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

December 5, 2008

The following item is a Letter of Intent of the government of Uganda, which describes the policies that Uganda intends to implement in the context of its request for a policy support instrument from the IMF. The document, which is the property of Uganda, is being made available on the IMF website by agreement with the member as a service to users of the [IMF](#) website.

## LETTER OF INTENT

Kampala, Uganda  
December 5, 2008

Mr. Dominique Strauss Kahn  
Managing Director  
International Monetary Fund  
Washington, D.C. 20431

Dear Mr. Strauss Kahn:

On behalf of the Government of Uganda, I would like to inform you of the progress we have made under our economic program backed by the Fund's Policy Support Instrument (PSI) and transmit the attached Memorandum of Economic and Financial policies (MEFP), which sets out the objectives and policies that the Government intends to pursue in the short and medium term. The policies outlined in the MEFP are drawn from the Government's initiatives to promote employment and rapid economic growth in the context of a stable macroeconomic environment.

All assessment criteria for the fourth review under the PSI were observed. Reflecting our economy's strong fundamentals, the impact of the global financial crisis on Uganda has to date been limited. In particular, our banking system remains well capitalized, foreign exchange reserves are in a very healthy position, and providing donor support is disbursed on time, we expect to implement the fiscal program outlined in the 2008/09 Budget as envisaged. Nonetheless, as a small and highly open economy, the expected slowdown in activity in our major trading partners is also likely to lower growth in the current fiscal year to some extent.

The Government of Uganda believes that the policies set forth in the MEFP are adequate to achieve the objectives of our PSI-supported 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 the performance target dates of end-December 2008 and end-June for the fifth and sixth reviews, which are expected to be completed by end-May 2009 and end-October 2009. We stand ready to work with the Fund and other development partners in the implementation of our program and will consult in advance should revisions be contemplated to the policies contained in the PSI.

The Government of Uganda authorizes the publication and distribution of this letter, its attachments, and all reports prepared by Fund staff regarding the current PSI review and the Article IV consultation, including the Selected Issues Papers.

Sincerely yours,

/ s /

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

**ATTACHMENT I****UGANDA: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES****UPDATE**

1. The Government of Uganda remains committed to sustained macroeconomic stability, economic growth, and poverty reduction. This updated Memorandum of Economic and Financial Policies (MEFP), summarizes the Government's strategy to achieve these goals as 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 three-year Policy Support Instrument (PSI). This MEFP describes performance under the program through November 2008, specific policies and targets for 2008/09, and medium-term objectives.

**I. Performance Under the PSI**

2. All assessment criteria have been met. Fiscal performance in 2007/08 was in line with program projections, and, accordingly, the ceiling on net claims on government by the banking system was observed. The ceiling on net domestic assets of the Bank of Uganda (BOU) and the floor on the stock of net international reserves of the BOU were also comfortably observed. Base money exceeded somewhat the allowed 5 percent band with respect to the indicative target. Indicative targets for poverty-related spending and on the stock of domestic budgetary arrears were met.

**II. Objectives and Policies Looking Forward**

3. The central objective of our economic policies is to maintain the high economic growth of recent years to achieve rapid and sustained poverty reduction. We are currently reviewing our growth strategy, as outlined in Uganda's Poverty Eradication Action Plan, and are preparing to replace it with a new five-year National Development Plan (NDP). The NDP sets out an objective of maintaining real GDP growth in the 8-9 percent range, supported by macroeconomic stability, openness to trade, sound public finances, and addressing key constraints to private investment. In particular, we plan to significantly increase public investment in infrastructure (with a particular focus on roads, energy and agriculture) in the coming years to address one of the principal constraints on growth in Uganda.

4. Growth in 2008/09 could fall short of the 8 percent mark we have targeted, in the wake of the global financial crisis. The likely slowdown in our trading partners might reduce demand for Uganda's exports and remittances from broad, while pressures in international financial markets may force the local banks to curtail their lending activities. We are monitoring the situation closely and intend to use the available monetary and fiscal policy tools to limit damaging repercussions of the crisis.

## A. Fiscal Policy

5. Recent developments affected our budget for 2008/09. Revenue performance has been below target in the first few months of the fiscal year, but the full-year target should still be within reach in light of the higher-than-expected inflation and expected improvements in tax administration. Barring adverse development, we intend to maintain the expenditure appropriations recently passed by Parliament. In the event that there are delays in implementation of road projects, the additional allocations earmarked for trunk roads and not spent in 2008/09 will be carried over to the next fiscal year.

6. Over the medium term, fiscal policy will be anchored by macroeconomic stability considerations. Our key objective will be to ensure that public sector does not crowd out private sector lending and does not endanger debt sustainability. Two other considerations that will guide our spending profile over the medium term will be (i) implementation and absorption capacity (particularly once oil revenues begin to accrue to the budget) and (ii) value-for-money or high rate of return on all areas of government spending.

7. The policy of annually increasing tax collections by  $\frac{1}{2}$  percent of GDP remains in place, even though improvements in tax administration have been yielding somewhat less than that in recent years. To ensure that the revenue targets for 2008/09 are met, the Uganda Revenue Authority will take a number of steps, including speeding-up the collection of corporate income taxes due, conducting an increased number of audits for businesses with high import value declarations, and use of new data sources to reduce valuation fraud.

8. The government remains committed to reducing arrears. New CCS arrears in 2007/08 are estimated at U Sh 43 billion, compared to some U Sh 100 billion in 2006/07. The root causes of new arrears accumulation remain (i) underbudgeting and (ii) failure by line ministries and agencies to abide by their budgets. Going forward, as outlined in our Debt Strategy published in December 2007, we intend to reduce the build up of domestic expenditure arrears by:

- ensuring adequate provision of resources for utilities and rent expenditures;
- enforcing compliance to the commitment control system, by publishing on a quarterly a list of Votes and Agencies that over commit government without authority; and
- ensuring that the Accountant General does not recognize expenditure commitments made outside the IFMS system for both IFMS and non IFMS Votes as arrears and these commitments therefore not be programmed for payment in future budgets by the Ministry of Finance.

9. Relatedly, the Ministry of Public Service will implement the new Integrated Personnel and Payroll System in three Commissions (Public Service Commission, Health Service Commission, Education Service Commission), four Ministries (Ministry of Finance,

Ministry of Health, Ministry of Public Service, Ministry of Education), and two local governments (Lira and Jinja Districts) by July 2009. This should improve payroll and pension records and ensure accurate payroll and pension figures. The implementation deadline is being extended from January 2009 due to delays in the procurement process.

10. Oil exploration continues apace with small-scale production expected to commence in 2009/10 for thermal power generation. The timeline for full-scale commercial development remains unclear, pending completion of exploratory activity. With the view of insuring prudent and transparent use of Uganda's oil wealth, our intention is to put oil revenues in a dedicated oil fund to be managed by the Bank of Uganda. The use of these resources will then be captured in our Medium-Term Expenditure Framework and will be subject to existing public financial management regulations, including appropriation by Parliament.

## **B. Monetary and Financial Sector Policies**

11. We remain committed to keeping annual average underlying inflation at or below five percent guided by our reserve money target. The significant part of the run-up in prices in 2007/08 can be attributed to higher international food and fuel prices, although domestic price pressures also played a role. To control the domestic price pressures we will substantially reduce the growth of base money in 2008/09 (compared with the previous year), but at the same time loosen the target level somewhat (vis-à-vis the original program target for 2008/09) reflecting higher-than-expected inflation outturn. The softening of international prices in the wake of the global financial crisis may help reduce inflation further.

12. In the context of the global financial crisis, the BOU will rely on an appropriate mix of foreign exchange sales and domestic securities to sterilize excess liquidity. This will allow us to reduce exchange rate and interest rate pressures. In view of shallowness of Uganda's foreign exchange markets, we will also pay particular attention to preventing undue exchange rate volatility.

13. The BoU will carefully monitor developments in the banking system. Uganda's financial system has been relatively insulated from the global financial crisis, but the increasing risk aversion from investors and the spiral effects of a depressed world economy could present significant challenges. The general sell-off of emerging market currencies coupled with capital outflows and shallow markets has caused exchange rate volatility. Our banks have remained sound and stable as improved supervision has helped banks build large capital cushions and the deposit mobilization by banks have provided a stable source of funding for banks. The diversified structure of the banks' balance sheets and income sources should also contribute to banking system resilience. At the same time, there is need for close monitoring as the deterioration in the external environment could affect the banking system. To preserve financial stability in the increasingly challenging environment, we will:

- Enhance our communication with the markets on the evolving impact of the global financial turmoil, in order to forestall panic and herd behavior.
- Intensify our oversight of bank credit evaluation policies and enforce the regulation on unhedged foreign currency borrowing.
- Improve cooperation and exchange of information with the home supervisors of our foreign owned banks;
- Seek to establish contingency cross border crisis management arrangements for the all financial institutions;
- Advance our efforts in strengthening the supporting financial infrastructure, including expediting the establishment of the credit registry and further strengthening our deposit protection fund to align it with international principles;
- Strengthen capacity for financial risk analysis and reporting, including strengthening the stress testing framework.

14. The BOU is preparing for an inflation targeting framework for monetary policy. In June 2007, UBOS rolled out a new measure of underlying (core) inflation that would more accurately capture inflationary trends and is expected to roll out a quarterly GDP index by July 2010. The BOU will also start developing an appropriate communication strategy. In particular, the BOU will produce a semiannual monetary conditions report that would relate current economic trends to monetary operations and the inflation target.

15. Negotiations for the East African Common Market protocol are ongoing. We are working together with our EAC counterparts to lay groundwork for the establishment of the EAC Monetary Union. In pursuance of this objective, a two-phased convergence criteria has been established. In stage 1 (2007–2010), the primary benchmarks include maintenance of an overall Budget Deficit to GDP Ratio of not more than 6 percent (excluding grants) and of not more than 3 percent (including grants). In addition, annual average inflation rates should not exceed 5 percent, while external reserves are expected to cover more than four months of future imports of goods and non-factor services.

16. The secondary criteria include achievement of sustainable real GDP growth rate of not less than 7 percent, a national savings to GDP ratio of not less than 20 percent. Furthermore, countries are expected ensure that that their ratios of total debt as a percentage of GDP and the Current Account Deficit as a percentage of GDP are kept at sustainable levels. In addition, countries are expected to maintain stable and market determined interest and exchange rates, implement the 25 Core Principles of Bank Supervision and Regulation, and adherence to the Core Principles for Systematically Important Payment Systems by modernizing payment and settlement systems.

17. During the second stage (2011-2014) the primary benchmarks become tighter, with the overall Budget Deficit to GDP Ratio (excluding grants) of not more than 5 percent and of not more than 2 percent (including grants). In addition, annual average inflation rates should not exceed 5 percent, while external reserves are expected to cover more than 6 months of imports of goods and non-factor services.

### **C. Other Structural Reforms**

18. The government attaches utmost importance to meeting Uganda's growing demand for electricity. Financing arrangements for the Bujagali hydropower project have been finalized and its construction is on track, to be completed by 2011. In the near-term, government will continue to support the private sector by carrying some of the cost of temporary electricity generators. The next major sustainable energy project is expected to be the Karuma hydro electricity generation project—identified as the next least cost alternative to Bujagali. Barring the appearance of a new project developer, which in the current external financing environment could well prove difficult, the GOU will be the sole developer of the project as necessary. Financing for the project would be expected to come from the resources in the accumulated Energy Fund and borrowing. Relatedly, legislation to govern the use of the resources in the Energy Fund are expected to be tabled to Parliament in 2009.

19. The Financial Markets Development Plan (FMDP), which was formulated as a result of a participatory and consultative strategic planning process, was approved in May 2008 by the Monetary Affairs Committee (MAC) of the East African Community. The plan reflects the intention to develop the financial markets in Uganda, and integrate them with the broader East African Markets with the aim of developing sound and vibrant financial markets, and supporting efficient mobilization of resources necessary for economic diversification and sustainable growth. The plan is also intended to lead to the harmonization of the regional macroeconomic policies and integration of the financial markets.



Attachment I. Table 1. Uganda: Quantitative Assessment Criteria and Indicative Targets for December 2008 - June 2010<sup>1</sup>  
(Cumulative change from the beginning of the fiscal year, unless otherwise stated)<sup>2</sup>

	December 31 2008		March 31 2009 <sup>3</sup>	June 30 2009	June 30 2010 <sup>3</sup>
	Prog.	Rev. prog.	Prog.	Prog.	Prog.
<b>Assessment criteria</b>					
	(U Sh billions)				
Ceiling on the increase in net domestic assets of the Bank of Uganda <sup>4</sup>	174	399	441	478	218
Ceiling on the increase in net claims on the central government by the banking system <sup>4</sup>	-23	250	130	71	174
	(US\$ millions)				
Ceiling on the stock of external payments arrears incurred by the government or the Bank of Uganda <sup>5</sup>	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 <sup>5,6</sup>					
Karuma hydropower plant	400	400	400	400	400
JBIC loan guarantee to Phenix textile factory	6	6	6	6	6
Other	0	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 <sup>5,7</sup>	0	0	0	0	0
Minimum increase in net international reserves of the Bank of Uganda	35	-100	-117	-117	73
<b>Indicative target</b>					
	(U Sh billions )				
Ceiling on the increase in base money liabilities of the Bank of Uganda <sup>4</sup>	233	239	254	290	335
Stock of domestic budgetary arrears under the Commitment Control System (CCS) <sup>8</sup>	...	...	...	81	...
Minimum expenditures under the Poverty Action Fund (including the Universal Primary Education component of development expenditure)	596	327	496	662	...

<sup>1</sup> The assessment criteria and indicative targets under the program, and their adjusters, are defined in the TMU.

<sup>2</sup> Fiscal year begins on July 1.

<sup>3</sup> Indicative target.

<sup>4</sup> For June 2008, cumulative changes from the average of June 2007. For September and December 2008, and for June 2009, cumulative changes from average of June 2008, as defined in the TMU.

<sup>5</sup> Continuous performance criterion.

<sup>6</sup> Cumulative change from December 1, 2006.

<sup>7</sup> Excluding normal import-related credits.

<sup>8</sup> Arrears incurred after end-June 2004. Excludes new arrears accumulated during the current fiscal year.

Attachment I. Table 2. Uganda: Structural Assessment Criterion and Benchmark<sup>1</sup>

Policy Measure	Date of Implementation
<b>Structural Assessment Criterion</b>	
Implement pilot Integrated Personnel and Payroll System in three Commissions (Public Service Commission, Health Service Commission, Education Service Commission), Ministries (Ministry of Finance, Ministry of Health, Ministry of Public Service, Ministry of Education), and Local Governments (Lira and Jinja Districts).	End-July 2009
<b>Structural Benchmark</b>	
Submit to Parliament draft regulatory framework for pension funds.	End-December 2008

<sup>1</sup> Assessment criteria 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.

## ATTACHMENT II

### UGANDA: TECHNICAL MEMORANDUM OF UNDERSTANDING

#### A. Introduction

1. This memorandum defines the targets described in the memorandum of economic and financial policies (MEFP) for the July 2006–June 2009 financial program supported by the IMF Policy Support Instrument (PSI), and sets forth the reporting requirements under the instrument.

#### B. Net Foreign Assets (NFA) and Net Domestic Assets (NDA) of the Bank of Uganda (BOU)

2. The net foreign assets of the BOU are defined as the monthly average (based on daily data) of foreign assets minus foreign liabilities, and include all foreign claims and liabilities of the central bank. The monthly average values of all foreign assets and liabilities will be converted into U.S. dollars at each test date using the average cross exchange rates for June 2008 for the various currencies and then converted into Uganda shillings using the average U.S. dollar-Uganda shilling exchange rate for June 2008.

<b>Program Exchange Rates (US\$ per currency unit, unless indicated otherwise)</b>	
Euro	1.55390
British pound	1.96497
Japanese Yen	0.00934
Kenya shilling	0.01570
Tanzania shilling	0.00084
SDR	1.61814
Uganda shilling (per US\$1)	1,601.20

Net domestic assets (NDA) of the Bank of Uganda (BOU) are defined as the monthly average (based on daily data) of base money (defined below) less net foreign assets of the BOU (as defined in para. 2). Based on this definition, the NDA limits will be cumulative changes from the average of June 2008 to the average of December 2008, and March and June 2009, and cumulative changes from the average of June 2009 to the average of June 2010.

(In billions of shillings)				
	December 31, 2008	March 31, 2009	June 30, 2009	June 30, 2010
Cumulative change in base money	239	254	290	335
Cumulative change in NFA	-160	-187	-188	117
Cumulative change in NDA	399	441	478	218

### **B. Base Money**

3. Base money is defined as the sum of currency issued by Bank of Uganda (BOU) and the commercial banks' deposits in the BOU. The commercial bank deposits include the statutory required reserves and excess reserves held at the BOU and are net of the deposits of closed banks at the BOU and Development Finance Funds (DFF) contributed by commercial banks held at the BOU. The base money limits will be cumulative changes from the daily average of June 2008 to the daily average of December 2008, and March and June 2009, and cumulative changes from the daily average of June 2009 to the daily average of June 2010.

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

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

#### **D. Net International Reserves of the Bank of Uganda**

5. Net international reserves (NIR) of the BOU are defined for program monitoring purpose as reserve assets of the BOU net of short-term external liabilities of the BOU. Reserve assets are defined as external assets readily available to, and controlled by, the BOU and exclude pledged or otherwise encumbered external assets, including, but not limited to, assets used as collateral or guarantees for third-party liabilities. Short-term external liabilities are defined as liabilities to nonresidents, of original maturities less than one year, contracted by the BOU and include outstanding IMF purchases and loans.
6. For program-monitoring purposes, reserve assets and short-term liabilities at the end of each test period will be calculated in U.S. dollars by converting them from their original currency denomination at program exchange rates (as specified in para. 2).

#### **E. Ceiling on Domestic Budgetary Arrears of the Central Government**

7. The stock of domestic payment arrears under the Commitment Controls System (CCS) will be monitored on an annual basis. Domestic payments arrears under the CCS are defined as the sum of all bills that have been received by a central government spending unit or line ministry delivered prior to the beginning of the current fiscal year, and for which payment has not been made within 30 days under the recurrent expenditure budget (excluding court awards) or the development expenditure budget. For the purpose of program monitoring, the quarterly CCS reports, which will include arrears accumulated at IFMS and non-IFMS sites, prepared by the Internal Audit and Inspection Office will be used to monitor arrears. 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 2008/09 and 2009/10. 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 and Inspection Office, this stock of arrears is estimated at U Sh 111 billion as of June 2007.

#### **F. Expenditures Under The Poverty Action Fund (PAF).**

9. The compliance with the indicative target on minimum expenditures under the PAF will be verified on the basis of releases (PAF resources made available to spending agencies).

#### **G. Adjusters**

10. The NDA and NIR targets are based on program assumptions regarding budget support, assistance provided under the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI), and external debt-service payments.

. The NCG target, in addition to being based on the aforementioned assumptions, is also based on assumptions regarding domestic nonbank financing of central government fiscal operations. In addition, the NDA target depends on the legal reserve requirements on deposits in commercial banks. Finally, the NDA and NIR targets are based on program assumptions regarding automatic access by commercial banks to the BOU's rediscount and discount window facilities.

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

<b>Schedule A: Budget Support Plus Total HIPC Initiative Assistance</b> (Cumulative billions of Uganda shillings, beginning July 1 of the fiscal year)				
Quarter	December 31, 2008	March 31, 2009	June 30, 2009	June 30, 2010
Budget support, including HIPC Initiative grants	309	509	859	1,166

12. The ceiling on the increases in NDA and NCG will be adjusted downward (upward) and the floor on the increase in NIR will be adjusted upward (downward) by the amount by which debt service due<sup>1</sup> 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).

<b>Schedule B: Debt Service Due, Before HIPC Initiative Assistance</b> (Cumulative billions of Uganda shillings, beginning July 1 of the fiscal year)				
Quarter	December 31, 2008	March 31, 2009	June 30, 2009	June 30, 2010
Debt service due before HIPC, excluding exceptional financing	111	158	184	168

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

13. The ceiling on the increase in NCG will be adjusted downward (upward) by any excess (shortfall) in nonbank financing<sup>2</sup> less payment of domestic group A arrears relative to the programmed cumulative amounts presented in Schedule C. For the purpose of this adjuster, payment of domestic group A arrears cannot exceed the programmed amount by more than U Sh 45.0 billion.

<b>Schedule C: Nonbank Financing Minus Repayment of Domestic Arrears</b> (Cumulative billions of Uganda shillings, beginning July 1 of the fiscal year)				
Quarter	December 31, 2008	March 31, 2009	June 30, 2009	June 30, 2010
(A) Nonbank financing	58	145	170	170
(B) Domestic arrears repayment	163	225	300	50
(C) Total = (A) –(B)	-105	-80	-130	120

14. The ceiling on NDA of the BOU for end-June will be adjusted upward by the daily average amount of commercial bank automatic access to the BOU discount window and rediscounting of government securities by commercial banks.

15. The ceiling on NDA of the BOU for every test date will be adjusted downward/upward to reflect decreases/increases in the legal reserve requirements on deposits in commercial banks. The adjuster will be calculated as the percent change in the reserve requirement multiplied by the actual amount of required reserves (Uganda shillings and foreign-currency denominated) at the end of the previous calendar month.

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

16. The assessment criterion on short-term debt refers to contracting or guaranteeing external debt with original maturity of one year or less by the government or the Bank of Uganda. Excluded from this assessment criterion are normal import-related credits. The definition of “debt” is set out in paragraph 18.

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

17. 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.<sup>3</sup> 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. For the purposes of the program, the Bujagali project is defined as the hydroelectric dam and related equipment located at the dam site.

18. The definition of debt, for the purposes of the limit, is set out in point 9 of the Guidelines on Performance Criteria with Respect to External Debt (Executive Board's Decision No. 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 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

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



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

19. The ceiling on the accumulation of new external payments arrears is zero. This limit, which is to be observed on a continuous basis, applies to the change in the stock of overdue payments on debt contracted or guaranteed by the government, the BOU, and statutory bodies<sup>4</sup> from their level at end-June 2006. 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.

### **I. Monitoring and Reporting Requirements**

20. The authorities will inform the IMF staff in writing at least ten business days (excluding legal holidays in Uganda or in the United States) prior to making any changes in economic and financial policies that could affect the outcome of the financial program. Such policies include but are not limited to customs and tax laws (including tax rates, exemptions, allowances, and thresholds), wage policy, and financial support to public and private enterprises. The authorities will similarly inform the IMF staff of any nonconcessional external debt contracted or guaranteed by the government, the BOU, or any statutory bodies, and any accumulation of new external payments arrears on the debt contracted or guaranteed

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<sup>4</sup> 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).

by these entities. The authorities will furnish an official communication to the IMF describing program performance of quantitative and structural assessment criteria and benchmarks within 8 weeks of a test date. The authorities will on a regular basis submit information to IMF staff with the frequency and submission time lag as indicated in Table 1. The information should be mailed electronically to [AFRUGA@IMF.ORG](mailto:AFRUGA@IMF.ORG).

<b>Attachment II. Table 1. Summary of Reporting Requirements</b>			
<b>Reporting institution</b>	<b>Report/Table</b>	<b>Frequency</b>	<b>Submission lag</b>
I. Bank of Uganda	Issuance of government securities.	Weekly	5 working days
	Interest rates on government securities.	Weekly	5 working days
	Operations in the foreign exchange market and daily average exchange rates.	Weekly	5 working days
	Consumer price index.	Monthly	2 weeks
	Balance sheet of the BOU, consolidated accounts of the commercial banks, and monetary survey. The Internal Audit Department (IAD) of the BOU will review the reconciliations of monetary survey data with the financial records and the audited financial statements. Any revisions to monetary survey data, in line with the recommendations of the IMF safeguards mission, will be documented and reconciled with the previous presentation to ensure accurate reporting.	Monthly	4 weeks
	Composition of foreign assets and liabilities of the BOU by currency of denomination.	Monthly	4 weeks
	Statement of (i) cash balances held in project accounts at commercial banks; (ii) total value (measured at issue price) of outstanding government securities from the Central Depository System (CDS); and (iii) the stock of government securities (measured at issue price) held by commercial banks from the CDS.	Monthly	6 weeks
	Summary of (i) monthly commodity and direction of trade statistics; (ii) disbursements, principal and interest, flows of debt rescheduling and debt cancellation, arrears, and committed undisbursed balances—by creditor category; and (iii) composition of nominal HIPC Initiative assistance, disaggregated into grants, flow rescheduling, and stock-of-debt reduction by creditor.	Monthly	6 weeks
	Summary of stock of external debt, external arrears, and committed undisbursed loan balances by creditor.	Quarterly	6 weeks
	Standard off-site bank supervision indicators for deposit money banks.	Quarterly	4 weeks
	Summary table of preliminary program performance comparing actual 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	Quarterly	5 weeks
	Daily average amount of commercial bank automatic access to the BOU discount window and rediscounting of government securities by commercial banks.	Quarterly	4 weeks

<b>Attachment II. Table 1. Summary of Reporting Requirements (concluded)</b>			
<b>Reporting institution</b>	<b>Report/Table</b>	<b>Frequency</b>	<b>Submission lag</b>
II. Ministry of Finance	Summary of central government accounts. Revenues shall be recorded on a cash basis. Expenditures shall be recorded when checks are issued, except for domestic and external debt-service payments, cash transfers to districts, and externally funded development expenditures. Expenditures on domestic interest will be recorded on an accrual basis and external debt service will be recorded on a commitment basis (i.e., when payment is due). Cash transfers to districts will be recorded as expenditures of the central government when the transfer is effected by the BOU. Expenditures on externally funded development programs will be recorded as the sum of estimated disbursements of project loans and grants by donors, less the change in the stock of government project accounts held at the BOU and domestic commercial banks.	Monthly	6 weeks
	Summary of outstanding stock of group (B) domestic arrears. Group (B) arrears comprise the stock of CCS/IFMS arrears incurred after end-June 2004.	Quarterly	6 weeks
	Summary of contingent liabilities of the central government. For the purpose of the program, contingent liabilities include all borrowings by statutory bodies, government guarantees, claims against the government in court cases that are pending, or court awards that the government has appealed.	Quarterly	6 weeks
	Detailed central government account of disbursed budget support grants and loans, HIPC support, and external debt service due and paid.	Monthly	4 weeks
	Detailed central government account of disbursed donor project support grants and loans.	Monthly	6 weeks
	Statement on new loans contracted during the period according to loan agreements.	Quarterly	6 weeks
	Updated national accounts statistics (real and nominal) according to UBOS and medium-term projections.	Quarterly	4 weeks