12	12	13
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2007-2008	16	15	14	14	13	12	12	13
B2. Primary balance is at historical average minus one standard deviations in 2007-2008	16	16	15	15	13	12	12	12
B3. Combination of B1-B2 using one half standard deviation shocks	16	16	14	15	13	12	12	12
B4. One-time 30 percent real depreciation in 2007	16	15	14	14	13	12	12	12
B5. 10 percent of GDP increase in other debt-creating flows in 2007	16	17	16	16	13	12	12	13

Sources: Country authorities; and Fund staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of 20 (i.e., the length of the projection period).

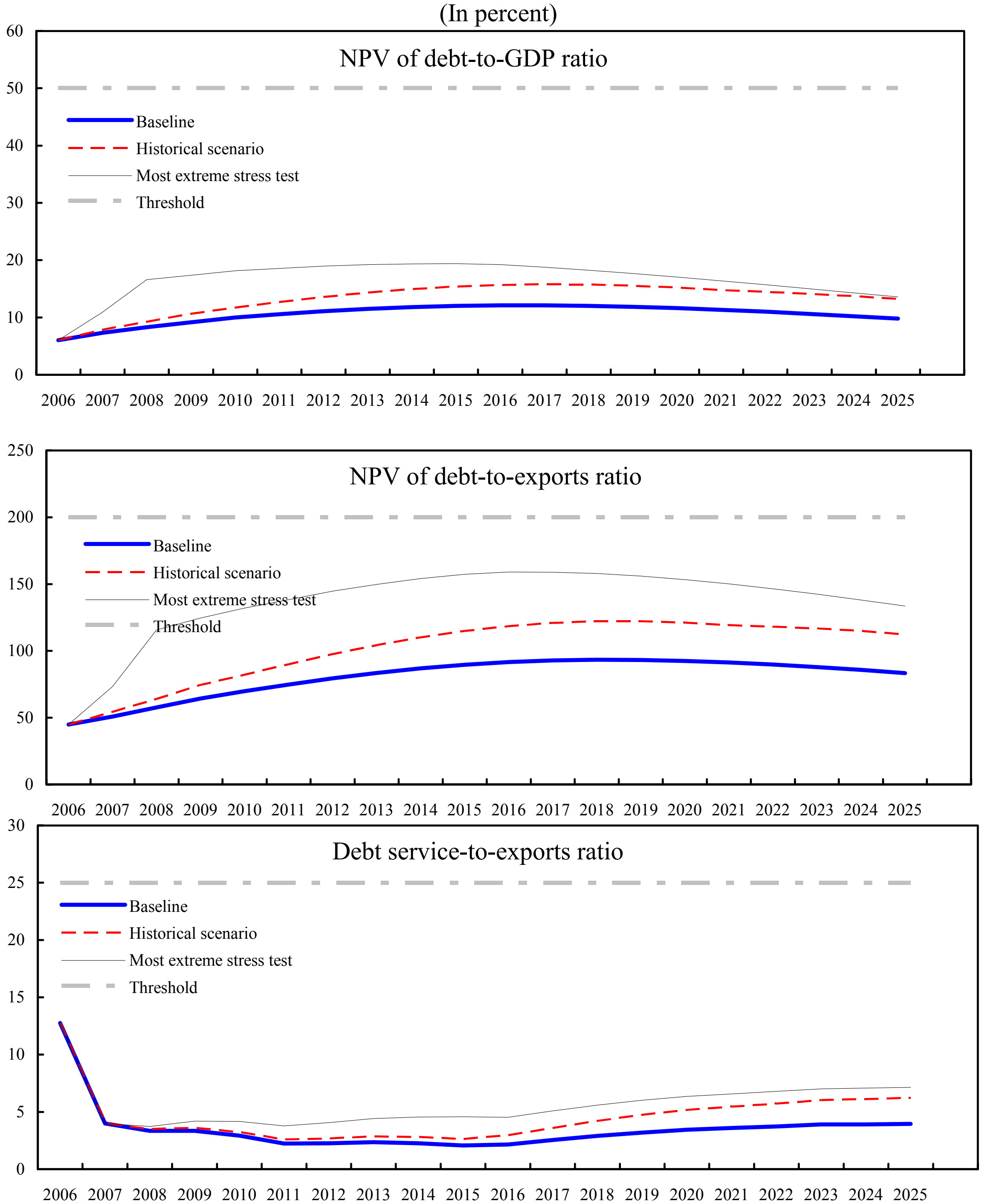
2/ Revenues are defined inclusive of grants.

Figure 1. Uganda: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2006–25
(In percent)



WB Staff Simulations and Projections.

Figure 2. Uganda: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios After MDRI, 2006–25
(In percent)



Press Release No. 06/14
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January 24, 2006

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Final Review of Uganda's PRGF Arrangement and Approves 16-month Policy Support Instrument

The Executive Board of the International Monetary Fund (IMF) has completed the sixth and final review of Uganda's economic performance under the three-year Poverty Reduction and Growth Facility (PRGF) arrangement and approved a disbursement for an amount equivalent to SDR 2.0 million (about US$2.9 million). This would bring total disbursements under the PRGF arrangement to SDR 13.5 million (about US$19.5 million).

In completing the review, the Executive Board granted Uganda's request for waiver for the non-observance of two performance criteria relating to the accumulation of domestic arrears under the commitment control system and to the new lending by the Uganda Development Bank (UDB). Uganda's PRGF arrangement was approved on September 13, 2002 (see Press Release No. 02/41) for SDR 13.5 million (about US$19.5 million).

The Executive Board also approved a 16-month Policy Support Instrument (PSI) for Uganda under the IMF's PSI framework, which is intended to support the nation's economic reform efforts. Uganda's PSI begins on February 1, 2006, immediately after the expiration of the current PRGF arrangement, which was earlier extended through January 31, 2006.

The PSI for Uganda is aimed at maintaining macroeconomic stability and at promoting structural reforms, as well as implementing the broader policy agenda as envisaged in the Ugandan authorities' Poverty Eradication Action Plan (PEAP). Approval of Uganda's PSI signifies IMF endorsement of the policies outlined in the program. A multi-year PSI would be discussed following the presidential and parliamentary elections scheduled for February 2006. In addition to macroeconomic stability, the multi-year PSI program would address the next layer of structural reforms needed further to implement Uganda's poverty alleviation strategy.

The IMF's framework for PSIs is designed for low-income countries that may not need, or want, IMF financial assistance, but still seek IMF advice, monitoring and endorsement of their policies. PSIs are voluntary and demand driven. PSI-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners and articulated in a Poverty Reduction Strategy Paper (PRSP). This is intended to ensure that PSI-supported programs are consistent with a comprehensive framework for macroeconomic, structural and social policies to foster growth and reduce poverty. Members' performance under a PSI is normally reviewed semi-annually, irrespective of the status of the program (see Public Information Notice No. 05/145).

In commenting on the Executive Board decision, Mr.Takatoshi Kato, Deputy Managing Director and Acting Chair, stated:

"Under the PRGF arrangement, Uganda has achieved macroeconomic stability and a strong external position, and has implemented a range of key structural reforms. Prudent monetary and fiscal policies, complemented by large external inflows, have contributed to higher growth and broad price stability, setting the stage for increased investments in health, education, and physical infrastructure, and improved living standards for Uganda's fast-growing population.

"Looking ahead, continued gradual fiscal adjustment lies at the heart of Uganda's medium-term macroeconomic strategy. This will help promote macroeconomic stability and sustainable private sector-led growth, and reduce dependence on support from donors. The pace of fiscal adjustment would carefully balance these objectives with the need to provide sufficient resources for implementing the Poverty Eradication Action Plan (PEAP) and meeting the Millennium Development Goals.

"The efficient use of international aid flows will remain high on the policy agenda. The government is bolstering budget and expenditure management procedures to ensure that resources are used as intended.

"Uganda's medium-term structural agenda aims at fostering private sector growth and will include anti-corruption policies, infrastructure development, and trade enhancement. Second-generation reforms will include (i) increasing electric power generation; (ii) removing regional transport and trading obstacles; (iii) deepening financial sector services; and (iv) improving government services to businesses.

"The comprehensive program, which meets the standard of upper credit tranche conditionality, and will be supported by a 16-month Policy Support Instrument (PSI) from the Fund, aims at sustaining macroeconomic stability and structural reforms already under way. Fiscal policies are based on the approved 2005/06 budget and the Medium-Term Expenditure Framework. Budget management will focus on reducing domestic arrears and ensuring adequate fiscal space for critical infrastructure spending, notably the Bujagali hydroelectric project. Monetary policies will try to keep inflation in check and maintain ample international reserves in the context of a flexible exchange rate regime. Further strengthening Uganda's financial sector is also a priority, including ensuring sound management and supervision of the Uganda Development Bank. Poverty reduction policies under the PSI are based on the PEAP.

"The 16-month PSI could be replaced by a multi-year PSI in 2006, depending on progress in defining medium-term objectives and policies. This would provide an opportunity to incorporate debt relief into the medium-term framework and allow the program period to be aligned more closely with the budget cycle. The multi-year program would include structural measures to spur private sector activity, lower business costs, and improve Uganda's competitiveness. Macroeconomic policies would continue to emphasize stability and sound management of aid flows," Mr. Kato said.

ANNEX

Recent Economic Developments

Macroeconomic stability remains a cornerstone of Uganda's reform efforts. Fiscal restraint, coupled with prudent monetary management, have supported Uganda's robust growth and helped contain inflation to single digit levels over most of the past decade. In recent years, these policies have contributed to a very comfortable level of international reserves. Implementation of Uganda's Poverty Eradication Action Plan has improved living conditions, although per capita income gains have been modest because of the country's high population growth rate. Uganda has also completed most of its structural reforms initially planned and has begun to tackle the next layer of reforms which addresses the business environment.

Macroeconomic developments in 2004/2005 were in line with assumptions under the current PRGF program and confirm Uganda's stable macroeconomic situation. Economic growth remained strong and inflation in check despite drought conditions and crop diseases, and structural reforms are advancing as well. In the medium-term, nonetheless, Uganda faces a number of challenges. Economic growth needs to increase to at least 7 percent to provide for a substantial reduction in poverty and to achieve the related Millennium Development Goals. This will require continued policies aimed at macroeconomic and debt sustainability, new electric power generation capacity, and second-generation reforms to promote private sector activity.

Program Summary

Uganda's PSI will focus on sustaining macroeconomic stability and structural reforms already under way. Fiscal policies are based on the approved 2005/06 budget and the Medium-Term Economic Framework (MTEF). Budget management will focus on addressing domestic arrears and ensuring adequate fiscal space for critical infrastructure spending. Monetary policies will target nonfood inflation of 5 percent or less and maintain ample international reserves in the context of a flexibly exchange rate regime. Further development of Uganda's financial sector is also a priority, and this will include establishing sound management and supervision of the Uganda Development Bank (UDB). Poverty reduction policies under the PSI are based on the PEAP approved in May 2005.

To monitor Uganda's performance under the PSI, quantitative and structural assessment criteria and structural benchmarks have been set. Quarterly quantitative targets include ceilings on base money and net claims on government by the banking system and a floor on net international reserves of the Bank of Uganda. The quantitative targets for end-2006 may be revised to reflect the 2006/07 budget. The structural assessment criteria will cover the measures related to domestic budgetary arrears.

Uganda: Selected Economic and Financial Indicators, 2003/04–2006/07 1/

	2003/04	2004/05	2005/06 Proj.	2006/07 Proj.
	(Annual percentage change)			
National income and prices				
GDP at constant prices	5.6	5.6	6.0	5.9
External sector				
Terms of trade (deterioration -)	7.5	4.0	13.7	4.0
	(Annual changes in percent of beginning-of-period stock of money, unless otherwise indicated)			
Money and interest rates				
M2	10.0	12.1	14.5	10.5
Velocity (GDP/M2) 2/	7.2	7.4	7.6	7.4
Interest rate (in percent) 3/	14.1	8.5	...	...
	(In percent of GDP at market prices, unless otherwise indicated)			
External sector				
Current account balance				
(including official grants)	-1.7	-1.2	-4.0	-4.3
(excluding official grants)	-12.0	-10.2	-11.4	-10.0
Government budget				
Revenue	12.6	12.9	12.9	13.6
Grants	9.5	8.4	6.8	5.4
Total expenditure and net lending	-23.8	-21.6	-21.7	-21.3
Government balance (excluding grants)	-11.1	-8.7	-8.8	-7.7
Government balance (including grants)	-1.6	-0.3	-2.0	-2.3
Net donor inflows	11.9	9.4	9.8	8.0
Net present value of external debt 4/	193.0	179.1	168.6	50.7
	(In millions of U.S. dollars, unless otherwise indicated)			
Overall balance of payments	214	237	121	99
Gross foreign exchange reserves	1,135	1,326	1,386	1,423
(in months of imports of goods and services)	5.9	6.0	5.9	5.7

Sources: Ugandan authorities; and Fund staff estimates and projections.

1/ Fiscal year begins in July.

2/ Nominal GDP divided by average of current-year and previous-year end-period money stocks.

3/ Weighted annual average rate on 91-day treasury bills.

4/ In relation to the current year of exports of goods and services.

Statement by Peter J. Ngumbullu, Executive Director for Uganda and Godwill Efiong Ukpong, Senior Advisor to Executive Director January 23, 2006

1. On behalf of the Ugandan authorities, I wish to thank the Board and Management for continuous engagement and support for the Ugandan reform agenda under a three-year Poverty Reduction and Growth Facility (PRGF) program, which is now coming to an end. We also commend staff for producing a balanced and informative set of papers, the thrust of which the authorities broadly agree with. The authorities have resolutely implemented prudent macroeconomic policies and necessary structural reforms aimed at achieving sustainable economic growth and poverty reduction through a well-articulated strategy set out in the National Poverty Eradication Action Plan (PEAP).

2. As elaborated in the staff report, the authorities have made tremendous progress in the implementation of the PRGF-supported program, having established a strong record of macroeconomic performance, with most first-generation reforms completed. Some of the major milestones of accomplishment in improved economic management include: (i) economic growth has remained strong, despite drought and plant diseases, (ii) inflation has remained in check, (iii) fiscal consolidation through end-June 2005 was greater than programmed, (iv) core poverty reduction spending has been on track, and (v) base money and net international reserves of the Bank of Uganda (BOU) have been within program limits. This strong record of performance has, in turn, contributed to improving living standards of Ugandans and increasing investments in education, health, and physical infrastructure.

3. However, the significant achievements highlighted notwithstanding, the authorities still face a number of challenges, including the need to attain economic growth of 7 percent or greater to provide for further substantial poverty reduction and attainment of the Millennium Development Goals (MDGs); successful implementation of second-generation reforms to promote private sector activity, including the strengthening of public institutions; and maintenance of macroeconomic and debt sustainability. In addition, as regards program implementation, two performance criteria were marginally missed, namely; avoidance of domestic areas and the one on no new lending by the Uganda Development Bank (UDB). The staff report also points to the uncertainty during the run-up to the February 2006 elections, but the authorities expect the election process and voting to be concluded peacefully. While the authorities express appreciation to the Fund for its support for their successful PRGF program, they are now requesting for approval of a 16-month, PSI arrangement. The PSI arrangement focuses on maintaining of macroeconomic stability and addressing the slippages experienced in structural reforms. The approved budget for 2005/06 and the Medium Term Expenditure Framework (MTEF) will provide the basis for implementation of the PSI program. The authorities' Letter of request and Memorandum of Economic and Financial Policies, as well as the Technical Memorandum of Understanding contains details of the objectives, economic and financial policies and measures to be taken to strengthen implementation of the PSI program and reform efforts towards meeting the intended objectives.

Recent Performance Under the PRGF-Supported Program

4. The staff report shows, through various indicators, that the Ugandan economy has been well managed. Real GDP growth was sustained at close to 6 percent in 2004/05. The growth was underpinned by strong activities in the construction and communication sectors, while agricultural contribution to output growth was dampened by exogenous factors – drought and plant diseases. Core inflation (excluding food crops) remained below the 5 percent target, while the overall budget deficit (excluding grants), at 8.7 percent of GDP in 2004/05, was below target under the program. Domestic arrears were accumulated only with respect to non-wage and non-pension expenditures, while the Commitment Control System (CCS) made renewed efforts to improve expenditure management. The Monetary Program has been on track, money growth target has been met, and the banking sector has been healthy, with a low level of nonperforming loans, while the BOU international reserves build-up has reached a level equivalent to six months of imports of goods and services.

The Policy Agenda for 2006 and the Medium-Term

5. In 2005/06, the authorities aim at pursuing policies consistent with the medium-term objectives of achieving sustainable economic growth and poverty reduction. In this context, a gradual reduction of fiscal deficit will be effected in line with the approved budget and medium-term expenditure framework (MTEF). In taking that measure, as envisaged in the PEAP, resources will be freed up for the private sector to help sustain economic competitiveness. A real GDP growth of 6 percent is expected to be attained, while underlying inflation is projected at under 5 percent. Anticipated recovery in coffee prices would have some offsetting effect on higher world oil prices as well as a positive impact on the external current account, with international reserves remaining at a comfortable level.

Fiscal Policy and Public Sector Reforms

6. The authorities are committed to further strengthening of fiscal performance in 2006, improving the monitoring, control and reduction of domestic arrears and reforming the Uganda Revenue Authority (URA). Fiscal deficit (excluding grants) is to be maintained at around 9 percent of GDP by lowering growth of current spending. Additional payments of domestic arrears (accumulated in 2004/05 under the CCS), compensating transfers to local government for eliminated graduated tax, and primary teachers' salaries are to be financed through a supplementary budget within the current budget, with additional revenue targeted to increase through URA efficiency gains and the broadening of tax base. In order to further address the arrears problem, the fiscal authorities will ensure compliance with relevant existing regulations and back required expenditures and planned policies with adequate budget provisions. Other supporting actions, in this regard, include completion of all pre-CCS arrears by June 2006, and provision in the 2006/07 budget for payments of all CCS arrears accumulated in 2005/06 as a first call. These and other related measures are expected to assist the government meet quantitative program targets on accumulation and payment of domestic arrears.

7. The Ugandan government is making progress with public sector pay and pension reforms. It has already produced a cabinet paper on ways to control the size of the public administration and ensure cost efficiency within the budget constraints and the current MTEF. The government remains committed to maintaining a level business playing field by avoiding granting preferential tax treatment, lending or guarantees to specific investors or firms even within the context of possible introduction of Export Processing Zones (EPZs). The authorities consider effective implementation of their fiscal decentralization strategy (FDS) as essential for improving public service delivery. Accordingly, public expenditure management systems at the sub-national level, including pilot CSS for some local governments are being strengthened. Graduated tax, a key source of revenue for local governments, has been abolished and compensated for by broadening property tax as well as additional central government transfers, including allocation within a limited supplementary budget.

Monetary and Financial Sector Policies

8. The authorities are committed to maintaining annual average underlying inflation at below 5 percent through reserve money targeting framework, while the BOU will undertake sales of foreign exchange for sterilization of liquidity injection. The phased transfer of project accounts to the BOU, which is proceeding smoothly, is to be completed by June 2006. The government is demonstrating its commitment to fostering a more efficient and deeper financial system, through implementation of the remaining main recommendations of the Financial Sector Assessment Program (FSAP) update. In this regard, the regulations for the establishment of a credit reference bureau have already been gazetted and made effective. The government has also approved a plan to strengthen the Ugandan Development Bank (UDB) and appointed a new Board of Directors. A stronger UDB will be expected to help enhance financial intermediation in the country and make longer-term loans that are currently not available from Uganda's commercial banks. A new professional management team will be making lending decisions reflecting market-based interest rates. In addition, an independent regulator for all non-bank financial institutions, not regulated by the BOU, is being set up to assume regulatory and supervisory responsibilities of these institutions.

Other Structural Reforms

9. The authorities are undertaking important policy initiatives in other areas of the Ugandan economy which require reforms. Government's broad anti-corruption strategy is to strengthen confidence in public institutions by implementing reforms at the URA and to increase the role and independence of the Inspectorate General Government (IGG). Thus, the 2006/07 budget resources for the IGG will be increased to expand its prosecution capacity; while possible mismanagement of resources from the Global Fund to Fight Aids, Tuberculosis, and Malaria will be checked based on actions taken from the forthcoming report from the Commission of Enquiry. Regarding efforts to improve infrastructure, the government is finalizing the bid process for the Bujagali hydropower project, with construction estimated at US $400 million to be provided on commercial terms with government guarantee. The current power subsidy scheme will not be extended after the commissioning of the Bujagali plant, while government will encourage the newly privatized

electricity distribution company to implement measures to reduce the present high distribution losses and increase billing collection rates. The authorities will pursue broader regional integration to improve regional roads, railway, communication and energy infrastructure to facilitate exports.

Conclusion

10. The Ugandan authorities are committed to implementing prudent macroeconomic policies and second generation reforms to strengthen economic performance over the medium term. The fiscal policy framework aims at reducing further the fiscal deficit, excluding grants, and increasing domestic revenue. This strategy will assist strengthen competitiveness and boost private sector investment and exports. The success of this strategy will depend on further annual increases in government revenues which the authorities plan to achieve through improved in tax administration, and better allocation of expenditures. Poverty-reducing expenditures in the PEAP will continue to be sustained in order to contribute to the achievement of the MDGs. Emphasis will be placed on strengthening the investment climate, increasing productivity, and enhancing Uganda's international competitiveness. These objectives will be supported by the government's Medium-term Competitiveness Strategy and Plan for Modernization of Agriculture. Judicious utilization of the proceeds of the Multilateral Debt Relief Initiative (MDRI), which Uganda is a beneficiary and is grateful to the Fund, will result in a sharp decrease in Uganda's external debt. The authorities intend to use the financial resources of the MDRI to facilitate achievement of the PEAP objectives and meeting the MDGs, in a manner consistent with their fiscal and monetary policies. The government will continue to exercise caution in contracting external debt by resorting to grants and concessional loans. In addition, the government is committed to avoiding the accumulation of an unsustainable debt burden and to maintaining debt sustainability. The commitment and resolve of the authorities to implement the PSI program being requested are reinforced by the already established strong and impressive track record of implementing the PRGF-supported program, to be succeeded by a PSI arrangement.

11. The Ugandan authorities are, therefore, requesting the Board to consider and approve completion of the sixth review under the three-year PRGF-supported program, as well as approval of a 16-month, PSI arrangement.