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Uganda: 2002 Article IV Consultation—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Uganda

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2002 Article IV consultation with Uganda, the following documents have been released and are included in this package:

- the staff report for the Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on **November 22, 2002,** 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 29, 2003.** 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 Public Information Notice (PIN) summarizing the **views of the Executive Board as expressed during its February 12, 2003 discussion** of the staff report that concluded the Article IV consultation.
- a statement by the Executive Director for Uganda.

The document(s) listed below have been or will be separately released.

Report on Observance of Standards and Codes—Fiscal Transparency Module—Update
Statistical Appendix

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UGANDA

Staff Report for the 2002 Article IV Consultation

Prepared by the Staff Representatives for the 2002 Consultation with Uganda

Approved by Michael Nowak and Michael T. Hadjimichael

January 29, 2003

- The 2002 Article IV consultation discussions took place in Kampala during November 6–22, 2002. The mission consisted of Mr. Caramazza (head), Mr. Dunn, Ms. Sayek, Mr. Chembe (all AFR), Mr. Palomba (FAD), Mr. Mitchell (PDR), Mr. Mahler (Senior Resident Representative), and Ms. Cheng (AFR-Administrative Assistant). Meetings were held with President Museveni; the Minister of Finance, Planning and Economic Development, Mr. Ssendaula; the Governor of the Bank of Uganda, Mr. Tumusiime-Mutebile; and other senior officials. The mission also met with members of parliamentary committees and representatives of the donor community, the financial and business community, trade unions, and nongovernmental organizations. The mission collaborated closely with a parallel MAE mission that held concluding discussions under the Financial Sector Assessment Program.

- At the conclusion of the last Article IV consultation on March 26, 2001, Directors commended the authorities for the continued implementation of prudent financial policies, which had helped to sustain strong economic growth, low inflation, and a comfortable level of foreign reserves, in spite of a sharp deterioration in Uganda's terms of trade. They noted that this strong economic performance had contributed to a substantial reduction in poverty; however, they were concerned that income inequality had increased. Directors also expressed concern regarding low government revenues, poor governance, and weaknesses in expenditure management and banking supervision and financial regulations, but welcomed the authorities' intentions to address these issues.

- Uganda has generally been receptive to Fund policy advice and has performed well under ESAF/PRGF-supported programs. A new three-year PRGF arrangement in support of Uganda's economic reform program was approved on September 13, 2002.

- Uganda has accepted the obligations under Article VIII, Sections 2*(a)*, 3, and 4 of the Fund's Articles of Agreement and maintains an exchange system free of restrictions on payments for current international transactions.

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Executive Summary

- Since achieving stable political and security conditions in the late 1980s, Uganda has implemented an ambitious program of economic reforms in the context of Fund-supported programs. Moreover, under the Poverty Eradication Action Plan (PEAP), launched in 1997 and revised in 2000, the authorities have pursued a comprehensive strategy to reduce poverty, supported by substantial donor assistance. As a result, the economy achieved high real GDP growth rates over the past decade, annual inflation was reduced to low single-digit rates, and the incidence of poverty fell considerably.

- The main challenge facing Uganda is to sustain the poverty reduction effort by maintaining robust economic growth, which would require higher rates of private investment and more effective use of donor support. Government policies to support growth focus on increasing farmers' productivity and building investors' confidence. Maintaining the integrity of the budget process, improving monitoring and accountability of national and local government operations, and sustaining efforts to strengthen governance are critical to raising the effectiveness of programs.

- Uganda's fiscal and external sustainability indicators have worsened in recent years. A gradual fiscal consolidation to improve sustainability, without jeopardizing programs to reduce poverty, is the centerpiece of the governments' medium-term macroeconomic policy framework. This will require increasing revenue collection and streamlining public administration expenditure.

- Monetary policy will need to remain directed at keeping inflation low. The further development of monetary and exchange rate policy instruments will augment the Bank of Uganda's capacity to carry out large sterilization operations without giving rise to unnecessary interest or exchange rate volatility.

- The health of the banking system is good, owing largely to strengthen banking supervision, corrective actions taken with regard to weak banks, and privatization of intervened banks. The policy agenda aims to further strengthen financial sector regulations and supervision, deepen intermediation, and develop the nonbank financial sector.

- Despite a sharp deterioration in its terms of trade in recent years, Uganda's external position displays some signs of strengthening, including solid growth in export volumes and rising international reserves. Efforts to expand and diversify the export base need to be sustained. It is important also to ensure that international competitiveness is maintained by continuing to implement a flexible exchange rate policy.

- The medium-term economic outlook envisages continued robust economic growth. The risks to the outlook include major delays to the expansion of the power supply and a weak implementation of the policy agenda.

I. BACKGROUND

1. **Since achieving stable political and security conditions in the late 1980s, Uganda has implemented an ambitious program of economic reforms in the context of Fund-supported programs** (Box 1). The early phase of the program involved the restoration of stable macroeconomic conditions, particularly the achievement of fiscal discipline, deregulation of domestic prices, building of institutions, and liberalization of the financial sector, including the unification of the exchange rate, and international trade. A subsequent phase emphasized the removal of structural distortions in the economy and involved tax reform, privatization and restructuring of key industries, strengthening of banking supervision, and liberalization of external capital account transactions. This phase of reforms coincided with the shift in focus of Uganda's development policies to poverty reduction in the latter part of the 1990s.[1] Uganda's efforts met with considerable success, as reflected in the strong economic performance and substantial reduction in poverty during the past decade (Box 2).

2. In recent years, however, growth, while still robust, has not been as buoyant, owing in part to the impact on the economy of the collapse in coffee prices, but also reflecting a tapering off of the impetus from the economic reforms of the early 1990s, constraints on the efficient delivery of public services, and remaining impediments to private sector growth. To address this new challenge, the Ugandan government has embarked on a third phase of its economic reform program, with a focus on removing constraints at the micro sectoral level of the economy, so as to elicit a stronger supply response, while continuing to maintain sound macroeconomic policies.

3. **In the past five years, real GDP growth averaged 6 percent a year, while average underlying inflation, on a period-average basis, was held to 5 percent or less** (Table 1 and Figure 1). This occurred against the background of a deterioration in the terms of trade of over one-third. In 2001/02 (July–June), exceptionally favorable conditions for agricultural production and a surge in construction activity elevated real GDP growth to 6.6 percent. A sharp drop in food crop prices lowered end-year headline inflation to -2.5 percent, while underlying inflation, which excludes food crop prices, dipped to 0.1 percent. Gross fixed investment, which had stepped up to nearly 20 percent of GDP in recent years, partly reflecting improved prospects in the electricity and telecommunications sectors, rose to 22½ percent in 2001/02. Gross national saving had declined in recent years, owing to the rise

[1] In 1997, the authorities launched the Poverty Eradication Action Plan (PEAP), which has since formed the basis of the government's development policy. The summaries of the initial and the revised PEAP have served as the corresponding poverty reduction strategy paper (PRSP). The summaries of the annual Poverty Status Reports, which are produced during the years between PEAP revisions, have served as the interim PRSP progress reports.

in public sector dissaving, but jumped to 9 percent of GDP in 2001/02, as private saving surged (Figure 2). The resulting large current account deficits were mostly financed by foreign aid.

4. **Notwithstanding this generally good performance, annual real GDP growth has fallen short of the PEAP target of 7 percent a year,** which is viewed as necessary for achieving the PEAP's long-term goal of reducing the incidence of poverty to less than 10 percent of the population by 2017. Still, the incidence of poverty was reduced to 35 percent of the population in 2000 from 44 percent in 1997 (and 56 percent in 1992). The decline in poverty was concentrated in the central and western regions; in the northern region, there was little improvement in incomes, owing mainly to persistent security problems.

5. **Uganda has received large amounts of donor assistance in recent years to support its efforts to reduce poverty.** Net donor inflows, including assistance under the Initiative for Heavily Indebted Poor Countries (HIPC Initiative), reached 11.7 percent of GDP in 2001/02, of which 5.2 percent of GDP was in the form of direct budget support (net of debt service falling due). To facilitate greater budget support, much of the poverty-related spending was protected under the government's Poverty Action Fund (PAF), which tripled in the past five years to 5.7 percent of GDP and in 2001/02 accounted for 23 percent of total spending. Including the PAF, budgetary expenditures on education and health increased by 1.5 percentage points and 0.8 percentage point of GDP, respectively, during this period. Similarly, there were substantial spending increases for roads, water, and agricultural support services. The share of total domestic expenditures on social and economic programs related to poverty increased from 39.1 percent in 1997/98 to 45.8 percent in 2001/02, with the ratio to GDP almost doubling. This rise has been reflected in an improvement in social output indicators (Appendix IV).

6. **This assistance, however, has also contributed to a high degree of aid dependence and weakened some sustainability indicators.** As donor support for the PEAP increased, total government spending rose sharply from 17 percent of GDP in 1997/98 to almost 25 percent of GDP in 2001/02; yet, during this period, government revenues stagnated at less than 12 percent of GDP on average, mainly reflecting a reduction in some excise and custom duty rates and weak tax administration. As a result, the overall fiscal deficit, excluding grants, reached 12.7 percent of GDP in 2001/02, double that of four years earlier (Table 2 and Figure 3), while the domestic deficit—a measure of the absorption of real resources by the government—climbed to 6½ percent of GDP from close to zero in 1997/98. In 2001/02 alone, total expenditures increased by 3½ percentage points of GDP. Of this increase, a little under half was accounted for by an expansion in PAF expenditures, but other spending, including defense, the wage bill, and interest payments, experienced substantial increases.

7. **To adhere to the Bank of Uganda's (BOU) reserve money targets and maintain low underlying inflation, the growing fiscal deficit has required rising net issues of treasury bills**, which climbed to 3½ percent of GDP in 2001/02, and net official interventions in the foreign exchange market reached nearly 4 percent of GDP. As a consequence, interest rates on domestic lending remained high and the growth of bank credit to the private

sector was sluggish (Table 3 and Figure 4). The real exchange rate has depreciated by about 20 percent since 1998/99, reflecting the strong deterioration of the terms of trade (Figure 5). During the past two years, however, the BOU allowed a significant buildup in banks' excess reserves and a significant deviation of base money from the targeted path. Treasury bill rates fell steeply across the maturity spectrum during much of 2001/02, but this development translated into only a modest decline in lending rates (Figure 6). In recent months, yields rose as the BOU intensified efforts to mop up the excess liquidity.

8. **The banking system has undergone a substantial strengthening in recent years.** Several insolvent banks were closed in 1998–99, and, in 2002, the privatization of the Uganda Commercial Bank (UCB) and its merger with a sound international bank were completed. Banking supervision has been increasingly more vigorous, with on-site inspections being stepped up substantially. As a result, one small bank was closed and taken over by a healthy institution, while a second was recapitalized and had its management team replaced. New capital requirements came into effect on January 1, 2003, raising the minimum paid-up capital to U Sh 4.0 billion.

9. As a result of these actions, the performance indicators for the banking system have continued to improve. The ratio of nonperforming to total loans declined from 9.8 percent in December 2000 to 3.6 percent in June 2002, while the risk-weighted capital-assets ratio increased from 20.5 percent to 23.7 percent over the same period (Figure 7). In May 2002, a new Financial Institutions Bill was submitted to parliament that would bring Uganda's financial regulations and enforcement in line with international standards. Still, the financial system remains small and has not played a leading role in supporting private sector growth.[2]

10. **The economy has suffered from a severe, prolonged deterioration in the terms of trade, as evidenced by the large current account deficit, but there are signs that Uganda is maintaining its external competitiveness.** Between 1997/98 and 2001/02, world prices for robusta coffee, Uganda's principal merchandise export, fell by 70 percent, contributing to a 36 percent decline in the terms of trade and a stagnation in total export receipts (Table 4). Noncoffee export volumes rose steeply, however, despite soft world prices, suggesting that Uganda has made some inroads in foreign markets and is diversifying its export base. To further shore up Uganda's competitiveness, the government introduced in September 2001 the Strategic Exports Program (SEP), which builds upon earlier government programs to support exports, such as subsidies to replace old coffee trees with new, higher-yielding varieties.[3]

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[2] See, "Uganda—Financial System Stability Assessment".

[3] The Strategic Exports Program (SEP) consists of (i) supply-side interventions (such as the distribution of seeds and plantlets, improvements to infrastructure, and other support services) to stimulate investment in areas in which Uganda has a demonstrated comparative advantage (primarily coffee, tea, fish, flowers, fruits and vegetables, cereal, and livestock and hides); and (ii) the removal of bottlenecks that impede investment,

(continued)

11. **Reflecting the deterioration in the terms of trade, the external current account deficit, excluding grants, widened substantially in recent years**, reaching 14.1 percent of GDP in 2000/01 before narrowing to 13.4 percent of GDP in 2001/02. Imports as a share of GDP rose to 17.9 percent in 2001/02.[4] However, the current account deficit has been more than financed by growing donor assistance and private capital inflows. Of these capital flows, net foreign direct investment (FDI) accounted for 4 percent of GDP in 2001/02. International reserves have remained at a comfortable level (Figure 8), and, as of end-November 2002, the coverage of gross international reserves stood at about six months of imports of goods and services.

12. **Falling export receipts have led to a deterioration in debt indicators.** The ratio of the net present value (NPV) of external debt to exports rose to 190 percent at end-June 2002 from 150 percent in May 2000, when Uganda reached the completion point under the enhanced HIPC Initiative.[5] But even with the decline in exports, the flow of HIPC Initiative debt relief has reduced the ratio of debt service to exports to a manageable level (about 8 percent in 2001/02).

A. Economic Outlook for 2002/03

13. Largely reflecting adverse weather conditions and poor food crop production, real GDP growth is expected to weaken to 5.7 percent in 2002/03 from 6.6 percent in the preceding year and headline inflation to rise to about 6 percent during the year. Uganda's international reserves level should remain comfortable and its external debt position manageable.[6]

14. The overall fiscal deficit is expected to narrow to 11.1 percent of GDP in 2002/03 from 12.7 percent in 2001/02. Revenue collections have generally been on target through the first few months of the fiscal year, and total spending limits are expected to be respected, despite the recent announcements of higher-than-budgeted defense spending. The relatively large liquidity injections arising from deficit financing operations continue to place a burden on monetary policy, and on the effort to boost competitiveness. While the strong monetary expansion in the past couple of years may be expected to result in a pickup in inflation, the

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production, and trade (including by a variety of support activities, such as acceleration of skill development, export product handling, and strengthening of service delivery).

[4] The Fund's trade restrictiveness index rating of "2" indicates that Uganda maintains an "open" trade regime. However, some restrictions remain, notably a 10 percent excise tax applied only to imports of many consumer goods that are also produced domestically, and a 2 percent import commission.

[5] Based on end-June 1999 exchange rates, interest rates, and stock of debt, and assuming the full delivery of HIPC Initiative assistance.

[6] The NPV of debt-to-exports ratio is projected to rise to 195 percent in 2002/03 before gradually declining to 150 percent in 2012/13.

increased emphasis by the BOU on mopping up excess liquidity and firm adherence to the 2002/03 reserve money program should result in inflation remaining well contained.

15. Despite the damage to some cash crops (notably, cotton) due to adverse weather conditions, export receipts are picking up by more than expected, owing partly to a 17 percent rebound in coffee prices. As a whole, noncoffee exports are also doing well, while imports have remained in check. The external current account deficit, excluding official grants, is expected to widen, however, as inflows of private transfers are expected to fall back to historically normal levels. The current account should be more than financed by official disbursements of donor assistance, including HIPC Initiative assistance and private capital inflows, and international reserves are projected to increase to about 6½ months of imports by end-June 2003.

II. Policy Issues and Medium-Term Outlook

16. **The main challenge facing Uganda is to sustain the poverty reduction effort by maintaining robust economic growth.** Attainment of the PEAP target of 7 percent real GDP growth would require higher rates of private investment and the more effective use of donor support in programs that would enhance productivity. The authorities and staff concurred that several elements are central to the achievement of these objectives, including the following:

- a gradual fiscal consolidation to reduce aid dependency and improve fiscal and external sustainability, without jeopardizing programs to reduce poverty; this will require increasing revenue collection and improving the allocation and effectiveness of spending at both the national and local levels of government;

- further development of monetary and exchange rate policy instruments that will augment the BOU's capacity to carry out large sterilization operations without giving rise to unnecessary interest or exchange rate volatility;

- strengthening and deepening of the financial sector, so that it effectively intermediates private savings;

- diversification of the economy through, among other things, an improvement in international competitiveness, as a means to reducing external vulnerability and strengthening debt sustainability; and

- the effective enforcement, on a sustained basis, of a governance framework that boosts the productivity of public services and is conducive to attracting FDI.

17. The staff reviewed with the authorities the medium-term macroeconomic framework, with a view to establishing a baseline for the forthcoming revision to the PEAP and discussed possible risks to the medium-term economic outlook.

A. Fiscal Policy

18. **The authorities strongly emphasized controlling the fiscal deficit to maintain macroeconomic stability and to contain pressure on real interest rates and the exchange rate arising from the large expenditures to support the poverty reduction program. In this regard, they are firmly committed to increasing tax revenue through strengthened tax compliance and enforcement**. The Uganda Revenue Authority (URA) has recently formulated a five-year corporate plan that ambitiously aims to increase tax revenue to about 17 percent of GDP by 2006/07. Under the plan, the URA would speed up the expansion of computerized systems, improve noncomputerized control measures, and reorganize the collection department. The staff noted that, while the URA corporate plan is a welcome step toward improving tax administration, it would be important to ensure that the plan is supplemented by the prompt implementation of specific annual business agendas to achieve targets. Furthermore, with the forthcoming conclusion of the judicial investigation into improper and corrupt activities by URA staff, it will be necessary that the URA management act decisively on dismissing or disciplining staff involved in wrongdoing. Steps would also need to be taken to ensure a high degree of staff integrity in the future.

19. Customs administration presents the major challenge at the URA, and the authorities are considering outsourcing this function. The staff cautioned that this measure should be considered carefully, noting that (i) outsourcing has proved to be an expensive option where it has been tried; (ii) capacity building should be a central element of the reform effort, as otherwise the likely positive initial impact of the outsourcing may be difficult to sustain, owing to potential conflicts of interest, as increased local capacity would lead to a diminished role for the contractor, and to the difficulty of transferring from an external entity to local staff the managerial and technological know-how necessary for sustained improvement; and (iii) the support from other institutions, including the judiciary and the police, is essential to the overall reform effort.

20. **The staff agreed that substantial revenue gains could be achieved from major improvements in tax administration but considered the URA corporate plan's target as optimistic under current circumstances. It urged the authorities to consider tax policy measures as well, especially given that, in the near term, revenue gains from strengthened tax administration are likely to be limited.** In the staff's view, there would appear to be some scope for increasing revenue by revising the excise regime of domestic and imported goods, changing the value-added tax (VAT) (converting various items from the zero-rated category to the exempt category and eliminating existing exemptions on a number of final goods), and restricting the zero-rate category of import duties. The authorities stressed that the scope for increased revenue from tax policy measures is very limited, but indicated their willingness to consider a number of measures in the context of the upcoming first review of the PRGF arrangement.

21. **On the spending side, for the second consecutive year, military spending will be higher than initially budgeted**. The government had proposed to increase defense spending in this fiscal year by US$26 million (about 20 percent, or 0.5 percent of GDP, over budgeted

levels), an increase that the government deemed necessary to address decisively the security situation in the north of the country. While the authorities intend to fully offset the increase in defense spending through cuts in other expenditures, except those protected under the PAF, the change in the composition of government outlays would result in a budget quite different from that which parliament had approved and donors had agreed to support, and thus tend to undermine the integrity of the budget process. The staff encouraged the authorities to consult with donors to determine appropriate spending and the actions needed to address the security situation in the north. The authorities have recently indicated that they intend to limit the increase in defense spending this fiscal year to US$17.5 million. The authorities also pointed to the need to increase defense spending in the next two to three years above the present levels in the medium-term expenditure framework (MTEF) in order to modernize the armed forces; however, they said they would await the conclusion of the ongoing defense review—for which preliminary results are expected in April 2003—before deciding on medium-term military expenditures.

22. **There has been much progress in budget management, monitoring, and accountability systems**. These systems were recently strengthened by the implementation of the new Budget Act and the extension of the expenditure commitment control system (CCS) to all nonwage expenditure. The new Budget Act has resulted in a more efficient and participatory budget process, as it sets out a precise timetable for the completion of each step of the process. Notwithstanding this progress, problems remain at both the national and local government levels. In particular, the resort to supplementary appropriations has led to government spending outcomes that deviate substantially from budget intentions. This has been reflected in a marked tendency toward greater underfinancing of unprotected social and economic programs, owing mainly to growing amounts of spending on public administration. In the current fiscal year, this tendency will be exacerbated by the large cut proposed in the discretionary recurrent and development budgets to accommodate higher defense spending. The authorities explained that the budget cuts would not affect poverty-related programs since expenditures under the PAF would be protected. The staff argued, however, that the proposed cuts would nevertheless have an impact on programs in those sectors, such as roads and agriculture, that are necessary to achieve PEAP objectives. This situation, in the staff's view, calls for the authorities to expeditiously finalize the plan to reduce public administration expenditures, drawing on the 2002 Presidential Committee's Report on Effective Public Administration Budgeting. There is also a pressing need to effect cost savings through the rationalization of the numerous commissions and semiautonomous agencies, in order to release resources for comprehensive civil service reform in support of the effective provision of core public goods.

23. Despite the budget allocations for repayment of domestic arrears, the stock of domestic arrears remains large, owing mainly to newly identified arrears for pension obligations and of local governments.[7] This underscores a more general problem, namely,

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[7] In June 2002, the stock of domestic arrears (not fully verified by the Auditor General) amounted to U Sh 180.6 billion (1.75 percent of GDP). This stock remains large mainly because of newly identified old arrears,

(continued)

that of the government's total contingent liabilities. These constitute a serious risk for the implementation of fiscal policy in the future because no exact measure exists of the amount of these liabilities. Recognizing this risk, the authorities have planned an assessment of the major potential liabilities, including the pension arrears and the debt of parastatal enterprises. In addition, the authorities should develop a clear strategy to reduce the existing stock of domestic arrears.

24. **Notwithstanding the recent progress made in strengthening the operations of local governments, poor budget and accounting management systems, as well as the lack of a clear direction in the decentralization reform agenda, are hindering further progress**. The 2002/03 budget provides for the channeling of about 33 percent of total expenditures to districts. However, the monitoring of local government activities and the systematic accounting of funds extended to local authorities have been problematic, largely because only a few local authorities have complied with the government's requirement to submit accounts on a timely basis. In general, efforts to improve the working of local governments are being frustrated by the absence of a comprehensive decentralization reform agenda. The staff noted that, in view of the increasing importance of the decentralization process for poverty reduction, the authorities need to develop an action plan to identify and address the most pressing issues in the area of decentralization.

B. Monetary and Financial Sector Issues

25. **The authorities intend to continue to follow a reserve money target in order to maintain low inflation. Although the large sterilization operations required to absorb the increase in liquidity created by government deficit financing operations have complicated the conduct of monetary and exchange rate policy, the changes in operating procedures introduced in April 2002 have eased the task**. In particular, treasury bill issues and steady daily sales of foreign exchange are used for sterilization purposes, while repurchase operations and occasional foreign exchange interventions are employed for short-term liquidity management. This system has allowed market participants to distinguish more clearly sterilization operations from intervention and short-term liquidity management, and resulted in less volatile interest and exchange rates. The authorities and staff share the view, however, that further improvements in the procedures and instruments for liquidity management and sterilization operations are necessary. The monetary authorities expressed their desire to move to a benchmarking system for new issues of treasury bills at the earliest possible date, introduce longer-term government paper, and decrease the frequency of treasury bill auctions. These actions should facilitate the development of a secondary market

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essentially pensions, and to a minor extent, because of the accumulation of new arrears. In 2001/02, newly identified past pension obligations (for pension revalidation) amounted to U Sh 103 billion, and in 2002/03 newly identified past pension obligations (for soldiers and local government pensions) are expected to amount to U Sh 134 billion. Since the introduction of the CCS, however, the accumulation of new arrears has been declining; verified new arrears under the CCS (covering the nonwage recurrent budget) declined from U Sh 45 billion in 1999/2000 to U Sh 32 billion in 2000/01.

for government paper, provide a more stable maturity structure for government debt, and further distinguish treasury bills sold for sterilization purposes from short-term liquidity management operations. The BOU also plans to further develop the use of repurchase instruments for liquidity management. The staff wholly supported these steps.

26. **The overall health and soundness of the financial sector has improved considerably during the past year, reflecting the progress made in implementing the recommendations of the Financial Sector Assessment Program (FSAP)** (Box 3). The enactment of three legislative proposals should further strengthen the financial sector and encourage financial intermediation. The first proposal, the new Financial Institutions Bill, which was submitted to parliament in June 2002, would strengthen the banking system by introducing prudential provisions consistent with international standards and ensure prompt bank interventions and other corrective actions deemed necessary by the regulatory and supervisory authorities. The second, the Microfinance Deposit-Taking Institutions Bill, which has also been submitted to parliament, would provide for the regulation and supervision of the microfinance industry, in order to ensure that microfinancing is conducted in a safe and sound manner conducive to the orderly growth of the financial sector. This should encourage microfinance institutions (MFIs) to play a larger role in providing financial services to small businesses and farmers. The third, an Anti-Money Laundering Bill has been drafted and prepared for submission to the cabinet. This would fill an important gap in the legal framework governing the financial sector by introducing specific legislation for the control of money laundering. In the meantime, the BOU has issued guidelines for the commercial banks to follow and continues to carefully monitor banking activity.

27. While the recent improvements in the health of the banking system, together with the increase in paid-up capital, should bolster financial intermediation, for the financial sector to play a larger role in support of economic growth, there remains a need to reduce lending risks and lower the costs of intermediation, and to increase the availability of long-term lending instruments, such as domestic private bonds. In particular, important sources of financial resources, notably pension funds and insurance companies, have been largely absent from the market. To improve this situation, the authorities are committed to restructuring the National Social Security Fund (NSSF), a major source of new savings each year, through the repeal of the NSSF Statute and replacement of the current Board of Directors and management with investment professionals. Other steps to reduce lending risks and help lower the costs of intermediation with small- and medium-sized firms include the modernization of the payments system, establishment of cash centers[8] throughout the country, and creation of a shared data bank on borrowers' creditworthiness (credit reference bureau).

28. The authorities noted that securing parliament's approval of the Financial Institutions Bill and repeal of the NSSF Statute would be an uphill battle, especially after the difficult

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[8] The BOU intends to open branches (cash centers) outside of Kampala, which would reduce the cost of obtaining fresh supplies of currency for banks and other financial institutions, allowing them to reduce their stocks of cash-in-vault.

proceedings on the privatization and merger of the UCB. The parliamentary finance committee has already indicated its intention to alter some of the key articles of the proposed Financial Institutions Bill, while repeal of the NSSF Statute is strongly opposed by labor organizations. The mission acknowledged these political difficulties, but noted the importance of these financial sector measures for providing security to depositors' and workers' savings and supporting future economic growth.

C. External Sector Policies and Competitiveness

29. **The authorities are pursuing a mix of policies aimed at enhancing external sustainability, minimizing vulnerability, and strengthening international competitiveness**. The government's policies aimed directly at enhancing productivity and output include the Program for the Modernization of Agriculture (PMA), the Medium-Term Competitiveness Strategy (MTCS), and improvements to infrastructure. The PMA, which was initiated in a small number of subcounties in 2001/02 and is scheduled to be rolled out to all subcounties by 2007/08, takes a comprehensive approach to increasing farmers' productivity and rural incomes, including organization of cooperatives for commercial-based farming, demand-based extension services, agricultural research, rural financial services, marketing, and improving feeder roads. Implementation of the PMA has the potential to greatly increase competitiveness. The MTCS, which was initiated in July 2000, is a cross-cutting program that identifies and addresses constraints on doing business in Uganda.[9] Improving the transportation infrastructure, such as the integration of East African railways and privatization of the Ugandan railway, is an important initiative under the MTCS. The SEP is specifically designed to expand and diversify the export base (Box 4). Particularly in the coffee sector, where new, higher-yielding plantlets are being distributed, the government's provision of inputs can enhance productivity and competitiveness. Uganda's export markets are expanding. Trade associations have had success in accessing new markets and, with increased export volumes, reducing transportation costs. Regional integration within the East African Community (EAC) would create an expanded market for Uganda's surplus food crops.

30. The staff expressed its concern, however, over the authorities' use of ad hoc investment incentives to encourage exports, which have been budgeted under the SEP. In particular, investment incentives for selected textile manufacturers have been costly and could prove to be even more of a drain on government resources in the future. The staff argued that this selective approach to incentives is inherently discriminatory, induces unproductive rent-seeking activities, and creates opportunities for corruption. The authorities argued that Uganda is operating in a competitive regional market for FDI, and to compensate, to some extent, for disadvantages such as geographic location and high transportation costs, it has to offer incentives to attract inward investment and pursue the country's development

[9] Past measures taken under the MTCS included restructuring and privatization of utilities and establishing a commercial court. Much of the current structural agenda, such as strengthening and broadening the financial system and fighting corruption are also founded upon the MTCS.

goals. They agreed that the selective approach to incentives is undesirable and should be terminated, and that government policy is to move to a generalized system of incentives that are nondiscriminatory as between activities and enterprises. They also wish to move toward a more harmonized system of taxation and incentives for the EAC. To this end, the Ugandan authorities, in conjunction with those of the other two EAC countries, have requested the Fund's technical assistance.

31. **The authorities are committed to continuing implementation of a flexible exchange rate policy that would help to strengthen Uganda's competitiveness.** In this regard, they have limited sterilization operations through foreign exchange sales to avoid inducing an appreciation of the Uganda shilling. The objective of official foreign exchange market intervention is to maintain orderly market conditions; the BOU does not attempt to resist movements in the exchange rate stemming from changes in economic fundamentals. The authorities and staff agreed that the operating procedures for foreign exchange sales introduced in April 2002 (see para. 25) had improved the operation of the foreign exchange market and resulted in a more stable exchange rate.

32. **Preparations toward the formation of a customs union in the EAC in 2004 are proceeding.** The authorities explained that at the technical committee level there had been broad agreement on the common external tariff structure. There has also been broad agreement on the gradual elimination of internal tariffs for a select group of products. However, agreement has not been reached on the products to be included or on the phasing out of duties and the final level of tariffs. Negotiations are also ongoing for the establishment of a customs union in the Common Market for Eastern and Southern Africa (COMESA) in 2004. A fundamental issue yet to be addressed is the compatibility of the proposed tariff structures in the two unions.

33. Since reaching the completion point for the enhanced HIPC Initiative in May 2000, Uganda's external debt sustainability indicators have deteriorated substantially, owing primarily to the collapse in world coffee prices and the corresponding decrease in the value of exports.[10] Assuming the full delivery of HIPC assistance, the ratio of the NPV of external debt to exports is expected to peak at 195 percent at end-June 2003, compared with the HIPC Initiative target of 150 percent for end-June 1999.[11] The authorities have agreed that the conclusions of the recent Updated Debt Sustainability Analysis are appropriate and that the debt-to-exports ratio should be reduced to sustainable levels over time. The authorities aim to contain new borrowing through a gradual fiscal consolidation, implement policies to increase and diversify the export base, and build up their debt

[10] For a recent exposition on this issue, see the Updated Debt Sustainability Analysis for Uganda.

[11] Debt relief under the enhanced framework of the HIPC Initiative was based on end-June 1999 exchange rates, interest rates, and stock of debt.

management capacity. Importantly, although the ratio of debt service to exports also increased with the drop in exports, this indicator, at 8–10 percent, is expected to remain well below the indicative HIPC Initiative target range of 15–20 percent.

34. **The authorities are attempting to reach final agreements with creditors on the delivery of HIPC assistance** (Table 5).[12] In 2001/02, Uganda was able to sign agreements with Saudi Arabia, Kuwait, the Islamic Development Bank, and the Arab Bank for Economic Development in Africa (BADEA), and to receive additional debt relief beyond HIPC Initiative assistance from most Paris Club creditors. Additional HIPC Initiative relief should be forthcoming as the governments of India, Libya, and the Republic of South Korea have recently pledged to provide relief on official debt. However, Uganda has had difficulty in securing agreements for HIPC Initiative debt relief from some non-Paris Club creditors. Indeed, some (primarily commercial) creditors have filed suits against the government in local courts and, as of December 2002, had won judgments totaling US$40 million;[13] this has complicated the authorities' efforts to reach agreement with other creditors.

D. Governance

35. **Some aspects of governance, in particular, corruption, continue to be serious problems in Uganda** (Box 5). The business community has identified corruption as a major obstacle to doing business, and weaknesses in the public sector tendering process have resulted in frequent reports of poor construction of schools, health centers, and roads, which has diminished the effectiveness of government spending.

36. The authorities have taken some significant steps to expose corruption, with the ongoing judicial investigation of the URA and the recent passage of the new Leadership Code. The new Inspector General of Government (IGG) Statute has granted greater freedom to the IGG's office to pursue wrongdoing by public officials; resources, however, are limited. Also, it is not clear how stringently the provisions of the Leadership Code will be implemented. Similarly, the URA does not yet have a clear policy for dismissal or prosecution of staff whose probity may be called into question by the judicial investigation. Other actions to improve governance in the year ahead will include a review of the judicial system and of national and local government procurement and tendering procedures.

E. Privatization

37. The privatization plan, which by law must be completed by 2005, would not only directly attract investors but, as has been the case with the privatization and restructuring of

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[12] Uganda has not been servicing certain of its external obligations pending agreement on the delivery of HIPC Initiative assistance.

[13] The government has settled claims for US$10.5 million with one commercial creditor whose judgment has cleared the appeals process. Other judgments are still subject to appeal and have not been paid.

the telecommunications sector, could also contribute to the easing of constraints on investment. Major privatizations to be completed in the year ahead include the sale of the Uganda Development Bank (UDB) and the Uganda Dairy Corporation, and long-term concessions for the electricity distribution company and railway. An agreement for a 20-year concession for the electricity generation company was concluded in November 2002.

F. Medium-Term Outlook and Alternative Scenarios

38. **The five-year medium-term outlook envisages broad-based economic growth, driven mainly by productivity gains in agriculture, stepped-up private sector investment, and a further expansion in public services under the PEAP.** Annual real GDP growth would average 6.2 percent during 2002/03–2006/07, while monetary policy would aim at containing inflation at about 3.5 percent (Table 6). The planned rolling out of the PMA to all subcounties by 2006/07, with its comprehensive approach to building up farmers' productivity, together with the direct supply interventions under the SEP, is expected to achieve 5 percent annual growth in agriculture. Gross investment, supported by a gradual increase in domestic saving and, beginning in 2004/05, the construction phase of the large Bujagali project, is projected to rise to 24½ percent of GDP. This project would stimulate construction and other investments in industrial capacity, while the ongoing strong expansion in public services, particularly education and health, is budgeted to continue over the next few years. Sustaining the recent success in reducing the incidence of HIV/AIDS (Box 6) would contribute to the productivity gains.

39. **While Uganda would remain heavily dependent on donor support over the medium term, sustainability indicators are projected to improve, driven by the gradual fiscal consolidation and growth in exports** (Box 7). The overall and primary fiscal deficits, excluding grants, are expected to decline by nearly 5 percentage points to 8 percent of GDP and 3 percentage points to 2½ percent of GDP, respectively, from 2001/02 to 2006/07, driven by increases in tax revenue from tax administration and policy measures and constrained expenditures, particularly in the area of public administration. In the process, fiscal liquidity injections would diminish (by nearly 3 percentage points of GDP), thus easing the crowding out of the private sector and the pressure on the real exchange rate. As a result of the gradual fiscal consolidation, the stock of outstanding treasury bills is projected to level off at 9-10 percent of GDP.

40. Export earnings, driven by the PMA and SEP and a recovery in commodity prices, are projected to grow by 12½ percent a year, thus lowering Uganda's NPV of debt-to-exports ratio by 19 percentage points by 2006/07 from its projected peak of 195 percent at end-June 2003. The external current account deficit would narrow only slightly, however, to 13 percent of GDP in 2006/07, owing to a surge in imports expected from the Bujagali project, but this deficit would be more than financed by net donor support and private capital flows. As a result, gross international reserves are projected to remain above six months of imports throughout the medium term.

41. **There are several risks to this outlook.** First and foremost, with Uganda's dependence on donor assistance, a reduction in this support could have serious consequences. Uganda's ample stock of international reserves could mitigate a temporary break in donor support, but fiscal adjustment would be needed to maintain macroeconomic stability and confidence in the financial system. In this event, programs to reduce poverty would suffer. Other risks to the medium-term outlook include poor implementation of key government programs that support the economy and investment (e.g., PMA, the fight against corruption, the strengthening and broadening of the financial sector, and reduction in transportation costs); failure to meet the growing demand for electricity; and international commodity price shocks. The fiscal sector is vulnerable to poor budgetary control, a failure to raise government revenue, and substantial costs arising from contingent liabilities. While good program implementation would mitigate most of these risks, the government has yet to establish sufficient protection against contingent liabilities.

42. **In addition to the discussions on risks to the economy, the staff developed some alternative scenarios**, including (i) a permanent increase of US$100 million in donor assistance supporting education and health services; (ii) a high-growth scenario (real GDP growth of 7 percent a year) achieved through increased investment; and (iii) a low-growth, low-donor assistance scenario (Table 7). In the higher assistance scenario, in addition to the direct benefits to the individual recipients of the assistance, real GDP growth would experience a onetime increase of 0.1–0.2 percentage point in the initial years of the increased aid, mainly reflecting an increase in the labor force from a healthier population and reduced mortality rates arising from the additional health services. The impact on GDP of increased public sector demand would be largely offset by lost production in the tradable sector, as the additional sterilization operations required to maintain macroeconomic stability would imply about a 7½ percent appreciation of the Uganda shilling. Although there would likely be increases to production and exports from a more educated labor force, these improvements would only materialize over the long term. Relative to the baseline, in the higher grants scenario, the overall fiscal and the external current account deficits, excluding grants, would widen and, because of reduced exports resulting from the shilling appreciation, external debt sustainability indicators would worsen. Including grants, fiscal and external balances would be little changed.

43. **The high-growth scenario** assumes that, on average, investment is 2.6 percentage points of GDP a year higher than in the baseline scenario—a level that would enable real GDP to grow in line with the PEAP target. The staff is of the view that vigorous implementation of structural measures that would improve the business environment in Uganda (a strong anticorruption effort; measures to strengthen and broaden the financial sector; steps to reduce transportation costs; including infrastructure investment, privatization of the railroad, and clearing bottlenecks at ports; and timely expansion of the power grid) would lead to such an investment response, with much of the increase coming from FDI (Box 8). In this scenario, not only would real GDP growth be elevated to the PEAP target, but most sustainability indicators would improve relative to the baseline, except for the external current account deficit. However, the difference would be more than financed through higher FDI, and international reserves would rise.

44. The baseline scenario assumes sustained implementation of the program of economic and structural reforms, including in the area of governance. Weak implementation of the economic reform program, however, would undermine investor and donor confidence, leading to a decline in investment and donor assistance and lower economic growth. **In this low-growth, low-donor assistance scenario, sustainability indicators deteriorate substantially over the medium term.**[14] Investment is 6 percentage points of GDP a year lower than in the baseline scenario, on average, while annual donor assistance falls by US$100 million, resulting in an average real GDP growth rate of about 4 percent a year. Both the overall fiscal balance and external current account balance worsen, and there is a rundown of international reserves. Export growth slips relative to the baseline, as part of the lower investment is assumed to take place in the export sector. As a result, external debt sustainability indicators show a weaker improvement over time, compared with the baseline.

G. Poverty Reduction

45. **An issue central to the poverty reduction program is the expected magnitude, scope, and reliability of donor support over the medium term.** The authorities emphasized the desirability of channeling assistance through the budget process, which enables government to identify priorities, and exercise monitoring and control of expenditures, and promotes transparency. Moreover, the budget is the tool that ensures consistency between donor assistance and the authorities' macroeconomic objectives, such as promoting export growth. The authorities emphasized also the need for commitments by donors to be clear and reliable in order to enhance the usefulness of the MTEF. The mission supported the authorities' aim to increase the share of donor aid in the form of general budget support, but stressed that this would require that the integrity of the budget process be respected.

46. **Based on current projections of real GDP growth over the medium term, which fall short of the 7 percent PEAP target, the staff expressed its concern that the long-term PEAP objective of reducing the incidence of poverty in Uganda to less than 10 percent by 2017 may be in jeopardy.** While the staff agreed that a more enabling environment for the private sector and a higher rate of private investment could lift real GDP growth rates in line with the PEAP target, it suggested that the authorities evaluate the implication of slower growth for poverty reduction in the forthcoming PEAP/PRSP progress report. Based on a rough estimate, it appears that, even with an average growth rate of 6 percent a year, Uganda should still be able to meet the Millennium Development Goal (MDG) of cutting the incidence of poverty in half by 2015.[15]

[14] The scenario also assumes that the Bujagali hydroelectricity project is postponed indefinitely.

[15] The elasticity of poverty with respect to per capita growth has been estimated to be about -1.26.

H. Other Issues

47. The mission updated the fiscal transparency module of the Report on the Observance of Standards and Codes (ROSC) and, in collaboration with the World Bank, reviewed progress under the Assessment and Action Plan (AAP) for tracking poverty-reducing expenditures (Box 9). Under both reviews, Uganda has registered significant progress in fiscal transparency and budget management, particularly in the area of budget formulation.

48. Data are provided to staff on a timely basis and are sufficient for surveillance and program monitoring, but there are a number of weaknesses that need to be addressed (see Appendix III). Moreover, although there has been much improvement in the authorities' data-generating capacity, there is still a strong desire for further technical assistance, particularly in the area of the national accounts and balance of payments statistics.[16] With regard to the recently issued national accounts data, the staff pointed out to the authorities that the implied increase in private sector savings (of nearly 5 percentage points of GDP) in 2001/02 raised questions about the accuracy of these initial estimates. The authorities are taking steps to implement the recommendations of the December 2001 government finance statistics (GFS) mission, and a request for a follow-up mission will be forthcoming. Uganda is a participant in the General Data Dissemination System (GDDS) and, as such, has committed to use the GDDS as a framework for the development of national statistical systems for the production of economic, financial, and socio-demographic data.

III. Staff Appraisal

49. The Ugandan authorities are to be commended for their sustained pursuit of sound economic policies and structural reforms that have resulted in robust economic growth and macroeconomic stability, despite an often adverse external environment. Uganda has been a pathbreaking partner in the PRSP process, with the development and implementation of a comprehensive framework that has contributed to a significant reduction in the incidence of poverty. Achievement of Uganda's ambitious poverty reduction objectives over the longer term, however, will require stepped-up private investment, improved governance structures and budget management at all levels of government, and strengthened financial intermediation.

50. The main medium-term fiscal challenge facing Uganda is how to sustain the implementation of the poverty reduction strategy in the face of a weak domestic revenue effort, a deterioration in external sustainability indicators, and a widening fiscal deficit that is rendering the budget increasingly vulnerable to a potential reduction in donor support. Addressing this challenge will require focusing on policy actions to increase revenue collection through strengthened tax administration and tax policy measures, and improving the

[16] An Africa Regional Technical Assistance Center (AFRITAC) mission to assess the need for a long-term advisor to the Uganda Bureau of Statistics took place in December 2002.

allocation and effectiveness of spending at both the national and local levels of government. The staff endorses the authorities' efforts to control the fiscal deficit, which is necessary to curb upward pressure on the real exchange rate and real interest rates.

51. The authorities have made great strides in developing the MTEF into a meaningful budget instrument. Still, the resort to supplementary appropriations has led to government spending outcomes deviating substantially from budget intentions, and to underfinancing of unprotected social and economic programs. In the current fiscal year, this tendency will be exacerbated by the large cut in the discretionary recurrent and development budgets that would be needed to accommodate higher defense spending. In the staff's view, this underscores the need for the authorities to finalize and implement the plan to reduce public administration expenditures as a matter of urgency.

52. The increase in defense spending will result in a budget quite different from that which parliament had approved and donors had agreed to support. This risks undermining the use of the budget as the tool that ensures consistency between donor assistance and the authorities' macroeconomic objectives. The strength of Uganda's budget process has prompted donors to provide a greater share of assistance in the form of direct budget support. The staff supports the authorities' efforts to further increase the share of donor aid in the form of general budget support, as this would enable the government to more effectively identify priorities and monitor and control expenditures. It would also promote transparency. For these efforts to be successful, however, the integrity of the budget process must be respected by all stakeholders.

53. In view of the central role of local authorities in the delivery of public services, it is essential that local government bodies be subject to effective control. There has been much progress in budget management and accountability at the local government level in recent years, but the lack of a clear decentralization reform agenda is hindering further progress. The authorities are encouraged to develop an action plan to improve the reporting, monitoring, and auditing systems of local governments; strengthen the tendering process; and rationalize the roles and responsibilities of the various central institutions involved in the decentralization process. There is also a need to review the organization of subnational levels of government, with a view to reducing the high costs of the present five-layer system of local authorities. In the meantime, no new local government units should be created.

54. Monetary policy will need to remain directed at keeping inflation low. The task should be eased by the monetary authorities' welcome decision to mop up the excess reserves built up during 2001/02, while the new sterilization and liquidity management procedures should result in less volatile interest rates and exchange rates. The staff supports the authorities' flexible exchange rate policy and considers the level of the real exchange rate as broadly appropriate.

55. The overall health and soundness of the financial sector have improved considerably because of a number of actions taken by the BOU during the past year. While these actions, and the BOU's enhanced capacity to mitigate the monetary impact of large donor flows, have

significantly strengthened the financial system, there are some areas that have been identified by the FSAP where further action is needed. These include (i) passage of the Financial Institutions Bill, while upholding the draft bill's key provisions with respect to the limit on shareholding and the BOU's ability to issue regulations and notices to implement the provisions of the bill; (ii) establishing the requisite legal framework, and the monitoring and enforcement structures and mechanisms for anti-money laundering; (iii) continuing to take appropriate supervisory corrective actions against noncompliant, undercapitalized, or nonviable financial institutions; and (iv) strictly enforcing the single borrower limit.

56. Uganda's external position has weakened in recent years, as the economy has suffered from a prolonged deterioration in the terms of trade. To achieve a more sustainable external position and lessen the economy's vulnerability to external shocks, the authorities have appropriately focused on gradual fiscal consolidation and measures to expand and diversify the export base. The PMA and the SEP are two central elements of this strategy. The staff believes that, while it is important to ensure that these initiatives are adequately funded, ad hoc investment incentives should be eschewed. Timely implementation of the PMA would also contribute to growth in commercial agriculture and benefit Uganda's small but vibrant nontraditional export sector. It is important also to ensure that international competitiveness is maintained by continuing to implement a flexible exchange rate policy.

57. Uganda has put in place a comprehensive legal and regulatory structure for strengthening governance. Nevertheless, corruption continues to undermine business activities and public service delivery. At the present time, two major anticorruption efforts are under way: a judicial inquiry into the URA and implementation of the new Leadership Code. Firm follow-up action to these measures will be required if good governance is to be strengthened. Failure to act decisively would weaken the credibility of the authorities' commitment to improve governance. The staff welcomes the authorities' intention to investigate reports of corruption in the judicial system and encourages the planned reform of procurement and tendering procedures, at both the national and local levels of government.

58. The staff recommends that the next Article IV consultation with Uganda be held in accordance with the provisions of the decision on consultation cycles approved on July 15, 2002.

Box 1. Key Structural Reforms over the Past Decade

Fiscal policies, instruments, and institutions

The following reforms were undertaken in the area of tax administration:

- creation of the autonomous Uganda Revenue Authority (URA) in 1992;
- introduction and expansion of a taxpayer identification numbering system in 1992;
- creation of a large taxpayers department in the URA to collect revenue from and audit the 100 largest taxpayers in 1998; and
- declaration of assets, liabilities, and income by URA staff, which would be subject to review by investigators into improper conduct, with false declarations grounds for dismissal.

Tax policy reforms included the following:

- introduction of a VAT in 1996 and new Income Tax Act in 1997;
- elimination of export taxes in 1996 and reduction in level and dispersion of import tariffs in 1997–99; and
- elimination of discretionary tax exemptions in 2001/02.

Actions in the area of budget planning, monitoring, and control were as follows:

- controlling of spending-induced fiscal deficits, and enforcement that all drawings on the government's accounts be properly authorized by the Ministry of Finance, beginning in 1992;
- introduction of the medium term expenditure framework (MTEF) in 1992/93 and explicit linking of the MTEF to the Poverty Eradication Action Plan (PEAP) in 1997;
- creation of sector working groups in 1997, which have been expanded to include the government, parliamentarians, donors, nongovernmental organizations (NGOs) the, private sector, and technical experts, to develop sector strategies and budget priorities for the MTEF, annual public expenditure review, and budget proposal submitted to parliament, there are presently 13 sector working groups.
- cessation of new issues of government promissory notes, except to regularize domestic arrears accumulated prior to July 1, 1997;
- introduction of the commitment and control system (CCS) in 1999, and extension of the CCS to all nonwage expenditures in 2001/02, with accounting officers explicitly responsible for expenditure overruns; and
- inclusion of all donor projects into the MTEF and, subject to sector budget ceilings, in the 2003/04 budget process.

Financial sector regulation, supervision, and restructuring

- Interest rates were liberalized during 1992–94.
- Parliament approved Financial Institutions Act (FIA) in 1993. The FIA strengthened banking regulations and the Bank of Uganda's (BOU) supervisory role (though the Minister of Finance still had to approve bank interventions) and assigned primary responsibility to the BOU for formulating and implementing monetary policy. In accordance with the FIA, the Deposit Insurance Fund, covering small depositors in the event of a bank failure, was established in 1994.
- A Treasury bill market was established in 1992–93.
- BOU was restructured and recapitalized in 1993.
- The BOU stepped up supervision and enforcement of banking regulations. In 1998 and 1999, the BOU intervened four banks, including the Uganda Commercial Bank (UCB), which was one of the largest commercial banks. These banks were liquidated or merged with other banks. (The initial sale of UCB failed, but a second attempt was completed successfully in 2002.) A small bank was intervened in September 2002 and merged with a healthy institution shortly thereafter.
- The Nonperforming Assets Recovery Trust (NPART) was established in 1995.
- Increased minimum capital requirements for commercial banks took effect in January 2003.

Box 1. Key Structural Reforms over the Past Decade (concluded)

Foreign exchange and trade liberalization and investor's rights

- The export monopoly of the Coffee Marketing Board was abolished in 1990/91.
- The interbank foreign exchange market was created and the exchange rate was unified in 1993.
- The trade and foreign exchange regimes were liberalized in 1993–1994.
- An Investment Code was introduced in 1991. Investment incentives were standardized for both domestic and foreign investors. A revised Investment Code was approved in 1997 that simplified investment incentives and eliminated tax holidays.
- External capital account transactions were liberalized in 1997.
- A protocol for regional integration, including a customs union and the eventual elimination of internal duties with other countries in the East African Community (Kenya and Tanzania) was signed in 2002.

Privatization and restructuring of public enterprises

- The Public Enterprise Reform and Divestiture Statute was enacted in 1993 and later amended in 2000. All public enterprises are to be sold or liquidated by 2005. As of December 2002, of the original 146 firms held by the public sector, 38 enterprises remained to be sold or liquidated.
- Restructuring of the telecommunications and electricity sectors began in 1997/98 and 2000/01, respectively, to allow private sector participation. Privatization of Uganda Telecom Ltd. was completed in 2000, with two additional companies also providing telecommunications services. Agreement on a 20-year concession for operation of the electricity generation company was reached in November 2002, and negotiations are under way with the winning bidder of the operating concession for the electricity distribution company.

Liberalization of domestic prices

- Domestic prices deregulation was initiated in 1992.
- Retail prices of petroleum products were liberalized in 1994.

Civil service reform and military demobilization

- Civil service reform was launched in 1992, resulting in a 50 percent reduction in the number of government employees.
- An army demobilization program was launched in 1992 and completed in 1996.
- Civil service pay reform included monetization of previously noncash benefits in 1996/97 and an increase in the pay scale for skilled workers, beginning in 2002.

Poverty reduction

- The process for developing and periodically revising a comprehensive strategy to reduce poverty was initiated with the publication of the first PEAP in 1997. The first revision of the PEAP was made in 2000, with further revisions to be conducted about every three years. During the interim years, beginning in 2001, annual progress reports are submitted to parliament as a background report for the budget. Summaries of the PEAPs and progress reports serve as Uganda's PRSPs and PRSP progress reports, which are submitted to the Boards of the World Bank and the Fund for their endorsement.
- The Poverty Action Fund (PAF) was established in 1997 to protect certain poverty reduction expenditures.
- The role of local governments in the delivery of services and investment aimed at reducing poverty was enhanced, beginning in 1997/98, including an expanded system of intergovernmental grants.

Box 2. Lessons from Past Performance Under Fund-Supported Programs

Uganda has a long track record of good policy implementation under Fund-supported programs, which have been in effect nearly continuously since 1987. While there have been occasional slippages, the overriding factor behind this good performance has been the strong commitment and ownership of the economic and poverty reduction programs by the President and the management teams at both the Bank of Uganda (BOU) and the Ministry of Finance.

Strong technical capabilities at key institutions have played a central role in ensuring the overall development of policies, coordinating the work of a large number of technical assistance personnel, and mediating among the political authorities, civil society, and the donor community. The extensive technical assistance provided by the donor community has been necessary to overcome Uganda's manpower constraints.

The sequence of policies and the reform agenda has proved to be effective. First macroeconomic stabilization and liberalization of domestic prices, the foreign exchange market, and the export sector (primarily coffee) during the early 1990s set the stage for strong growth over the remainder of the decade. Fiscal consolidation was the main instrument of the initial stabilization process; later, market-oriented monetary policy instruments were developed to facilitate macroeconomic management. Subsequent reforms, such as the extensive privatization and liberalization of the external capital account, were initiated during the latter part of the decade, as was the comprehensive Poverty Eradication Action Plan (PEAP). While this sequencing was quite successful overall, the lack of a strong institutional setting for monitoring expenditures and enforcing good governance in the early stages of the PEAP likely resulted in some misuses of public resources.

Despite good overall program implementation, private sector investment has failed to materialize to the extent needed to achieve the PEAP target of 7 percent annual real GDP growth over the past four years. Investors have cited lack of financing, high transportation costs, and corruption, especially in the Uganda Revenue Authority (URA), as leading constraints on doing business. The unreliable delivery of utility services was previously cited as the leading constraint on doing business; however, privatization and restructuring of the telecommunications and electricity sectors, as well as increased investments in these areas, have eased this constraint.

Slippages can be costly. For example, failure to aggressively fight corruption in the URA led to a serious deterioration in its performance, and the stagnation of government revenues, during the latter part of the 1990s. In other cases, insufficient resources have hindered the development of institutions needed for the promotion of good governance.

In recent years, budget outcomes have deviated from budget intentions. The tendency for public administration expenditures, notably spending by the statehouse, to exceed budgeted amounts has resulted in cutbacks for unprotected items.

The lack of security that has prevailed in some areas of the country has hindered growth and led to increased income inequality.

Box 3. Main Findings of the Financial Sector Assessment Program (FSAP) [1]

The banking system in Uganda, which dominates the financial system, is fundamentally sound, more resilient than in the past, and poses no threat to macroeconomic stability. There are a number of reasons for this. First, the closure of four banks in the aftermath of the 1998/99 banking crisis weeded out the large, nonviable banks. Second, the authorities took swift and decisive actions in response to the FSAP recommendations, including most notably (i) the privatization of the Uganda Commercial Bank, one of the largest banks in Uganda; (ii) the improvements in the management of liquidity; and (iii) the significant strengthening of banking supervision. Third, the small size of the banking system precludes a serious threat to macroeconomic stability. Fourth, the system is now dominated by large, reputable banks (over two-thirds of the system's assets) that are well capitalized. Finally, stress testing results show that, while the banking system is exposed to interest rate and exchange rate risks, the system is relatively robust and can weather changes of reasonable magnitude in these key parameters.

Despite the progress made in implementing the recommendations of the FSAP, much still remains to be done to further strengthen and support the development the financial system. This includes the need to:

- fully address the problem caused by some of the small banks' frequent violations of prudential rules and regulations and the risk they pose to market integrity;

- move expeditiously on the stalled passage of the Financial Institutions Bill, without weakening its key provisions;

- enact anti-money laundering (AML) and combating the financing of terrorism (CFT) legislation and put in place a credible framework for monitoring and enforcing AML/CFT issues;

- reform the National Social Security Fund (NSSF) and improve its performance;

- address the problems of the Uganda Development Bank;

- phase out direct government involvement in microfinance; and

- continue to reform the legal framework to support the healthy development of the financial system.

The macroeconomic environment in Uganda is exposed to a number of potential vulnerabilities that would also need to be managed, if the health of the financial sector is to be safeguarded. These include (i) the economy's dependence on agriculture, which leaves Uganda vulnerable to external shocks; (ii) the country's heavy dependence on politically sensitive foreign donor flows; and (iii) the still-unsettled security situation in parts of the country.

[1] Details of the FSAP recommendations and a full discussion of the stability and developmental issues facing Uganda's financial system are found in the accompanying staff report: "Uganda—Financial System Stability Assessment."

Box 4. Poverty and Social Impact Analysis of the Strategic Exports Program

Uganda participated in a pilot project sponsored by the United Kingdom's Department for International Development (DFID) to build capacity for ex ante poverty and social impact analyses (PSIAs). The project focused on an evaluation of the Strategic Exports Program (SEP), which is a central component of the authorities' economic program, particularly on initiatives in the coffee and fish sectors. The exercise, complementary to earlier reports on the SEP, suggests that further consideration should be given to the microlevel supply constraints that are likely to hinder the success of the program, particularly those arising from unequal, noncooperative gender relations within agricultural households. Furthermore, the authors propose bringing the SEP initiative under the current institutional umbrella of the Plan for the Modernization of Agriculture (PMA) and reinforcing the capacity of the PMA to allow the full realization of the SEP's benefits.

Drawing on the SEP evaluation exercise, the report concludes that, despite the possible widespread benefits of such a PSIA exercise, there are technical capacity constraints to the effective incorporation in a timely fashion of ex ante PSIAs in the national policy system. The pilot project suggests that future PSIA exercises should be focused and employ a simple study design.

Box 5. Efforts to Reduce Corruption

Corruption has long been recognized as a serious problem in Uganda.[1] Upon assuming power in 1986, the National Resistance Movement's (NRM's) Ten-Point Program referred to corruption as a contributor to "backwardness" and stated that "... corruption must be eliminated once and for all." In this regard, the new government set up the office of the Inspector General of Government (IGG) in its first year of existence.

Extensive economic liberalization over the past decade has reduced some opportunities for corruption. However, in other aspects, reforms have outpaced the authorities' capacity to control improper behavior by public officials and government contractors. For example, the rapid increase in resources allocated to local governments in the decentralization of programs to reduce poverty and the expansion in the number of these local government entities have overstretched the IGG's monitoring capacity.

Despite the difficulty involved in curbing corruption, the Ugandan authorities continue to take steps to fight corruption at its roots. In 2002, the government launched an anticorruption campaign within the Uganda Revenue Authority (URA), and parliament approved the new leadership code and new IGG Statute. With regard to the former, an ongoing judicial commission investigating improprieties and questionable behavior by URA staff is expected to issue its report in February 2003. A central element in this investigation has been the new requirement that all URA staff members submit a declaration of their income and net wealth. Under the new Leadership Code, about 10,000 public officials, including the president, the cabinet, members of parliament, senior civil servants, military officers, and local government administrators, were also required to submit similar declarations. Failure to submit these declarations or false reporting are grounds for dismissal.

The true test of these bold initiatives, however, will lie in the follow-up actions taken in the coming year. The URA management has announced a zero-tolerance policy for wrongdoing by staff. This policy would need to be strictly enforced. With regard to the declarations of wealth by public officials under the new Leadership Code, it is not clear how the government will apply appropriate sanctions. Even though the IGG's office will be strengthened under the new statute, its resources are grossly insufficient to investigate the declarations on its own. Instead, it will rely heavily on the press and general public to verify their accuracy.

Beginning in 2003, the authorities also plan to initiate an investigation into corruption in the judiciary and to review public procurement and tendering procedures.

[1] In the World Bank's governance indicator, Uganda ranked 139th out of 165 countries surveyed in 2000/01. The index and key papers that describe the governance data and methodology used to construct the index may be found in the World Bank Institute website, http://www.worldbank.org/wbi/governance.

Box 6. HIV/AIDS Epidemic in Uganda

Among developing countries, Uganda has been characterized as one of the few success stories in the fight against the HIV/AIDS epidemic. The nationwide adult prevalence rates declined from 30 percent in 1992 to 6½ percent in 2001, with the rates ranging from 4.2 percent in rural areas to 8.8 percent in urban areas. Reduction in prevalence rates among the youngest age groups at several surveillance sites—the most reliable measure of trends—provides growing evidence of concomitant declines in incidence.

During the 1990s, Uganda responded to the epidemic by developing a multisectoral national strategic framework. The initial stages of the framework were implemented through the Multi-sectoral Approach to Control of AIDS (MACA), which was concluded in 1993, followed by the National Operational Plan for HIV/AIDS/STD Prevention, Care and Support (1994–98) and an expanded National Strategic Framework (1998–2001), which placed the HIV/AIDS problem in the broader context of national development and related it to other health and poverty eradication policies. The success achieved thus far in Uganda is attributed to the behavioral change that followed the vigorous public awareness campaign, the increased access to testing and counseling, the psychological and social support for the infected and their families, and improved access to HIV treatments, which were all included in the HIV/AIDS policy framework.

Despite this success, the AIDS epidemic continues to exact a heavy toll. Nearly every household has lost a relative or a friend to the disease, and the death rate in Uganda from AIDS is still comparable to those in other sub-Saharan countries. The gravity of the epidemic is most significant when the impact on children is considered: of the 11 million children orphaned by HIV/AIDS in sub-Saharan Africa, 8 percent live in Uganda.[1] Life expectancy at birth was 46 years during the 1980s but declined to 41 years in 1995, near the height of the epidemic. Moreover, regional studies in Uganda have shown significant declines in household income attributed to the HIV/AIDS epidemic; for example, in the Kabarole region, AIDS-related expenditures have reduced the AIDS-affected households' income by almost 53 percent[2]. At the same time, a larger share of the shrinking incomes is allocated to caring for infected family members, thus limiting other expenditures especially on food. Studies in two districts, Apac and Kabarole, find that AIDS patients allocated over 100 percent of their household income to health expenses, suggesting a running down of assets. Similarly, studies in the Busia, Mukono, and Tororo regions indicate that AIDS-affected households report inadequate food supplies significantly more than households not affected by the epidemic[2]. In the agricultural sector, the epidemic has resulted in a reduction in the acreage of land under cultivation and a loss in livestock.[2]

Mindful of the epidemic's continuing impact on human lives and the negative economic effects, the government's medium-term health plan includes several HIV/AIDS-related policies. Specifically, the most recent National Strategic Framework (2000/01–2005/06) aims at further reducing the prevalence rate by promoting behavior change and reducing the risk of blood-borne HIV and mother-to-child transmission. Furthermore, the framework is designed to strengthen the national capacity to respond to the epidemic. This framework has been financially and materially supported by the government and several development partners.

[1] Data from HIV/AIDS Surveillance Report, Ministry of Health Uganda (2001) and Uganda AIDS Commission Fact Sheet (2001) "Twenty Years of HIV/AIDS in the World: Evolution of the Epidemic and Response in Uganda."

[2] UNDP (2002), Human Development Report on Uganda.

Box 7. Uganda's Debt Sustainability

Stress tests illustrate the effect of alternative assumptions on the sustainability of Uganda's public sector debt.[1] Under the baseline medium-term outlook, Uganda's external and total debt sustainability positions show improvement, as measured by the ratios of the net present value (NPV) of external debt to exports and total debt to GDP, respectively. The NPV of external debt-to-exports ratio is projected to fall by an average of 5 percentage points a year through 2006/07 from its peak of 195 percent at end-2002/03 (July–June). At the same time, total debt, equal to the NPV of external debt plus the face value of domestic debt (primarily treasury bills), is projected to remain stable at about 34 percent of GDP. These results are driven by restraint on new borrowing arising from a gradual fiscal consolidation, a steady recovery of Uganda's export receipts (by 12½ percent a year), and strong real GDP growth (6.4 percent a year) over the medium term. Nevertheless, the external debt-to-exports ratio would remain high throughout the medium term, compared with the 150 percent threshold established under the enhanced framework of the HIPC Initiative.

Two scenarios, simulating two-year shocks to the export sector and real GDP growth rate, representing a possible downturn in the global economy and instability in the macroeconomic environment, respectively, were considered. The simulations show that these shocks would set off debt dynamics in both scenarios, which persist over the medium term, so that by 2006/07 the NPV of debt-to-export ratios are 13 and 28 percentage points higher, respectively, than in the baseline scenario. A combination of the two shocks together, however, worsens this indicator by 42 percentage points in 2006/07.

The projected path of total government debt relative to GDP to is particularly sensitive to a large depreciation of the Uganda shilling. A permanent 30 percent depreciation occurring in 2003/04 was simulated, in addition to the real GDP and export shocks mentioned above. The depreciation would result in a stock of debt-to-GDP ratio 11 percentage points higher in 2006/07 than in the baseline. The impact in the other simulations of isolated shocks are modest by comparison, as the debt ratios increase by 2½–4 percentage points in 2006/07, relative to the baseline; however, once again the effect of the combined shock worsens the debt indicator (by 7 percentage points in 2006/07).

These sensitivity tests underscore that Uganda's efforts at achieving debt sustainability over the medium term could be derailed by strong shocks to real GDP growth or export performance or by a severe depreciation. Given the risks to GDP and export growth inherent in an economy that relies heavily on primary agricultural products, it is imperative that the government implement measures that enhance competitiveness and diversify the export base. Sound macroeconomic policies also need to be sustained, particularly adherence to fiscal consolidation and prudent debt management.

Uganda: Key results of Debt Sustainability Analysis, 2003/04 to 2006/07

	1999/00	2000/01	2001/02	2002/03	Projections			
					2003/04	2004/05	2005/06	2006/07
NPV of external debt-to-exports (baseline)	**174.3**	**167.5**	**190.2**	**195.2**	**194.3**	**188.8**	**183.1**	**176.4**
All variables at 5-year historical average 1/	...	...	...	...	186.2	176.2	176.2	181.8
Lower real GDP growth: 2-year shock 2/	...	...	...	...	201.5	203.7	196.9	189.2
Weaker export growth: 2-year shock	...	...	...	...	213.8	221.8	213.7	204.7
Combined: 2-year shock	...	...	...	...	221/0	237.5	228.3	218.2
Baseline for government debt to GDP	**29.8**	**26.0**	**30.9**	**33.5**	**33.7**	**34.0**	**34.0**	**33.7**
30 percent depreciation in 2003/04	...	...	...	...	45.7	45.9	45.5	44.8
Lower real GDP: 2-year shock 2/	...	...	...	...	35.0	36.8	36.7	36.3
Weaker export growth: 2-year shock	...	...	...	...	36.1	38.3	38.2	37.8
Combined: 2-year shock	...	...	...	...	37.4	41.3	41.1	40.5

Source: IMF staff projections.
1/ Real GDP growth, interest rate on external debt, dollar deflator, noninterest current account, and nondebt inflows are at historical average
2/ Real GDP growth is at historical average minus three standard deviations in 2003/04 and 2004/05, equivalent to 3.5 percent

[1] The stress test is based on the analytical framework developed in a recent staff paper.

Box 8. Foreign Direct Investment in Uganda

Uganda has attracted increasing amounts of foreign direct investment (FDI), as levels have risen from 2 percent of GDP in 1995/96 to about 4 percent of GDP in recent years. According to the *2002 World Investment Report*,[1] out of 140 countries surveyed, Uganda ranked 59th in 1998–2000, compared with 130th in 1988–90. Within the east African region, Uganda now ranks as the country with the highest potential to attract FDI, as well as the best performing economy in attracting FDI within the region.

The manufacturing sector has received the largest share of foreign investment (50 percent), with a substantial part of the investment concentrated in beverages/soft drinks and breweries for the local market. Other large recipients of FDI are the transport, communications, and storage sectors, receiving about 10 percent of total investment each, followed by mining and quarrying, real estate and tourism, each receiving 6 percent of total investment.

Several factors have contributed to larger FDI flows to Uganda. Initially, macroeconomic stability achieved in the early part of the 1990s, accompanied by improved security conditions, liberalization of the foreign exchange market and unification of the exchange rate, and the 1991 Investment Code, which established the rights for foreign investors and eliminated the biases in the incentive system toward domestic firms, contributed to the growth in FDI. The return of confiscated property to its former Asian owners further helped to restore and clarify property rights. The structural reforms that continued in the second half of 1990s, including a vigorous privatization program (under which 90 of the 107 public enterprises identified by the Public Enterprise Reform and Divestiture (PERD) Secretariat in 1995 have been divested so far), capital account liberalization in 1997, and improved efficiency and capacity of the utilities have facilitated rapid inflows of FDI.

Several factors continue to hinder FDI inflows. The Investor Survey,[2] as well as a survey of foreign firms operating in Uganda reported in Obwona,[3] list the main constraints on foreign investors as the following: access to financing, corruption, irregularities in tax administration, high transportation costs on account of slow processing at the ports and poor infrastructure, a lack of incentives, and discriminatory government interventions. Respondents further list the small size of the domestic market and the conflict in northern Uganda as weaknesses.

The authorities' structural program is largely aimed at addressing these constraints on investment. Measures include the new Leadership Code and Inspector General of Government Statue, approved by the parliament in 2002 to fight corruption, and the introduction of a commercial court to expedite the resolution of business conflicts. The anticorruption effort in the Uganda Revenue Authority and other measures aimed at improving tax administration are expected to reduce irregularities. To expand the financial resources available for investment, the minimum capital requirement for commercial banks was increased (effective January 2003), and initial steps have been taken to restructure the National Social Security Fund, the country's main source of pension funds, and privatize the Uganda Development Bank. The Financial Institutions Bill, which was submitted to the parliament in June 2002, would establish prudential norms and supervision practices in line with international standards and is expected to lead to a further expansion in bank deposits. The privatization of the Uganda Railway Corporation and improved transportation networks in the context of the East African Community (EAC) regional integration are aimed at reducing the transportation-related constraints on investment. Also, in an effort to further enhance service delivery in the electricity sector, the authorities have initiated the privatization of the electricity generation and distribution companies.

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[1] UN Conference on Trade and Development, *World Investment Report: Transnational Corporations and Export Competitiveness* (New York: UN, 2002).

[2] Uganda Investment Authority, *Investor Survey* (Kampala: Uganda Investment Authority, 2000).

[3] Marios B. Obwona, "Determinants of FDI and Their Impact on Economic Growth in Uganda," *African Development Review*, Vol. 13 (June 2001), pp.46–81.

Box 9. Uganda: Implementation Status of Actions to Strengthen Tracking of Poverty-Reducing Public Spending [1]

Point Number	Actions	Timing (S/M)[2]	Status (FI/II/NS)[3]	Date Achieved	Comments[4]
Actions to strengthen budget formulation					
1	Improve inclusion and reporting on donor activities through strengthening sector working groups (SWGs) participation in the budget process	S-M	II		Some sectors like health, education, water, roads, and justice have started to include donors' activities in their sector plans. Implementation of the new chart of accounts in FY 2003/04 will standardize accounting formats, thereby facilitating sector reporting of donors' activities.
2	Include donor project funds in the medium-term expenditure framework (MTEF) programming for the education, health, water and sanitation sectors	S	II		The process of integrating donors' project funds in the MTEF programming has started. The MOFPED has begun developing a database of existing donor projects and plans to integrate donor projects into the 2004/05 MTEF.
3	Develop a proposal for the Integrated Financial Management Integrated System (IFMS) within the Economic and Financial Management Project (EFMP) II	S	FI	Apr-02	The Fiscal Management Study (FMS) was completed, and the procurement process for the supplier of the IFMS is in progress.
4	Identify poverty-reducing expenditures	S	FI	Dec-99	Poverty-reducing expenditure is clearly identified and tracked under the Poverty Action Plan (PAF). The poverty component of non-PAF expenditures remains difficult to monitor.
5	Improve budget classification, introduce activities-based budgeting (ABB), and strengthen the MOFPED/MOPS	S	II		GFS reporting and compliance with the International Public Sector Accounting Standards were introduced in 2002. A new chart of accounts will be introduced in FY 2003/4. In addition, result-oriented management (ROM) and output-oriented budget (OOB) have been introduced in some sectors.
6	Strengthen the MTEF preparation through the EFMP II/PRSC	S	II		With the support of the EFMP II/PRSC, the MTEF process has been improved by strengthening the work of SWGs, and integrating donor projects, and staffing and wage bill issues in the MTEF formulation process.
7	Include donor project funds in the MTEF programming for all sectors	M	NS		Implementation planned for FY 2004/05.
8	Implement the IFMS through the EFMP II	M	II		The procurement of the IFMS is under way with the implementation of the pilot site for 6 central ministries and 4 local authorities starting in July 2003. Further rollout to 12 ministries and 6 local authorities is planned for FY 2004/05.

Box 9. Uganda: Implementation Status of Actions to Strengthen Tracking of Poverty-Reducing Public Spending [1]

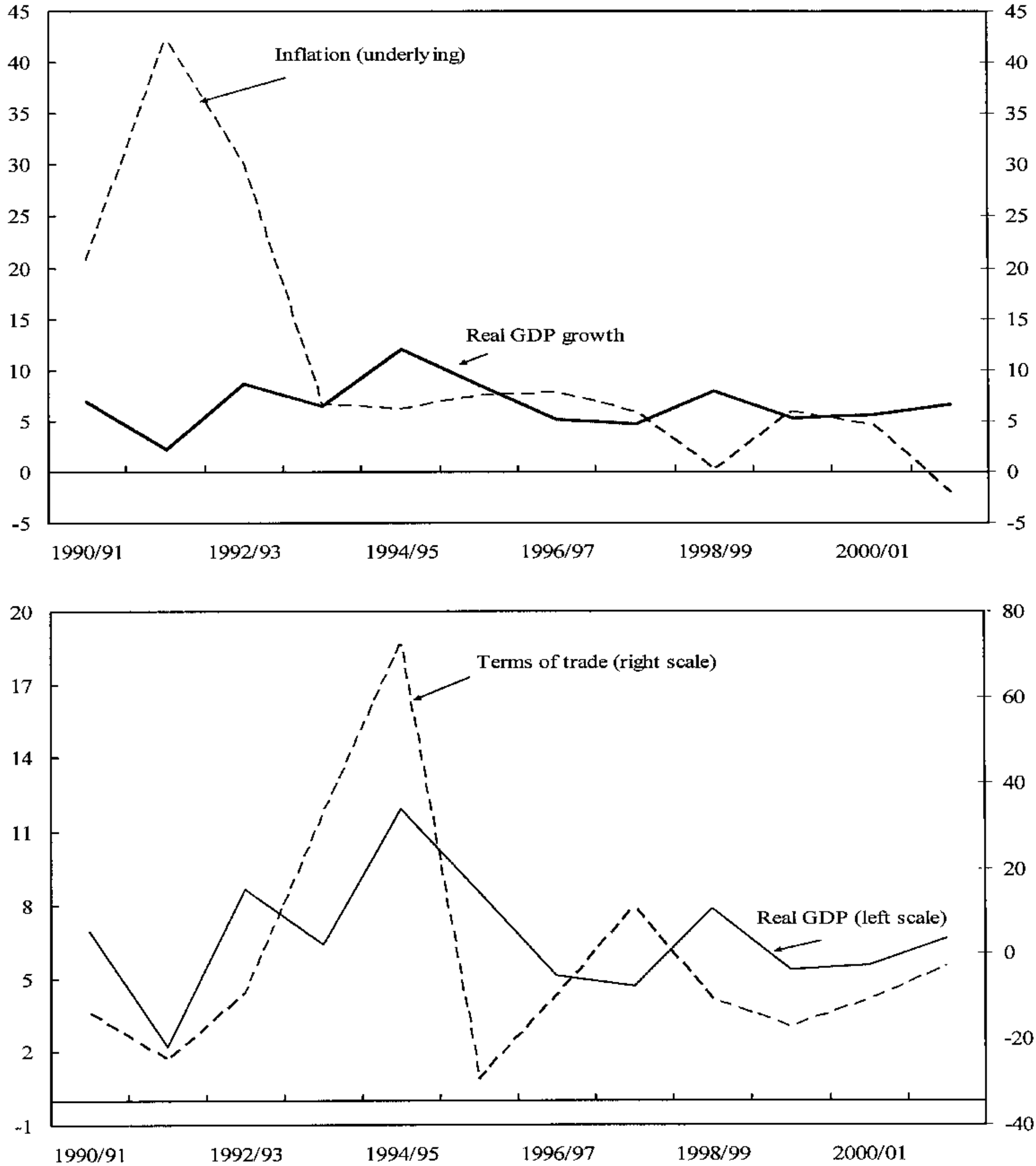
Point Number	Actions	Timing (S/M)[2]	Status (FI/II/NS)[3]	Date Achieved	Comments[4]
9	Track and monitor poverty-reducing expenditures throughout the budget	M	II		Poverty-reducing expenditures under the PAF are systematically monitored. However, the monitoring of non-PAF expenditures will only be possible after the introduction of the output-oriented budget.
10	Implement improved budget classification through the EFMP II	M	II		Implementation started. A new chart of account will be introduced in FY 2003/04. See also previous point 5.
11	Strengthen the MTEF implementation through the EFMP II	M	II		With the support of the EFMP II, the MTEF implementation process has been enhanced by strengthening the work of SWGs by increasing their number. In addition, the IFMS and FDS pilots are scheduled to start in July 2003.
Actions to strengthen budget execution					
12	Reduce arrears through the extension of the commitment control system (CCS), and improve internal controls through the enactment of the new Public Finance and Accountability Bill and new treasury regulations	S	II		The CCS covers the nonwage recurrent and development expenditures, and no further extension is envisaged. The new Public Finance and Accountability Bill 2002 (PFAB) is currently before parliament. The related regulations, as well as the treasury financial instructions, have been drafted and are expected to be approved and implemented immediately following the enactment of the bill.
13	Implement tracking surveys in the health and education sectors	S	FI	Jul-00	Periodical surveys are conducted in the health and education sectors. In addition, tracking surveys of specific subcomponents of some are carried out.
14	Strengthen internal audit through redirection of resources to system audits, random checks, and training under the EFMP II	S-M	II		Training in the Internal Audit Office (IA) on modern auditing techniques was completed. A core team responsible for improving and strengthening the IA was set up. An action plan for developing and increasing the capacity of internal auditors was developed and agreed upon. The charter for the IA and the Audit Committees, and the Government Internal Auditing Guidelines were drafted in October 02. The program of strengthening internal audit function under EFMP II will continue until Dec 03.

Box 9. Uganda: Implementation Status of Actions to Strengthen Tracking of Poverty-Reducing Public Spending [1]

Point Number	Actions	Timing (S/M)[2]	Status (FI/II/NS)[3]	Date Achieved	Comments[4]
15	Review and improve the structure of government bank accounts and reconciliation under the EFMP II	S-M	II		Backlog clearance of treasury bank accounts was completed, and irreconcilable balances were written off. The review and the improvement of government's bank accounts will be achieved only after the fully implementation of the EFMP II. The PFAB is currently before parliament. When approved, it will ensure that public or official bank accounts are not opened without prior authorization of the Accountant General
16	Strengthen the CCS by improving internal controls following the enactment of the new PFAB, the new treasury regulations and the introduction of the IFMS	M	NS		The new PFAB is currently before parliament. The new treasury financial instructions have been drafted and are expected to be approved and implemented immediately following the enactment of the Bill.
17	Extend tracking surveys to all sectors	M	II		Tracking studies have been launched in the water sector.
Actions to strengthen budget reporting					
18	Ensure that each line ministry presents internal budget reports with greater detail	S	II		Detailed internal budget reports are presented for expenditures under the PAF. Quarterly internal budget performance reports are beginning to provide greater detail in non-PAF sectors.
19	Strengthen Auditor-General department by improving resources and training	S-M	II		Capacity-building and training activities are being carried out under the EFMP II to enhance audit and documentation procedures, and professional skills.
20	Improve quality and timeliness of releasing audited accounts to legislature	S-M	II		Audited accounts of the central government are presented within 12 months of the end of the year. Auditing of local governments' accounts is deficient. Under EFMP II, capacity-building activities are being carried out, to enhance audit and documentation procedures, and professional skills.
21	Enforce compliance with monthly reporting requirements, especially at the local government level	M	NS		Progress is limited. Only a limited number of local authorities submit monthly accounts to the MOFPED and the Ministry of Local Governments.

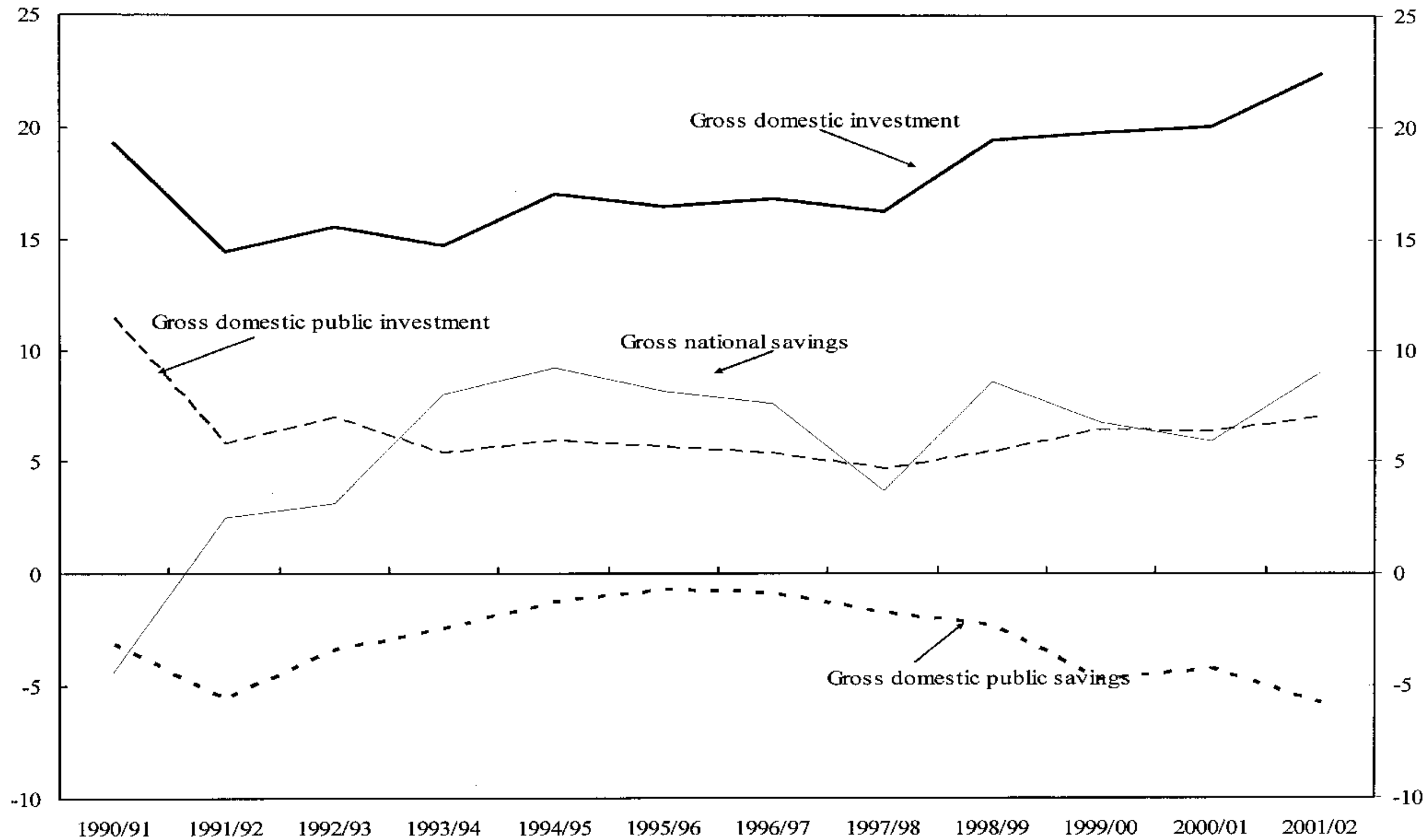
[1] The "Report on the Tracking of Poverty-Reducing Spending in Uganda" was completed in December 2001 (REF).
[2] S=Short-term action; M=medium-term action.
[3] FI=fully implemented, II=implementation initiated, NS=not started.
[4] Comments may explain any changes in the nature of proposed actions or changes to the timing of their implementation.

Figure 1. Uganda: Real GDP Growth, Inflation, and Terms of Trade, 1990/91–2001/02 1/
(Annual percentage changes)



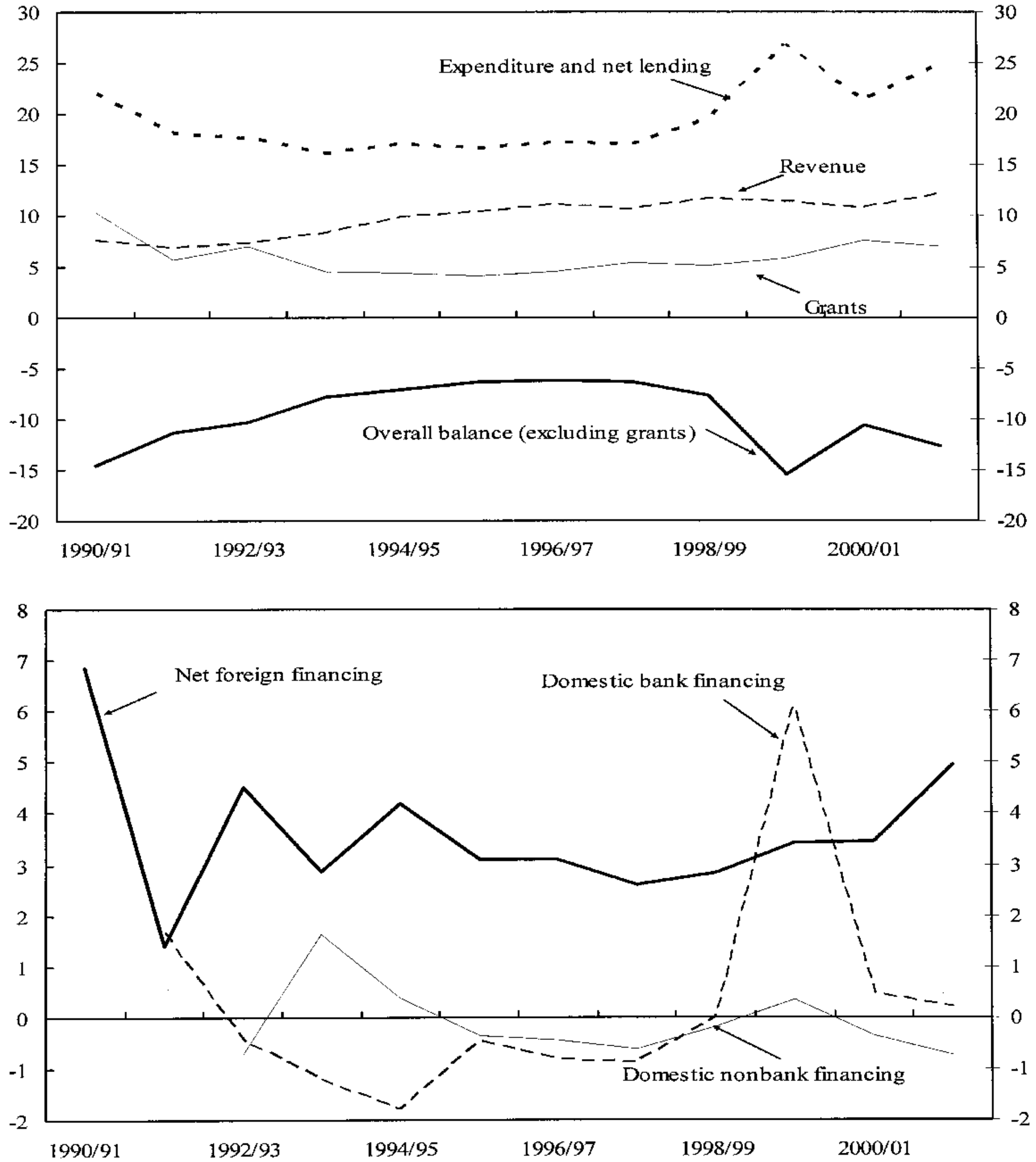
Sources: Ugandan authorities; and IMF staff estimates.
1/ Fiscal year begins in July.

Figure 2. Uganda: Savings and Investment, 1990/91–2001/02 1/
(As a share of GDP at market prices, in percent)



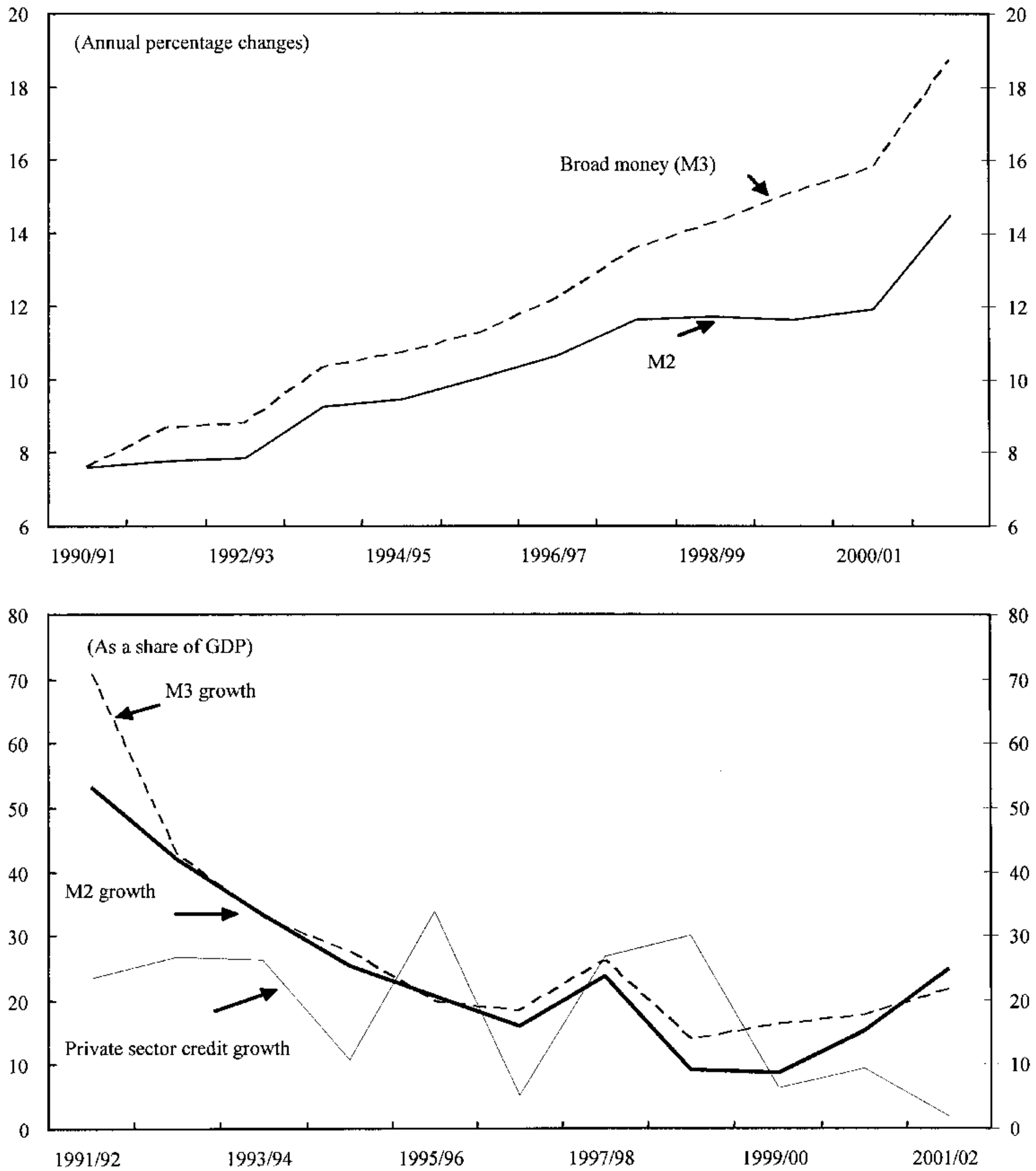
Sources: Ugandan authorities; and IMF staff estimates.
1/ Fiscal year begins in July.

Figure 3. Uganda: Fiscal Indicators, 1990/91–2001/02 1/
(As a share of GDP at market prices, in percent)



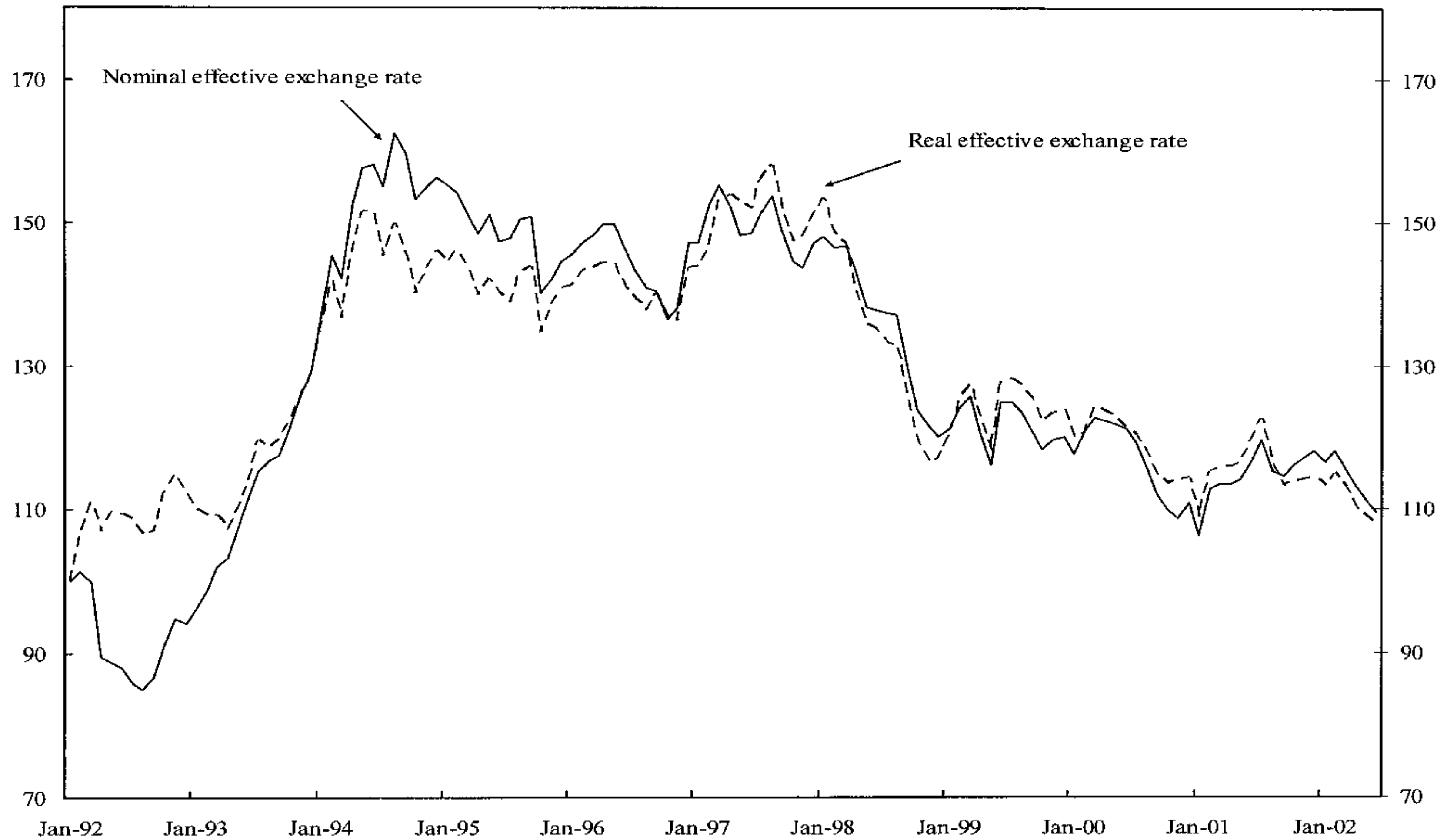
Sources: Ugandan authorities; and IMF staff estimates.
1/ Fiscal year begins in July.

Figure 4. Uganda: Monetary Aggregates, 1990/91–2001/02 1/



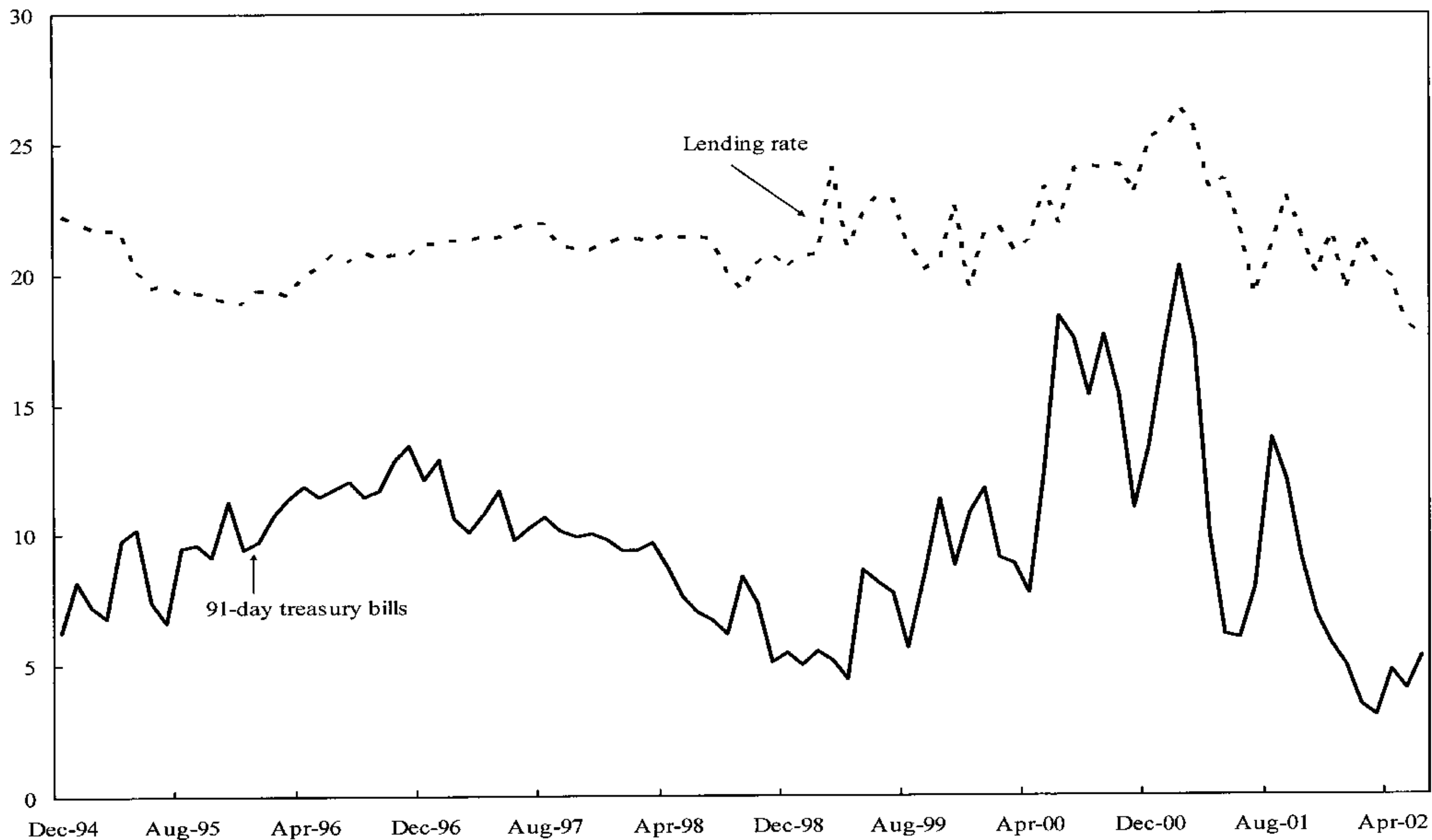
Sources: Ugandan authorities; and IMF staff estimates.
1/ Fiscal year begins in July.

Figure 5. Uganda: Nominal and Real Effective Exchange Rates, January 1992-June 2002
(January 1992=100; foreign currency per Uganda shilling)



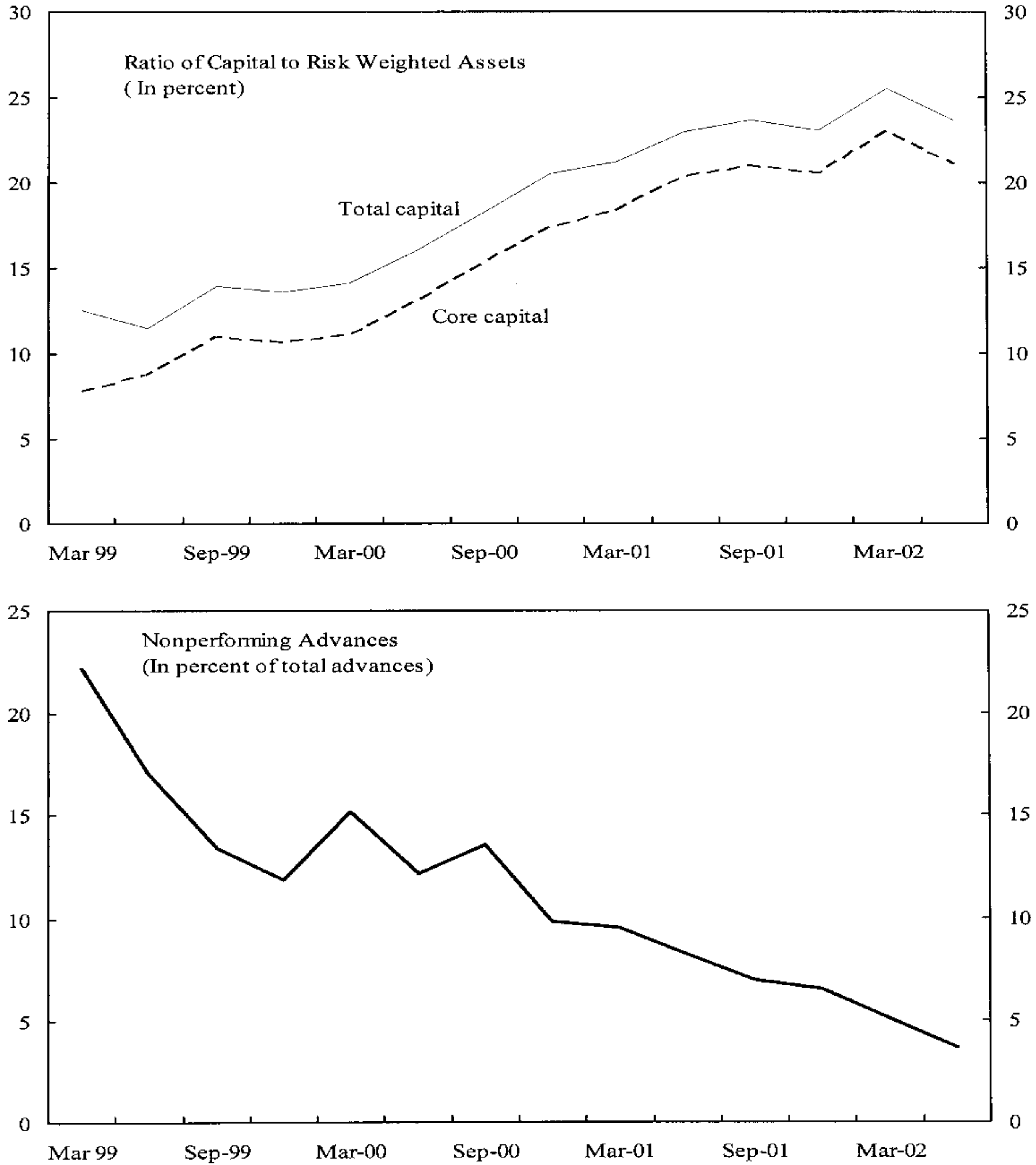
Source: IMF, Information Notice System.

Figure 6. Uganda: Interest Rates, December 1994–June 2002
(In percent)



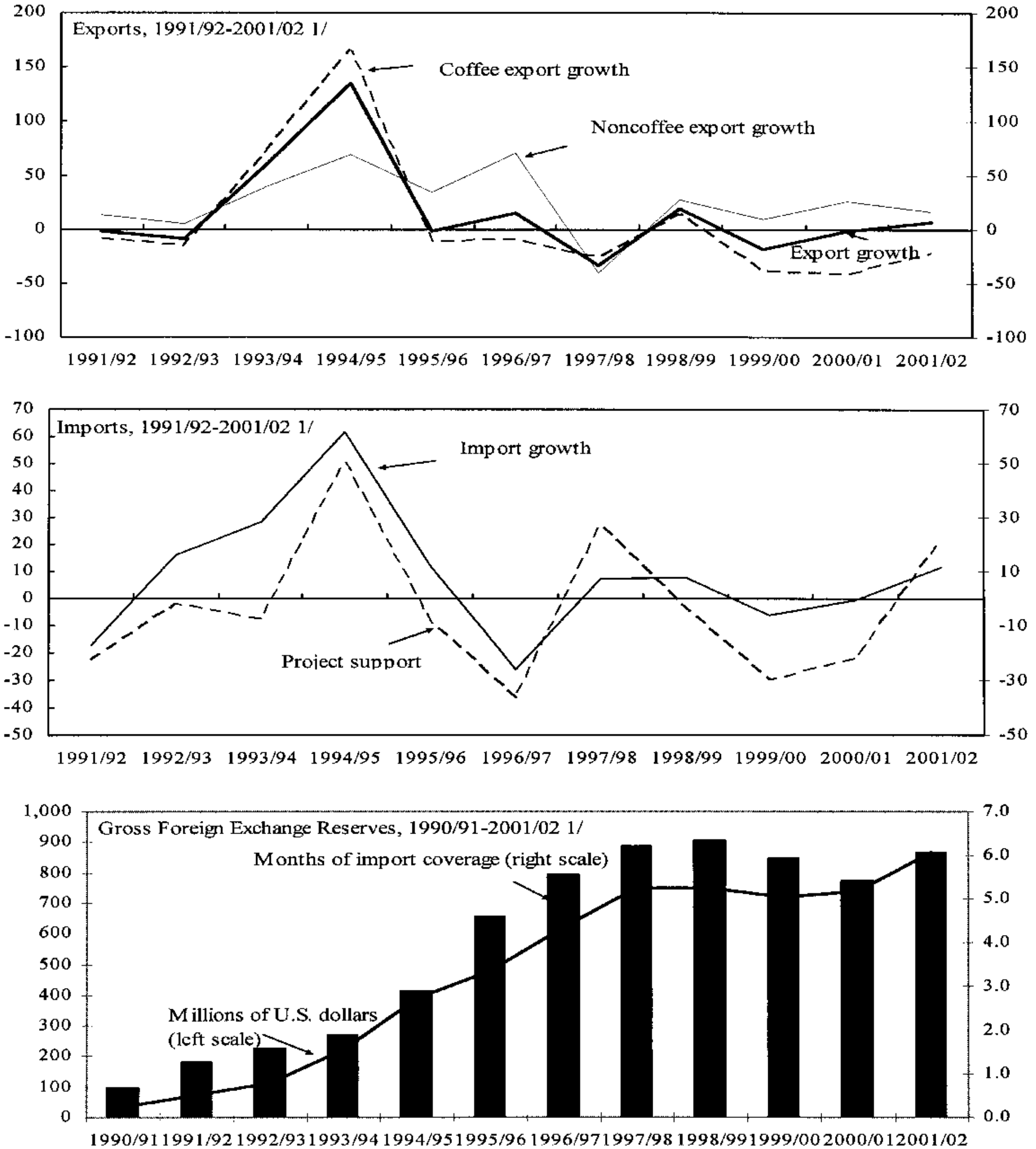
Source: Ugandan authorities.

Figure 7. Uganda: Selected Financial Market Indicators,
March 1999–June 2002



Source: Ugandan authorities.

Figure 8: Uganda: External Sector Indicators, 1990/91–2001/02 1/
(Annual percentage changes, unless otherwise indicated)



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

Table 1. Uganda: Selected Economic and Financial Indicators, 1997/98–2006/2007 1/

	1997/98	1998/99	1999/00	2000/01	2001/02 Est.	2002/03 Proj.	2003/04 Proj.	2004/05 Proj.	2005/06 Proj.	2006/07 Proj.
(Annual percentage change, unless otherwise indicated)										
National income and prices										
GDP at constant prices	4.7	7.9	5.3	5.5	6.6	5.7	6.2	6.7	6.3	6.3
GDP deflator	10.1	0.3	4.0	6.5	-3.5	2.5	3.5	3.2	3.5	3.8
GDP at market prices										
(in billions of Uganda shillings)	7,513	8,126	8,904	10,005	10,292	11,153	12,257	13,502	14,853	16,398
Consumer prices										
End of period	-0.9	5.3	1.9	6.4	-2.5	6.1	3.5	3.5	3.5	3.5
Underlying	1.9	4.5	2.9	8.5	0.1	4.5	3.5	3.5	3.5	3.5
Annual average	5.8	0.2	5.8	4.5	-2.0	1.0	3.5	3.5	3.5	3.5
Underlying	1.0	2.8	5.0	5.0	3.5	3.5	3.5	3.5	3.5	3.5
External sector (in U.S. dollars)										
Exports, f.o.b.	-32.8	19.5	-17.6	-1.6	6.7	18.5	7.7	12.6	14.3	10.5
Imports, c.i.f.	7.5	7.6	-5.9	-0.5	11.5	4.1	3.6	13.8	6.1	6.1
Terms of trade (deterioration -)	10.6	-10.7	-17.3	-10.7	-3.1	8.9	0.4	-2.0	-0.1	2.7
Average exchange rate										
(Uganda shillings per U.S. dollar)	1150	1362	1511	1763	1755	...	...	...	...	...
Nominal effective exchange rate										
(average; depreciation -)	0.0	-14.0	-3.2	-6.9	3.2	...	...	...	...	...
Real effective exchange rate										
(average; depreciation -)	2.2	-13.0	-0.2	-6.5	-0.8	...	...	...	...	...
Government budget										
Total revenue and grants	17.1	13.2	12.4	20.9	7.2	14.7	8.3	9.8	9.0	9.7
Revenue	9.6	18.6	6.2	7.2	15.9	13.0	14.3	13.1	13.5	13.7
Expenditure and net lending	11.9	23.3	51.3	-10.4	19.8	3.4	9.9	7.8	8.7	7.2
(Annual changes in percent of beginning-of-period stock of money and quasi money, unless otherwise indicated)										
Money and credit										
Net foreign assets	32.4	14.0	10.7	22.6	21.6	18.7	13.3	12.3	10.2	12.8
Net domestic assets	-6.3	-0.2	5.4	-5.1	0.0	-8.5	-1.4	0.6	4.1	1.5
Domestic credit	2.7	17.2	46.9	7.0	1.9	-1.0	4.1	4.1	5.8	4.6
Central government	-8.3	0.1	46.7	3.4	1.4	-4.3	-0.3	-0.4	1.0	-0.8
Private sector	11.0	12.3	2.9	4.0	0.7	3.4	4.5	4.6	4.8	5.4
Money and quasi money (M3)	26.1	13.8	16.1	17.5	21.6	10.3	11.9	12.9	14.3	14.3
M2	23.7	9.1	8.8	15.2	24.9	9.9	11.7	12.9	14.3	14.3
Velocity (GDP/M2) 2/	9.5	8.9	9.0	9.0	7.7	7.1	7.1	6.9	6.7	6.5
Interest rate (in percent) 3/	9.3	6.4	10.4	14.3	6.7	...	...	...	...	...
(In percent of GDP at market prices)										
National income accounts										
Gross domestic investment	16.2	19.4	19.8	20.0	22.4	22.6	22.9	24.4	24.4	24.4
Public	4.7	5.5	6.4	6.4	7.0	6.7	6.7	6.5	6.3	6.1
Private	11.5	14.0	13.4	13.7	15.4	15.9	16.2	17.9	18.1	18.3
Gross domestic savings (excluding grants)	3.7	8.6	6.8	5.9	9.0	7.9	8.7	9.5	10.3	11.5
Public	-1.7	-2.3	-4.7	-4.2	-5.7	-4.4	-3.9	-3.2	-2.7	-1.8
Private	5.4	10.9	11.5	10.1	14.7	12.3	12.6	12.7	13.0	13.3
External sector										
Current account balance										
(including official grants)	-6.7	-6.2	-6.9	-6.0	-6.0	-6.7	-7.1	-8.3	-8.0	-7.4
(excluding official grants)	-12.5	-10.8	-13.0	-14.1	-13.4	-14.7	-14.2	-15.0	-14.1	-12.9
External debt (including Fund)	59.5	62.2	60.8	59.2	64.7	66.4	66.7	64.9	61.9	59.8
Government budget										
Revenue	10.7	11.7	11.3	10.8	12.2	12.7	13.2	13.6	14.0	14.4
Grants	5.3	5.0	5.8	7.6	7.0	7.6	6.8	6.4	5.8	5.3
Total expenditure and net lending	17.1	19.4	26.8	21.4	24.9	23.8	23.8	23.3	23.0	22.3
Government balance (excluding grants)	-6.4	-7.7	-15.5	-10.6	-12.7	-11.1	-10.6	-9.7	-9.0	-7.9
Government balance (including grants)	-1.1	-2.7	-9.7	-3.0	-5.7	-3.4	-3.8	-3.3	-3.2	-2.7
Domestic balance	-0.3	-1.6	-8.9	-4.2	-6.4	-5.4	-5.1	-4.6	-4.2	-3.6
Net foreign financing	2.6	2.8	3.4	3.4	5.1	4.2	3.7	3.3	3.0	2.8
Domestic bank financing	-0.9	0.0	6.1	0.5	0.2	-0.7	0.0	-0.1	0.2	-0.2
Domestic nonbank financing	-0.6	-0.2	0.3	-0.4	-0.7	0.1	0.1	0.1	0.1	0.1
Net donor inflows	8.2	7.1	8.0	10.6	11.7	11.4	10.4	9.7	8.8	8.0
(In percent of exports of goods and nonfactor services)										
Debt-service ratio 4/										
Including Fund obligations	27.1	24.3	20.2	9.7	7.7	8.0	8.6	8.2	8.1	7.6
Excluding Fund obligations	17.2	15.9	12.1	2.5	1.7	2.7	2.9	3.2	4.1	4.3
(In millions of U.S. dollars, unless otherwise indicated)										
Overall balance of payments	361	354	333	321	448	516	515	652	699	729
External payments arrears (end of period)	276	241	0	0	6	0	0	0	0	0
Foreign exchange reserves	750	748	719	739	866	970	1,007	1,066	1,148	1,260
Gross foreign exchange reserves (in months of imports of goods and nonfactor services)	6.2	6.4	5.9	5.4	6.1	6.5	6.1	6.1	6.1	6.6

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/ The debt-service ratio incorporates the effects of rescheduling and assistance provided under the original and enhanced HIPC Initiatives and estimated HIPC assistance from non-Paris Club bilateral creditors with whom bilateral agreements have not yet been reached.

Table 2. Uganda: Fiscal Operations of the Central Government, 1997/98–2006/2007 1/

	1997/98	1998/99	1999/2000	2000/01	2001/02 Est.	2002/03 Proj.	2003/04 Proj.	2004/05 Proj.	2005/06 Proj.	2006/07 Proj.
	(In billions of Uganda shillings)									
Total revenue and grants	1,199	1,358	1,526	1,844	1,977	2,268	2,456	2,697	2,940	3,226
Revenue	801	951	1,010	1,082	1,254	1,417	1,620	1,832	2,078	2,364
Tax	754	888	928	1,029	1,156	1,309	1,500	1,704	1,946	2,220
Nontax 2/	47	63	82	53	98	108	120	127	132	144
Grants	398	407	516	762	724	851	836	865	861	862
Import support	193	162	240	365	364	510	477	491	481	476
Of which HIPC assistance	0	61	71	96	105	116	142	150	134	123
Project grants	204	245	275	397	360	342	359	373	380	386
Expenditures and net lending	1,281	1,579	2,389	2,141	2,565	2,652	2,916	3,143	3,416	3,662
Current expenditures	728	870	977	1,138	1,431	1,551	1,726	1,862	2,065	2,215
Wages and salaries	256	341	374	434	549	627	668	704	736	762
Of which: defense	30	68	101	116	118	128	130	137	141	146
Poverty Action Fund 3/	90	101	111	133	213	236	254	266	279	289
Interest payments	75	75	95	125	152	138	201	218	228	241
Domestic	29	21	30	57	92	74	133	146	152	163
External	46	54	66	68	60	64	68	72	76	78
Transfers to the Uganda Revenue Authority	25	30	32	35	45	63	56	59	62	66
Defense	75	113	69	70	92	132	111	123	140	158
Priority Program Areas 2/	110	154	184	0	0	0	0	0	0	0
Poverty Action Fund 3/	34	67	81	118	147	169	185	200	222	240
Statutory	62	35	74	88	125	101	101	104	142	147
Other 4/	125	122	148	269	321	321	358	373	391	409
Development expenditures	502	591	783	900	1,019	1,035	1,133	1,208	1,300	1,377
External	413	446	520	566	587	569	599	622	631	638
Domestic	90	145	263	335	431	466	501	531	571	609
Of which: defense	8	7	4	6	6	11	11	10	10	10
Poverty Action Fund 3/	18	64	111	164	230	278	295	319	349	379
Net lending and investment 5/	3	2	392	-27	5	-22	-37	-39	-40	-40
Contingency	0	0	0	0	0	38	50	70	50	70
Additional fiscal measures 6/	0	0	0	0	0	0	81	135	242	322
Domestic arrears repayment	47	116	146	130	110	50	45	41	41	41
Overall balance										
Including grants	-82	-221	-864	-297	-588	-384	-460	-446	-476	-437
Excluding grants	-479	-628	-1,379	-1,059	-1,311	-1,236	-1,296	-1,311	-1,337	-1,299
Domestic balance 7/	-21	-129	-793	-425	-663	-602	-630	-616	-630	-583
Financing	83	216	878	355	469	392	458	444	481	437
External financing (net)	196	231	304	345	524	465	453	444	444	453
Disbursement	256	332	333	412	589	558	587	592	602	612
Import support	52	87	58	147	349	331	347	344	349	355
Project loans	204	245	275	265	240	228	240	249	253	257
Commercial borrowing	0	0	43	0	0	0	0	0	0	0
Other short-term borrowing	0	0	0	0	0	0	0	0	0	0
Amortization(-)	-78	-103	-120	-126	-127	-145	-151	-152	-162	-163
Of which: commercial debt	0	0	0	4	8	8	9	9	9	7
Payment of external arrears	-16	-14	-6	0	10	9	0	0	0	0
Payment of nondebt arrears	0	-15	0	0	0	0	0	0	0	0
Exceptional financing	34	31	54	59	52	43	18	4	4	4
Domestic financing (net)	-113	-14	574	11	-55	-73	5	0	37	-16
Bank financing 5/	-67	1	542	46	21	-83	-6	-10	27	-26
Bank of Uganda (BOU)	-103	24	470	-42	-190	-242	-80	-112	-135	-184
Of which for Bank restructuring	0	0	476	0	-476	0	0	0	0	0
Commercial banks	36	-24	72	88	212	158	74	102	162	158
Nonbank financing	-46	-15	31	-36	-76	10	11	10	10	9
Check float	-33	-11	35	-57	-80	0	0	0	0	0
Promissory notes (net)	-26	-8	-11	0	0	0	0	0	0	0
Other	13	4	7	21	4	10	11	10	10	9
Of which: treasury bills	13	4	7	21	4	10	11	10	10	9
Errors and omissions/financing gap	-1	5	-14	-59	118	...	...	...	...	...
	(In percent of annual GDP at market prices, unless otherwise indicated)									
Total revenue and grants	16.0	16.7	17.1	18.4	19.2	20.3	20.0	20.0	19.8	19.7
Revenue	10.7	11.7	11.3	10.8	12.2	12.7	13.2	13.6	14.0	14.4
Grants	5.3	5.0	5.8	7.6	7.0	7.6	6.8	6.4	5.8	5.3
Expenditures and net lending	17.1	19.4	26.8	21.4	24.9	23.8	23.8	23.3	23.0	22.3
Current expenditure	9.7	10.7	11.0	11.4	13.9	13.9	14.1	13.8	13.9	13.5
Development expenditures	6.7	7.3	8.8	9.0	9.9	9.3	9.2	8.9	8.8	8.4
External	5.5	5.5	5.8	5.7	5.7	5.1	4.9	4.6	4.3	3.9
Domestic	1.2	1.8	3.0	3.3	4.2	4.2	4.1	3.9	3.8	3.7
Domestic arrears payments	0.6	1.4	1.6	1.3	1.1	0.4	0.4	0.3	0.3	0.3
Overall balance										
Including grants	-1.1	-2.7	-9.7	-3.0	-5.7	-3.4	-3.8	-3.3	-3.2	-2.7
Excluding grants	-6.4	-7.7	-15.5	-10.6	-12.7	-11.1	-10.6	-9.7	-9.0	-7.9
Domestic balance 7/	-0.3	-1.6	-8.9	-4.2	-6.4	-5.4	-5.1	-4.6	-4.2	-3.6
Primary balance, including grants	-0.1	-1.8	-8.6	-1.7	-4.2	-2.2	-2.1	-1.7	-1.7	-1.2
Financing	1.1	2.7	9.9	3.6	4.6	3.5	3.7	3.3	3.2	2.7
External financing (net)	2.6	2.8	3.4	3.4	5.1	4.2	3.7	3.3	3.0	2.8
Domestic bank financing (net)	-0.9	0.0	6.1	0.5	0.2	-0.7	0.0	-0.1	0.2	-0.2
Domestic nonbank financing (net)	-0.6	-0.2	0.3	-0.4	-0.7	0.1	0.1	0.1	0.1	0.1
Total defense expenditures	1.5	2.3	2.0	1.9	2.1	2.4	2.1	2.0	2.0	1.9
Wages and salaries	3.4	4.2	4.2	4.3	5.3	5.6	5.4	5.2	5.0	4.6
Priority Program Areas (PPA)	1.5	1.9	2.1	...	...	...	...	...	...	...
PPA plus primary education development expenditu	1.5	2.3	2.8	...	...	...	...	...	...	...
Poverty Action Fund 3/	2.1	3.1	3.4	4.1	5.7	6.1	6.2	6.1	6.2	6.1

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

1/ Fiscal year begins in July.

2/ From 2001/02 onward nontax revenue includes nontax revenue collected by ministries.

3/ From 2000/01 onward, the Poverty Action Fund (PAF) replaces Priority Program Areas as the monitored measure of poverty reduction expenditures. For 1999/2000, PAF expenditures are shown for comparison purposes only.

4/ There is a break in this series in 2000/01 due to changes in classification because Priority Program Areas are no longer monitored.

5/ Excludes face value of recapitalization bonds issued to the Bank of Uganda and to the Uganda Commercial Bank. However, full provision is made for the interest costs and amortization associated with these bond issues. However, the 1999/2000 figure includes U Sh 384.5 billion of a treasury note that was redeemed to recapitalize the Bank of Uganda.

6/ These additional expenditures refer to the expected but not yet formally committed budget support and to new tax policy measures.

7/ Revenues less expenditures, excluding external interest due and externally financed development expenditures.

Table 3. Uganda: Monetary Survey, 1997/98–2006/07 1/

	1997/98	1998/99	1999/200	2000/01	2001/02 Est.	2002/03 Proj.	2003/04 Proj.	2004/05 Proj.	2005/06 Proj.	2006/07 Proj.
	(In billions of Uganda shillings; end of period)									
Monetary survey										
Net foreign assets (NFA)	639	782	906	1,211	1,553	1,913	2,195	2,488	2,760	3,152
Net domestic assets	381	378	441	373	373	210	180	194	304	350
Domestic credit	292	468	1,012	1,107	1,136	1,117	1,205	1,303	1,458	1,598
Claims on public sector (net) 2/	-129	-79	432	472	490	406	399	388	415	389
Claims on private sector	421	546	580	635	646	711	806	915	1,044	1,209
Valuation	246	194	-48	-99	-163	-234	-322	-375	-391	-454
Other items (net)	-157	-283	-523	-635	-600	-674	-704	-734	-764	-794
Broad money (M3)	1,020	1,161	1,347	1,584	1,925	2,123	2,375	2,682	3,064	3,502
Of which: M2	873	953	1,036	1,193	1,491	1,638	1,829	2,065	2,360	2,697
Monetary authorities										
Net foreign assets	452	585	615	792	1,091	1,420	1,651	1,900	2,161	2,530
Foreign assets	928	1,098	1,147	1,300	1,571	1,845	2,014	2,189	2,372	2,668
Of which: foreign reserves	925	1,087	1,131	1,274	1,557	1,835	2,002	2,177	2,360	2,656
Foreign liabilities	476	513	533	508	491	425	363	289	211	138
Of which: liabilities to IMF	474	510	529	504	486	421	358	285	206	133
Net domestic assets	-79	-153	-172	-243	-461	-745	-902	-1,062	-1,211	-1,453
Domestic credit	-247	-154	219	235	31	-179	-259	-371	-506	-689
Claims on public sector (net) 2/	-249	-197	249	207	17	-225	-305	-417	-552	-736
Claims on commercial banks (net)	2	43	-31	28	15	46	46	46	46	46
Valuation	256	206	-39	-95	-161	-223	-300	-347	-361	-420
Other items (net)	-88	-204	-352	-383	-331	-344	-344	-344	-344	-344
Reserve money	373	432	442	550	630	675	748	838	950	1,078
Currency outside banks plus cash in vaults	270	317	336	387	448	479	533	600	682	776
Commercial bank deposits with Bank of Uganda	103	115	107	163	182	196	215	238	268	301
Commercial banks										
Net foreign assets	187	197	291	419	462	493	545	588	600	621
Net domestic assets	593	679	749	815	1,056	1,190	1,341	1,543	1,838	2,169
Domestic credit	672	770	929	1,071	1,328	1,531	1,722	1,961	2,288	2,653
Claims on public sector (net) 2/	121	118	183	265	473	632	704	805	967	1,124
Claims on private sector	421	546	580	635	646	711	806	915	1,044	1,209
Of which: foreign exchange loans	0	62	87	118	155	176	235	265	303	346
Claims on BOU (net)	131	105	166	172	208	189	212	241	278	320
Total reserves	112	125	118	178	198	215	237	263	296	334
Required reserves	72	83	101	138	168	185	204	227	256	290
Excess reserves	31	32	6	-15	-38	11	11	11	11	11
Reserve-eligible vault cash	9	10	12	15	20	19	22	25	28	32
Other 3/	19	-20	48	-6	10	-27	-25	-22	-18	-14
Valuation	-10	-12	-9	-4	-2	-11	-22	-28	-30	-34
Other items (net)	-69	-79	-171	-252	-269	-330	-360	-390	-420	-450
Deposit liabilities to nonbank residents	781	876	1,041	1,234	1,518	1,683	1,885	2,131	2,438	2,790
Shilling deposits	634	668	730	843	1,083	1,198	1,339	1,515	1,734	1,985
Foreign currency deposits	147	208	311	390	435	485	546	616	704	805
	(In percent)									
Memorandum items:										
M3-to-GDP ratio	13.6	14.3	15.1	15.8	18.7	19.0	19.4	19.9	20.6	21.4
M2-to-GDP ratio	11.6	11.7	11.6	11.9	14.5	14.7	14.9	15.3	15.9	16.4
Credit to private sector-to-GDP ratio	5.6	6.7	6.5	6.3	6.3	6.4	6.6	6.8	7.0	7.4
Currency outside banks-to-M3 ratio	23.5	24.5	22.8	22.1	21.1	20.7	20.6	20.5	20.4	20.3
Foreign currency deposits-to-M3 ratio	14.4	17.9	23.1	24.6	22.6	22.8	23.0	23.0	23.0	23.0
Credit to the private sector (12-month change)	26.8	29.9	6.2	9.4	1.8	10.0	13.4	13.5	14.1	15.8
Reserve money (12-month change)	12.5	15.9	2.3	24.2	14.6	7.1	10.9	12.0	13.3	13.4
Reserve money multiplier (M2/base money)	2.3	2.2	2.3	2.2	2.4	2.4	2.4	2.5	2.5	2.5
Excess reserves-to-required-reserves ratio	55.7	49.9	17.3	28.6	17.8	16.8	16.3	15.9	15.5	15.1
	(In millions of U.S. dollars)									
NFA of monetary authorities	367	403	391	460	607	751	830	930	1,051	1,200
Of which: foreign reserves	750	748	719	739	866	970	1,007	1,066	1,148	1,260
NFA of commercial banks	152	136	185	243	257	261	274	288	292	295

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/ Other includes nonreserve vault cash, holdings of BOU bills and promissory notes, and borrowing at the BOU by the Commercial Banks.

Table 4. Uganda: Balance of Payments, 1997/98-2006/07 1/
(In millions of U.S. dollars, unless otherwise indicated)

	1997/98	1998/99	1999/00	2000/01	2001/02 Est.	2002/03 Proj.	2003/04 Proj.	2004/05 Proj.	2005/06 Proj.	2006/07 Proj.
Current account	-436	-370	-409	-342	-353	-405	-449	-553	-582	-583
Trade balance	-507	-490	-525	-528	-609	-566	-564	-649	-633	-637
Exports, f.o.b.	459	549	453	446	476	563	607	683	781	863
Coffee	270	307	187	110	85	101	121	164	222	258
Noncoffee	190	242	266	336	390	463	485	519	559	605
Imports, c.i.f.	-966	-1,039	-978	-973	-1,085	-1,130	-1,170	-1,332	-1,414	-1,500
Project related	-70	-90	-119	-136	-125	-130	-135	-141	-152	-163
Other imports	-896	-949	-858	-837	-960	-999	-1,036	-1,191	-1,262	-1,337
Services (net)	-202	-230	-232	-262	-327	-343	-352	-383	-399	-426
Inflows	175	186	203	219	224	239	256	274	293	314
Outflows	378	416	435	481	-551	-582	-609	-657	-692	-740
Income (net)	-79	-106	-126	-119	-155	-164	-148	-136	-139	-148
Inflows	43	47	42	46	32	31	54	75	84	89
Outflows	-122	-152	-168	-165	-187	-195	-202	-211	-223	-237
Transfers	352	456	473	567	739	668	615	615	590	628
Private transfers	-28	179	116	108	304	185	164	165	149	193
Of which: nongovernmental organizations	91	47	112	88	173	176	159	160	160	160
Official transfers	380	276	358	459	435	482	452	450	441	434
Project support	218	203	202	252	228	206	206	206	206	206
Import support	162	74	110	153	148	214	172	170	170	170
Capital and financial account	361	354	333	321	448	516	515	652	699	729
Capital account	0	0	0	162	0	0	0	0	0	0
Financial account	361	354	333	160	448	516	515	652	699	729
Foreign direct investment	120	145	169	144	146	156	162	233	238	257
Portfolio investment	0	0	0	0	0	0	0	0	0	0
Other investments	241	208	164	16	302	360	354	419	461	472
Medium and long term	237	211	176	37	329	290	293	411	376	414
Public sector (net)	195	191	161	318	279	238	238	232	228	229
Disbursements	263	267	241	390	351	317	316	308	308	308
Project support	218	203	202	165	152	137	137	137	137	137
Import support	45	64	39	83	199	179	179	170	170	170
Amortization due	-68	-75	-80	-72	-72	-79	-78	-76	-79	-78
Private sector (net)	43	20	15	22	50	52	55	179	148	185
Short term	3	-3	-12	-21	-26	70	61	8	84	57
Errors and omissions/financing gap	123	19	43	27	34	0	0	0	0	0
Overall balance	47	3	-33	7	129	110	67	99	117	146
Financing	-47	-3	33	-7	-129	-110	-67	-99	-117	-146
Central bank reserves (- = increase)	-133	-40	15	-41	-167	-140	-79	-100	-121	-150
Gross reserve change	-129	2	29	-19	-128	-104	-36	-59	-82	-112
IMF (net)	-5	-36	-14	-22	-39	-36	-43	-41	-39	-37
Short term	0	-7	0	0	0	0	0	0	0	0
Change in arrears (net)	-43	-43	-241	-1	6	5	0	-2	0	0
Exceptional financing	129	80	260	35	32	25	12	4	4	4
Memorandum items:										
Gross international reserves 2/	6.2	6.4	5.9	5.4	6.1	6.5	6.1	6.1	6.1	6.6
Net international reserves 2/	3.0	3.4	3.1	3.3	4.2	5.0	5.0	5.3	5.6	6.3
Current account-to-GDP ratio (in percent)										
Including official transfers	-6.7	-6.2	-6.9	-6.0	-6.0	-6.7	-7.1	-8.3	-8.0	-7.4
Excluding official transfers	-12.5	-10.8	-13.0	-14.1	-13.4	-14.7	-14.2	-15.0	-14.1	-12.9
Debt-service ratio (in percent of exports of goods and services)										
Before rescheduling (including IMF)	27.1	24.3	27.2	25.4	23.1	20.9	23.5	19.6	17.7	15.6
After rescheduling (including IMF)	27.1	24.3	20.2	9.7	7.7	8.0	8.6	8.2	8.1	7.6
Coffee price (U.S. cents per kg.)	157	136	102	64	45	53	58	65	74	83
Coffee export volume (in millions of 60-kg. bags)	2.9	3.8	3.0	2.8	3.2	3.2	3.5	4.2	5.0	5.2
Exports of goods and nonfactor services	635	735	656	664	699	803	863	957	1,074	1,177
Net donor support	533	426	473	604	685	691	660	650	636	630
(in percent of GDP)	8.2	7.1	8.0	10.6	11.7	11.4	10.4	9.7	8.8	8.0
Foreign direct investment (in percent of GDP)	2.9	3.9	4.2	4.0	3.9	4.0	4.0	4.5	4.4	4.4

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

1/ Fiscal year begins in July.
2/ In months of imports of goods and services.

Table 5. Uganda: Status of HIPC Initiative Agreements by Creditors 1/

	Enhanced HIPC Initiative Relief US$ millions	Agreement to Provide HIPC Initiative Relief?	Modalities/Comments
Total	**655.9**		
Total relief agreed upon	**627.2**	yes	There is an agreement to provide 96 percent of the total HIPC Initiative relief committed.
Relief not yet agreed on	**28.7**	no	4 percent of the total HIPC Initiative relief committed are still subject to negotiations.
Multilateral	**545.7**		
IDA	356.6	yes	Debt-service reduction on eligible stock outstanding as at June 30, 1999, except on PPFs and IDA-administered EEC loan.
IMF	90.9	yes	Debt-service reduction on principal of stock outstanding as at June 30, 1999.
AfDB/F	59.3	yes	Debt-service reduction commenced January 2002.
IFAD	10.1	yes	Debt-service reduction on eligible stock. IFAD to advise details of application periodically.
EU/EIB	14.1	yes	Reconciliation completed, awaiting final agreement. Loan for relief earmarked.
Nordic Development Fund	3.7	yes	Reconciliation completed. Not servicing outside eligible period and awaiting final agreement.
OPEC Fund	5.1	no	No agreement reached yet on both HIPC Initiative I & II. The Government of Uganda not servicing maturities.
BADEA	4.1	yes	Delivering through rescheduling of all loans outstanding at completion point.
East African Development Bank	0.7	no	Agreement pending availability of donor to reimburse EADB
Islamic Development Bank	0.5	yes	Delivering through rescheduling of arrears outstanding at completion point.
PTA Bank	0.5	no	Agreement pending availability of donor to reimburse PTA
Shelter Afrique	0.1	no	No agreement in place.
Paris Club creditors	**73.1**		
Austria	6.8	yes	Agreement signed for 18 percent cancellation on post-cut off debt.
Finland	1.1	yes	Cancelled the debt.
France	6.7	yes	100 percent cancellation on pre-cutoff debt. 18 percent cancellation of post cut-off debt. Signed new agreement for the balance of 82 percent. The government continues to service debt, refund made later.
Germany	0.4	yes	100 percent cancellation of pre-cutoff debt.
Israel	1.9	yes	100 percent cancellation of pre-cutoff debt.
Italy	20.3	yes	Agreement signed for 100 percent cancellation of post and pre-cutoff debt.
Japan	16.5	yes	One agreement providing a grant has so far been signed.
Norway	0.1	yes	Agreement signed for 18 percent cancellation of post-cutoff debt.
Spain	13.5	yes	Agreement signed for 18 percent cancellation of post-cutoff debt.
Sweden	1.7	yes	Agreement signed for 18 percent cancellation of post-cutoff debt.
United Kingdom	4.0	yes	Agreement signed for 100 percent cancellation of pre-cutoff debt.
United States	0.1	yes	Agreement signed for 100 percent cancellation of pre-cutoff debt.
Non-Paris Club creditors	**29.0**		
United Arab Emirates	0.3	no	No correspondence.
Burundi	0.1	no	Debt stock is higher than stated in HIPC Initiative documents by US$4.2 million.
China	2.8	yes	Written off part of the loan. Negotiating terms for remaining balance.
India	3.7	no	Agreed to participate. No agreement has been reached but negotiations are ongoing.
Iraq	0.0	no	Won litigation against the Government of Uganda in August 2002. Debt stock is higher than stated in HIPC Initiative documents by US$3.5 million.
Kuwait	6.6	yes	Agreement has been signed.
Libya	8.2	no	Agreed to participate. Negotiations preceding agreement have not commenced.
Nigeria	0.9	no	No agreement in place.
North Korea	0.3	no	The Government of Uganda paid claims in full before enhanced HIPC Initiative.
Pakistan	0.3	no	Agrees to participate in principle but no agreed terms yet.
Rwanda	0.6	yes	Loan has been cancelled.
Saudi Arabia	1.5	yes	Agreement has been signed.
South Korea, Republic of	0.6	no	**Has indicated its intent to participate in the Initiative.**
Tanzania	3.2	yes	Buyback at 15 percent of face value implemented on half of debt, remainder subject to Tanzania providing proof of authenticity of claim.
Commercial creditors	**8.0**		
Italy	0.1	yes	Debt has been cancelled.
Panama	0.0	no	No correspondence.
Spain	0.5	no	Judgment reached: The Government of Uganda liable to pay US$2.7 million inclusive of court costs. The Government of Uganda appealing decision.
United Kingdom	5.0	no	Judgment reached: The Government of Uganda liable to pay US$20.6 million inclusive of court costs. The Government of Uganda appealing decision.
Yugoslavia	2.4	no	Judgment reached: The Government of Uganda has paid full amount (US$10.5 million) inclusive of court costs.

Sources: Ugandan authorities; and Bank/Fund staff estimates.

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

Table 6. Uganda: Selected Financial and External Sustainability Indicators, 2001/02-2006/07 1/

	2001/02 Est.	2002/03 Proj.	2003/04 Proj.	2004/05 Proj.	2005/06 Proj.	2006/07 Proj.
	(Annual percentage change)					
National income and prices						
GDP at constant prices	6.6	5.7	6.2	6.7	6.3	6.3
GDP deflator	-3.5	2.5	3.5	3.2	3.5	3.8
Consumer prices						
End of period	-2.5	6.1	3.5	3.5	3.5	3.5
Underlying	0.1	4.5	3.5	3.5	3.5	3.5
Annual average	-2.0	1.0	3.5	3.5	3.5	3.5
Underlying	3.5	3.5	3.5	3.5	3.5	3.5
Terms of trade	-3.1	8.9	0.4	-2.0	-0.1	2.7
Export receipts	6.7	18.5	7.7	12.6	14.3	10.5
	(In percent of GDP at market prices, unless otherwise indicated)					
Investment and savings						
Gross domestic investment	22.4	22.6	22.9	24.4	24.4	24.4
Public	7.0	6.8	6.7	6.5	6.3	6.1
Private	15.4	15.8	16.2	17.9	18.1	18.3
Gross domestic savings (excluding grants)	9.0	7.9	8.7	9.5	10.3	11.5
Public (excluding grants)	-5.7	-4.3	-3.9	-3.2	-2.7	-1.8
Private	14.7	12.2	12.6	12.7	13.0	13.3
Gross national savings (including grants)	16.4	15.9	15.8	16.2	16.4	17.0
Fiscal indicators						
Government revenue	12.2	12.7	13.2	13.6	14.0	14.4
Grants	7.0	7.6	6.8	6.4	5.8	5.3
Total government expenditure	24.9	23.8	23.8	23.3	23.0	22.3
Overall balance, excluding grants	-12.7	-11.1	-10.6	-9.7	-9.0	-7.9
Overall balance, including grants	-5.7	-3.4	-3.8	-3.3	-3.2	-2.7
Primary balance, excluding grants	-5.6	-4.7	-4.1	-3.5	-3.2	-2.6
Primary balance, including grants	-4.2	-2.2	-2.1	-1.7	-1.7	-1.2
External sector						
Current account balance						
(including official grants)	-6.0	-6.7	-7.1	-8.3	-8.0	-7.4
(excluding official grants)	-13.4	-14.7	-14.2	-15.0	-14.1	-12.9
Net donor inflows 2/	11.6	11.4	10.4	9.7	8.8	8.0
Grants (including HIPC assistance)	7.4	8.0	7.1	6.7	6.1	5.5
Net disbursements	4.7	3.9	3.8	3.5	3.2	2.9
Interest payments	0.6	0.6	0.6	0.5	0.5	0.5
Foreign direct investment	3.9	4.0	4.0	4.5	4.4	4.4
Gross reserves (in months of imports of goods and nonfactor services)	-6.1	-6.5	-6.1	-6.1	-6.1	-6.3
Exports of goods and services	11.9	13.3	13.7	14.3	14.8	14.9
Domestic debt indicators						
Stock of domestic debt 3/	8.8	9.7	9.5	9.5	9.9	10.0
Domestic interest cost	0.9	0.7	1.1	1.1	1.0	1.0
(as a share of total expenditure)	3.6	2.8	4.6	4.6	4.4	4.4
	(In percent of total exports of goods and services)					
Concentration of exports						
Coffee	12.2	12.6	14.1	17.2	20.6	21.9
Fish	11.2	13.1	12.3	10.8	10.3	10.0
Services	32.0	29.8	29.7	28.6	27.3	26.7
External debt indicators (after HIPC assistance)						
NPV of debt-to-export ratio 4/	190.2	195.2	194.3	188.8	183.1	176.4
Debt-service-to-exports ratio	7.7	8.0	8.6	8.2	8.1	7.6

Sources: Ugandan authorities; and Fund staff calculations.

1/ Fiscal year begins in July.

2/ Defined as official transfers, net official disbursements, and HIPC assistance, less interest due on public sector debt.

3/ Face value of outstanding stock of treasury bills. Does not include domestic arrears and does not net out government deposits in the banking system.

4/ In percent of the average of three consecutive years of exports and nonfactor services, ending in the current year.

Table 7. Comparison of Sustainability Indicators Under Alternative Scenarios, 2001/02-2006/07 1/
(As a share of GDP at market prices; unless otherwise indicated)

	2001/02 Est.	2002/03 Proj.	2003/04 Proj.	2004/05 Proj.	2005/06 Proj.	2006/07 Proj.
GDP at constant prices (annual percent change)	6.6	5.7	6.2	6.7	6.3	6.3
Gross domestic investment	22.4	22.6	22.9	24.4	24.4	24.4
Gross national savings (excluding grants)	9.0	7.9	8.7	9.5	10.3	11.5
Fiscal						
Government balance (excluding grants)	-12.7	-11.1	-10.6	-9.7	-9.0	-7.9
Government balance (including grants)	-5.7	-3.4	-3.8	-3.3	-3.2	-2.7
Domestic balance	-6.4	-5.4	-5.1	-4.6	-4.2	-3.6
External sector						
Current account balance						
(including official grants)	-6.0	-6.7	-7.1	-8.3	-8.0	-7.4
(excluding official grants)	-13.4	-14.7	-14.2	-15.0	-14.1	-12.9
Foreign direct investment	3.9	4.0	4.0	4.5	4.4	4.4
NPV of debt (as a share of export of goods and nonfactor services)	190.2	195.2	194.3	188.8	183.1	176.4
Debt service (as a share of export of goods and nonfactor services)	7.7	8.0	8.6	8.2	8.1	7.6
Foreign exchange reserves (in millions of U.S. dollars)	866	970	1,007	1,066	1,148	1,260
Gross foreign exchange reserves (in months of imports of goods and nonfactor services)	6.1	6.5	6.1	6.1	6.1	6.6
Scenario 1: Larger aid flows						
GDP at constant prices (annual percent change)	6.6	5.7	6.4	6.8	6.3	6.3
Gross domestic investment	22.4	22.6	22.9	24.4	24.4	24.4
Gross national savings (excluding grants)	9.0	7.9	8.0	9.0	9.8	10.9
Fiscal						
Government balance (excluding grants)	-12.7	-11.1	-12.0	-11.0	-10.3	-9.2
Government balance (including grants)	-5.7	-3.4	-3.8	-3.3	-3.2	-2.7
Domestic balance	-6.4	-5.4	-6.5	-5.9	-5.6	-4.9
External sector						
Current account balance						
(including official grants)	-6.0	-6.7	-6.7	-7.7	-7.5	-6.9
(excluding official grants)	-13.4	-14.7	-15.0	-15.4	-14.6	-13.5
Foreign direct investment	3.9	4.0	3.8	4.2	4.1	4.1
NPV of debt (as a share of export of goods and nonfactor services)	190.2	195.2	196.0	193.6	190.5	184.8
Debt service (as a share of export of goods and nonfactor services)	7.7	8.0	8.7	8.4	8.5	7.9
Foreign exchange reserves (in millions of U.S. dollars)	866	970	1,007	1,066	1,148	1,260
Gross foreign exchange reserves (in months of imports of goods and nonfactor services)	6.1	6.3	5.8	5.8	5.9	6.2
Scenario 2: Higher investment and growth						
GDP at constant prices (annual percent change)	6.6	5.7	7.0	7.7	7.2	7.2
Gross domestic investment	22.4	22.6	25.1	27.0	27.2	27.2
Gross national savings (excluding grants)	9.0	7.9	9.6	10.9	12.1	13.4
Fiscal						
Government balance (excluding grants)	-12.7	-11.1	-10.1	-9.0	-8.2	-7.0
Government balance (including grants)	-5.7	-3.4	-3.3	-2.8	-2.5	-1.9
Domestic balance	-6.4	-5.4	-4.7	-4.0	-3.6	-2.8
External sector						
Current account balance						
(including official grants)	-6.0	-6.7	-8.4	-9.6	-9.2	-8.5
(excluding official grants)	-13.4	-14.7	-15.5	-16.1	-15.1	-13.8
Foreign direct investment	3.9	4.0	6.0	6.5	6.3	6.4
NPV of debt (as a share of export of goods and nonfactor services)	190.2	195.2	193.6	187.4	180.9	173.9
Debt service (as a share of export of goods and nonfactor services)	7.7	8.0	8.6	8.1	8.0	7.5
Foreign exchange reserves (in millions of U.S. dollars)	866	970	1,047	1,152	1,283	1,463
Gross foreign exchange reserves (in months of imports of goods and nonfactor services)	6.1	6.2	6.0	6.2	6.5	6.9
Scenario 3: Lower investment and growth						
GDP at constant prices (annual percent change)	6.6	5.7	3.8	4.0	3.6	3.8
Gross domestic investment	22.4	22.6	19.9	18.4	17.3	16.0
Gross national savings (excluding grants)	9.0	7.9	4.6	2.6	2.1	1.6
Fiscal						
Government balance (excluding grants)	-12.7	-11.1	-11.9	-11.8	-11.4	-11.0
Government balance (including grants)	-5.7	-3.4	-6.0	-6.1	-6.2	-6.3
Domestic balance	-6.4	-5.4	-6.0	-6.1	-6.2	-6.0
External sector						
Current account balance						
(including official grants)	-6.0	-6.7	-8.1	-9.1	-9.1	-8.8
(excluding official grants)	-13.4	-14.7	-15.3	-15.8	-15.2	-14.4
Foreign direct investment	3.9	4.0	2.0	2.0	2.0	2.0
NPV of debt (as a share of export of goods and nonfactor services)	190.2	195.2	199.6	199.6	201.3	197.5
Debt service (as a share of export of goods and nonfactor services)	7.7	8.0	8.9	8.6	8.9	8.5
Foreign exchange reserves (in millions of U.S. dollars)	866	970	844	723	612	490
Gross foreign exchange reserves (in months of imports of goods and nonfactor services)	6.1	7.0	5.6	4.6	3.6	2.8

Sources: Ugandan authorities; and Fund staff calculations.

1/ Fiscal year begins in July.

Uganda: Relations with the Fund
(As of December 31, 2002)

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	2.18	7.41

IV. Outstanding Purchases and Loans:	SDR Million	% Quota
Enhanced Structural Adjustment Facility (ESAF)/Poverty Reduction and Growth Facility (PRGF) arrangements	188.91	104.66

V. Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	09/13/2002	09/12/2005	13.50	1.50
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 Obligations to Fund:
Under the Repurchase Expectations Assumptions

	Overdue	Forthcoming				
	12/30/2002	2003	2004	2005	2006	2007
Principal	0.00	34.11	37.48	35.60	30.57	22.43
Charges/interest	0.00	1.39	1.22	1.04	0.87	0.73
Total	**0.00**	**35.50**	**38.70**	**36.63**	**31.44**	**23.16**

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) [17]			
Total assistance (US$ million)	347.00	656.00	
Of which: Fund assistance (SDR million)	51.51	68.10	
Completion point date	April 1998	May 2000	
Delivery of Fund assistance (SDR million)			
Amount disbursed	51.51	70.16	121.67
Interim assistance	...	8.20	8.20
Completion point [18]	51.51	61.96	113.47
Amount applied against member's obligations (cumulative)	36.72	32.14	68.86

VIII. Safeguards Assessments

Under the Fund's safeguards assessment policy, the Bank of Uganda (BOU) is subject to an assessment with respect to the arrangement, which was approved on September 13, 2002 and is scheduled to expire on September 12, 2005. The review of information, including an on-site visit, is currently under way. It is expected that the safeguards assessment of the BOU will be completed prior to the first program review of the PRGF arrangement.

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 December 29, 2002, the official exchange rate was U Sh 1,852.6 per U.S. dollar. The exchange system is free of restrictions on the making of payments and transfers for current international transactions.

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

[18] Under the enhanced HIPC Initiative, the nominal amount of assistance disbursed will include an additional amount corresponding to interest on amounts committed but not disbursed during the interim period, calculated using the average return (during the interim period) on the investment of resources held by, or for, the benefit of the PRGF-HIPC Trust.

X. Article IV Consultation

The Executive Board concluded the last Article IV consultation on March 26, 2001, concurrently with the completion of the last review under the third annual PRGF-supported program. The staff recommends that the next Article IV consultation with Uganda be held on the 24-month cycle, subject to the provisions of the decision on consultation cycles approved on July 15, 2002.

In November 1998, MAE held consultations in improving the security of the BOU's automated book-entry system. As a result, a long-term expert has been assisting the authorities on banking supervision issues since July 2001. MAE provided further consultation on the implementation of monetary policy and the coordination of liquidity management and exchange rate intervention in July 2001. Follow-up missions to give operational advice and to address the authorities' outstanding concerns on these issues took place in January and May 2002, respectively. 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 MAE mission discussed the report with the authorities during the Article IV consultation discussion in November 2002.

XI. Technical Assistance

Uganda has received extensive technical assistance from the Fund in recent years.[19]

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. The mission's main objective was to examine options for improving revenue performance.

An 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. An STA mission on government financial statistics (GFS) visited Uganda in December 2001 to 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

[19] 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.

data for the government. 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.

XII. Future Technical Assistance Priorities

The priorities for Fund technical assistance in the next few years will be in the areas of tax administration, the preparation and monitoring of district budgets, the control and monitoring of central government expenditure commitments, monetary and exchange rate management, bank supervision, national accounts statistics, reporting standards for government finance statistics, and monetary and balance of payments statistical reporting.

XIII. Resident Representative

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

Uganda: Relations with the World Bank Group

(As of January 8, 2003)

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 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 Bank and Fund in May 2000. Uganda's PEAP/PRSP is based on four pillars: (i) creating an environment for economic growth and structural transformation; (ii) ensuring good governance and security; (iii) directly increasing the ability of the poor to raise incomes; and (iv) directly increasing the quality of life of the poor.

2. 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 fall under the first PEAP/PRSP pillar (creating an environment for economic growth and structural transformation). 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.

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

II. Bank Group Strategy

4. The World Bank Group's current Country Assistance Strategy (CAS) for Uganda was approved by the Board on November 16, 2000.[20] 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.

5. 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 arrangement, PRSC2, was

[20] The next CAS is scheduled to be presented to the Board in fiscal-year (FY) 2003/04 (July–June).

approved in July 2002, and PRSC3 is being prepared and is scheduled to be presented to the Board in September 2003. PRSCs support a medium-term reform program, with each annual arrangement linked to specific reform actions. The reform program supported by PRSCs aims to improve public service delivery and agricultural production, since basic services critical to development are still inadequate in Uganda and about 70 percent of the population derives its livelihood from agriculture. Services provided, in particular by the public sector, are of poor quality due to various governance problems and capacity constraints. Also, the enabling environment for private sector and civil society involvement is weak, thus further constraining service delivery and growth.

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

7. **PEAP/PRSP Pillar 1—Creating an Environment for Economic Growth and Structural Transformation.** To promote economic growth and development of the private sector, the Bank Group supports the development of Uganda's infrastructure, specifically, roads, power, and reform of key utilities. Infrastructure, and in particular power availability, has been identified as one of the key constraints to private sector investments. Projects such as the Fourth Power and Bujagali Hydropower aim to increase Uganda's capacity for power generation and support the reform of the power sector. The Bank also provides support to the government's ten-year Road Development Program through a series of road sector projects. The Privatization and Utility Sector Reform Project, in turn, 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, in which nine riparian countries of the Nile basin are cooperating to utilize the resources of the river in environmentally sustainable ways.

8. 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 of intergovernmental fiscal transfer system. To strengthen financial sector performance in terms of soundness, efficiency, and access, 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—Ensuring Good Governance and Security.** Good governance is essential for effective public service delivery. 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 personal management, and anticorruption

legislation. Ongoing work on financial accountability through the Second Economic and Financial Management Project (EFMP II) and Local Government Development Project (LGDP) complement these efforts.

10. **PEAP/PRSP Pillar 3—Directly Increasing the Ability of the Poor to Raise Their Incomes.** Agriculture dominates Uganda's economy and the majority of the poor live in rural areas. The Bank supports several activities that aim to enhance environmentally sustainable rural development and reduce regional disparities. Support is provided to agricultural extension through a demand-driven National Agricultural Services Project. The Second Agricultural Research and Training Project provides support for agricultural research. Further, the series of PRSCs provides support to the Government to identify ways 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 continues support for Government's efforts to strengthen environmental management capacity at national and local levels, the Second Protected Areas Management and Sustainable Use Project supports long-term conservation of bio-diversity through, among other things, establishment of the Uganda Wildlife Authority, and the second phase of the regional Lake Victoria project is designed to sustain the effort to protect Lake Victoria's ecosystem. 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—Directly Increasing the Quality of Life of the Poor.** The delivery of primary education, health care, and potable water has a direct impact on the quality of life of the poor, and the delivery is at the core of the government's poverty reduction strategy. 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. 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

12. The World Bank Group is Uganda's largest creditor. As of November 30, 2002 a total of 99 credits and 9 loans, amounting to US$3.96 billion (including US$3.84 billion from IDA and US$43 million from IBRD), had been approved for Uganda, and total disbursements amounted to about US$2.96 billion (see table below).

IV. UGANDA: FINANCIAL RELATIONS WITH THE WORLD BANK GROUP

Statement of Loans and Credits
As of November 30, 2002
(In millions of U.S. dollars)

	IBRD	IDA	IDA Grant	Total
Original principal	43	3,840	75	3,958
Cancellations	277	146	0	146
Disbursement to date	50	2,846	74	2,962
Repayments	35	300	0	335
Undisbursed	0	924	0	924
Exchange adjustment	0	0	0	0
Borrower's obligation	0	2,520	0	2,520

13. Six new projects were approved in FY 02 (Roads Development II, Power IV, Bujagali Hydropower, Decentralized Service Delivery, Environment Management Capacity II, and Rural Electrification), totaling about US$320 million. Three operations (PRSC2, Northern Uganda Social Action Fund, and a Protected Area Management & Sustainable Use Project), totaling US$277 million in terms of new commitments, and a US$4.5 million supplemental credit for the Lake Victoria Environment Management Project have been approved thus far in FY 03. Six projects in FY 01 and four projects in FY 02 were closed.

V. BANK-FUND COLLABORATION IN SPECIFIC AREAS

14. 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:

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

16. **Debt Sustainability.** The staffs of the Bank and Fund continue collaborating on HIPC-related issues, and prepared jointly an updated debt sustainability analysis for Uganda in calendar-year 2002.

17. **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 the work on the public expenditure review and PRSC. The staffs of the two institutions

prepare on an annual basis a report on HIPC tracking of poverty-reducing spending, analyzing the quality of public expenditure management in Uganda and identifying areas needing strengthening.

18. **Financial Sector Reform.** A joint Bank-Fund Financial Sector Assessment was conducted in 2001. The assessment indicates that performance of the financial sector has improved in the past few years, but access to financial services remains a problem, especially in rural areas, and the range of financial products is limited. The insurance sector has been liberalized, and new companies and brokers have entered the market, but supervision of the sector is still weak. The pension sector needs urgently to be reformed, as civil service pension obligations are taking an increasing portion of budget resources. Both the Bank and Fund are supporting the government's efforts to reform the financial sector. The Bank supports 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, which addresses selected aspects of pension reform.

19. **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.

20. Questions may be referred to Satu Kahkonen, Country Economist for Uganda (Tel. 473-2170).

Uganda: Statistical Issues

Real sector

The March–April 2000 STA mission concluded that Uganda's national accounts were of poor quality, owing to shortages of experienced compilation staff and equipment and a lack of reliable source data for several key economic activities. Consequently, an STA-sponsored long-term national accounts statistics advisor was assigned to the Uganda Bureau of Statistics in April 2001 to assist in the improvement of the national accounts and in the rebasing of all economic statistics. By the conclusion of this assignment, in April 2002, balanced production and expenditure estimates had been prepared, including data from the most recent household survey, and the constant price estimates had been rebased from 1991 to 1997/98 (July–June). In addition, the national accounts and balance of payments estimates of imports and exports were reconciled, and the national accounts methodology improved. In December 2002, an Africa Regional Technical Assistance Center (AFRITAC) mission to assess the need for a long-term advisor to the Uganda Bureau of Statistics on national accounts statistics took place.

The consumer price index is of sound quality and is reported promptly for publication in *International Financial Statistics (IFS)*. Neither producer nor wholesale price indices are produced. Reliable and consistent data are not available on employment, wages, or trade volumes.

Government finance

In 2001, Uganda resumed THE reporting of government finance statistics (GFS) for publication in the *Government Finance Statistics Yearbook* (*GFSY*) and in *IFS* in 2002. The STA mission (December 2001) 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* framework. Additional technical assistance will be needed to refine the classification of source data into the new GFS framework. From feedback provided by the government on progress with implementation of the December 2001 mission's recommendations, STA is of the view that a follow-up GFS mission can take place during spring 2003.

In light of the ongoing decentralization process, the nonavailability of timely data on local government operations remains the most significant deficiency in Uganda's GFS.

Monetary accounts

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 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 in order to facilitate proper measurement of key monetary aggregates, in particular domestic money supply, claims on central government, claims on the private sector, and foreign liabilities. The follow-up STA mission that visited Uganda during March 29–April 12, 2000 concluded that the Bank of Uganda had implemented most of these recommendations.

Balance of payments

The December 1998 mission recommended that preshipment inspection of imports be maintained, and that the automated system for customs data (ASYCUDA) be fully implemented at the customs posts, where it had been introduced, and extended to major crossings on the eastern border. When banks are more fully computerized and commercial bank personnel have been adequately trained in reporting, the monthly bank reporting form should be revised once more to fully conform to the Balance of Payments Manual (5th ed.). Surveys should be introduced to supplement customs- and bank-reported data and to derive more accurate estimates of services and financial transactions. The 2002 mission also noted that the bank reporting system was still seriously inadequate. Given that Uganda dropped controls on financial account transactions in 1997 (for current account transactions, in 1994), major improvements are necessary to deal with weaknesses in the system.

The data presently reported to the Fund for publication are annual and relatively timely. Data for 2001 were recently submitted and will be published in the February 2003 edition of the International Financial Statistics. Reliable balance of payments data should also be compiled and reported on a quarterly basis.

Uganda: Core Statistical Indicators

(As of January 15, 2003)

	Exchange Rates	International Reserves	Central Bank Balance Sheet	Reserve/ Base Money	Broad Money	Interest Rates 1/	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/ GNP	External Debt
Date of latest observation	3/31/02	1/31/02	09/30/02	09/30/02	09/30/02	11/30/02	Oct. 2002	Oct. 2002	Dec. 2000	Dec. 2000	1999/00	6/30/00
Date received	4/3/02	3/13/02	12/10/02	12/10/02	12/10/02	12/10/02	Dec. 2002	Dec. 2002	Feb. 2001	Feb. 2001	Dec. 2000	Dec. 2000
Frequency of data 2/	M	M	M	M	M	M	M	M	M	M	A	M
Frequency of reporting 2/	M	M	M	M	M	M	M	Q	Q	Q	A	O
Source of data 3/	A	A	A	A	A	A	A	A	A	A	A	A
Mode of reporting 4/	C	C	C	C	C	C	C	C	C	C	C	C
Confidentiality	C	C	C	C	C	C	C	C	C	C	C	C
Frequency of publication 2/	D	M	Q	M	M	W	M	Q	Q	M	A	...

1/ Treasury bill rates.
2/ Codes for frequency of data, frequency of reporting, and frequency of publication are the following: D=daily; W=weekly; M=monthly; Q=quarterly; A=annual; or O=other.
3/ Codes for source of data are the following: A=direct reporting by central bank, Ministry of Finance, or other official agency.
4/ Codes for mode of reporting are the following: C=for unrestricted use; and D=embargoed for a specified period and thereafter for unrestricted use.

Uganda: Social Output and Outcome Indicators, 2000-04

	2000	2001	2002	2003	2004
			PEAP target		
Health					
Outpatient department utilisation (OPD) per capita	0.40	0.43	0.43	0.45	0.47
Percentage of approved positions filled by a trained health worker	40	47	40	43	46
DPT3 immunization rates among children less than 1 year old (percent)	41	47	46	50	54
Deliveries in health units (percent)	25	23	25	38	31
HIV prevalence (percent)	7	6	6	6	5
Education					
Pupil-teacher ratio	63:1	54:1	54:1	50:1	45:1
Pupil-textbook ratio 1/	6:1	4:1	4:1	...	3:1
Pupil-classroom ratio	118:1	98:1	104:1	92:1	82:1
P7 net enrollment rate 2/			16	20	20
Rural water					
Safe water coverage (percent)	52	53	...	...	60
New water systems	3,000	2,900	2,900	3,700	3,700
New public, school, and institutional sanitation systems	450	1,205	1,205	900	900
Urban water					
Safe water coverage (percent)	60	62	...	...	65
New water connections	3,100	6,300	6,300	7,000	7,000
Of which : poor households	900	1,800	1,800	2,100	2,100
New sewerage connections	75	75	70	100	100

Source: Uganda Poverty Reduction Strategy Paper—Progress Report 2002.

1/ Textbooks are to be replaced during this period, so these ratios can be misleading. The current ratio is based on the stock of old textbooks at the schools, whereas the target set for the future concerns the stock of new textbooks in the schools.
2/ Estimates of net enrollment rates will be provided following the results of the 2002 population census.

Uganda: Tentative Work Program

Action	Date
Executive Board conclusion of the 2002 Article IV consultation	January 2003
Mission to conduct the first review of the PRGF-supported program	March 2003
Executive Board discussion of the first review of the PRGF-supported program	May 2003

INTERNATIONAL MONETARY FUND

Public Information Notice

EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 03/35
FOR IMMEDIATE RELEASE
March 20, 2003

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Concludes 2002 Article IV Consultation with Uganda

On February 12, 2003, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Uganda.[1]

Background

Since the conclusion of the last Article IV consultation in March 2001, Uganda has continued to implement disciplined financial policies and sound structural reforms that have helped to sustain robust economic growth despite an adverse external environment. In 2001/02 (July–June), real GDP growth increased to 6.6 percent, boosted by highly favorable weather conditions for agriculture and a surge in construction activity from a pick up in investment. A sharp drop in food crop prices resulted in negative headline inflation of -2.5 percent during the year, while underlying inflation, which excludes food crop prices, dipped to 0.1 percent. Thus far in 2002/03, real GDP growth has slowed down to about 5½ percent, as weather conditions deteriorated and delays to the Bujagali hydroelectricity project dampened construction activity. Headline inflation has risen to 5.8 percent, as food prices rebounded by 20 percent, while underlying inflation increased to 1.4 percent (December 2002).

Implementation of the Poverty Eradication Action Plan (PEAP) continues to be a central element of government policy, with the long-term goal of reducing the incidence of poverty to less than 10 percent of the population by 2017. The real GDP growth achieved to date has contributed to the

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

reduction of the incidence of poverty to 35 percent of the population in 2000 from 44 percent in 1997 (and 56 percent in 1992).

Notwithstanding an improved revenue performance, the overall fiscal deficit, excluding grants, widened by 2 percentage points to 12.7 percent of GDP in 2001/02, as government spending rose sharply. The overall fiscal deficit is expected to narrow by 1½ percentage points of GDP in 2002/03. Revenue collections have generally been on target through the first half of the fiscal year, and total spending limits are expected to be respected, despite the recent announcements of considerably higher-than-budgeted defense spending. As a result, while the overall deficit is expected to be in line with the program, outturns for unprotected programs are likely to deviate substantially from budget intentions. These large fiscal deficits are almost completely financed by donor assistance.

The reserve money program implemented by the Bank of Uganda (BOU) has served well in maintaining low inflation. However, large sterilization operations needed to absorb liquidity generated by large fiscal deficits have complicated monetary and exchange rate policies. In 2001/02 net issues of treasury bills rose 3½ percent of GDP and net official interventions in the foreign exchange market reached 4 percent of GDP, owing mainly to sterilization operations. New monetary and exchange rate policy operating procedures implemented in April 2002, have facilitated sterilization operations and reduced volatility in interest and exchange rate movements. Still, reserve money growth exceeded targets in 2001/02, leading to increased emphasis by the BOU in mopping up the excess liquidity and firm adherence to reserve money program in 2002/03.

The health of the banking system has continued to strengthen. In 2002, the privatization of the Uganda Commercial Bank (UCB) and its merger with a sound international bank was completed. Banking supervision has been increasingly more vigorous, with on-site inspections being stepped up substantially; as a result, one small bank was intervened and merged with a healthy institution and another was recapitalized. As a result of these actions, the performance indicators for the banking system have continued to improve. On January 1, 2003, new capital requirements came into effect, doubling the minimum paid-up capital to Ugandan Sh 4 billion.

Reflecting the deterioration in terms of trade in recent years, the external current account deficit, excluding grants, widened substantially, before narrowing to 13.4 percent of GDP in 2001/02. In particular, export earnings increased for the first time in three years, as continued growth in noncoffee exports exceeded the loss to coffee exports from the collapse in world coffee prices, and net private transfers surged. Thus far in 2002/03, both coffee and noncoffee exports have shown strong growth, suggesting an improvement in Uganda's international competitiveness, but a falling back of private transfers to historically normal levels is expected to lead to a widening of the external current account deficit. The current account deficit has been more than financed by increased donor assistance, including debt relief under the Highly Indebted Poor Countries (HIPC) Initiative, and private capital inflows, allowing for increases in gross international reserves to six months of imports.

The falling export receipts in recent years have led to a deterioration in external debt indicators. Assuming the full delivery of assistance under the HIPC Initiative, the ratio of the net present value (NPV) of external debt to exports reached 190 percent at end-June 2002, and is projected to peak at 195 percent in 2002/03. There was much progress in reaching agreements with creditors on the

delivery of HIPC assistance in 2001/02, including debt relief beyond HIPC by Paris Club members. Recently, the governments of India, Libya, and the Republic of South Korea have pledged to participate in the HIPC Initiative and it is expected that agreements on delivery of assistance will be forthcoming. However, Uganda has had difficulty in securing agreements for HIPC Initiative debt relief from some non-Paris club creditors.

Executive Board Assessment

Executive Directors commended the Ugandan authorities for their sustained pursuit of sound financial policies and structural reforms, which have led to robust economic growth and macroeconomic stability despite an often adverse external environment. They commended as well the development and consistent implementation of a comprehensive country-owned poverty reduction strategy, which has contributed to a significant reduction in the incidence of poverty in Uganda. However, Directors noted that attaining Uganda's long-term goals for poverty reduction would require higher rates of economic growth, underpinned by stepped-up private investment, strengthened mobilization of domestic resources, improved governance structures and budget management at all levels of government, and strengthened financial intermediation.

Directors agreed that controlling the fiscal deficit is critical in order to maintain macroeconomic stability and contain pressures on real interest rates and the exchange rate. Given the expenditure needs of the country, major efforts will have to be placed on revenue mobilization to reduce the deficit and the heavy dependence on external aid. While welcoming the authorities' plans to strengthen tax administration, Directors emphasized that tax policy measures may be needed as well to achieve the desired revenue increase over the medium term.

Directors commended the authorities for the progress made in budget management and urged them to maintain the integrity of the budget process. They considered this important for enhancing transparency and accountability, for building the trust of the donor community and increasing the share of direct budget support, and for attracting foreign investment. Directors expressed concern that, in recent years, supplementary appropriations have resulted in the composition of government spending deviating substantially from budget intentions and in under-financing of unprotected social and economic programs. They noted with concern that, in the fiscal year 2002/03, in light of the security problems in the north of the country, defense spending will be considerably higher than budgeted. In this context, they welcomed the ongoing defense review, and urged the authorities to expedite the streamlining of expenditure on public administration with a view to improving efficiency and freeing resources for poverty-related and development spending. Directors agreed that donors need to underwrite these efforts by improving the timeliness and predictability of their support, and by better integrating such support with the budgetary process. Directors also expressed concern about the large and growing stock of domestic arrears, and urged the authorities to develop a strategy to gradually eliminate them in an orderly manner.

In light of the increased role of local government in the delivery of public services, Directors encouraged the authorities to develop a clear reform agenda for decentralization and an action plan to enhance the reporting, monitoring, and accountability of local government operations; and to rationalize the institutions involved in the decentralization process.

Directors noted that the flexible exchange rate regime has served Uganda well, helping to absorb terms-of-trade shocks while preserving external competitiveness, and that monetary policy has succeeded in keeping inflation low. The mopping up of banks' excess reserves and the implementation of new sterilization and liquidity management procedures have enhanced the stability of the domestic money and foreign exchange markets. Directors welcomed plans to further develop repurchase operations and introduce longer-dated government paper, which would enhance the effectiveness of liquidity management.

Directors commended the authorities for taking steps to improve the soundness of the financial sector, as recommended by the financial system stability assessment report. They expressed satisfaction with the supervisory actions that have been taken against noncompliant, undercapitalized, or nonviable financial institutions. To further strengthen the financial system, Directors urged the authorities to expedite passage of the Financial Institutions Bill and the Micro-Finance Deposit-Taking Institutions Bill, and to establish the legal framework and monitoring structures for anti-money laundering and anti-terrorism financing. Directors also stressed the importance of increasing the level and efficiency of financial intermediation to support investment and economic growth. This calls for measures to increase competition, lower intermediation costs, develop microfinance institutions to facilitate access to credit in rural areas, and promote the development of long-term lending instruments. Directors noted that the restructuring of the National Social Security Fund will be an important step, and hoped that the required parliamentary approval will be obtained.

Directors expressed concern that Uganda's external sector remains weak and that the external debt indicators continue to deteriorate, while acknowledging that this reflected mainly a prolonged deterioration in terms of trade. They welcomed the authorities' focus on gradual fiscal consolidation and measures aimed at expanding and diversifying the export base. However, they cautioned against the use of ad hoc investment incentives to achieve these goals and urged the authorities instead to work toward a harmonized system of taxation and incentives for the East African Community. They supported the authorities' plans to improve the infrastructure as a means of lowering transport costs.

Directors noted with satisfaction that in the past year, Uganda was able to sign agreements with a number of creditors on the delivery of HIPC Initiative assistance, and that additional relief should be forthcoming from several other creditors that have recently pledged relief on official debt. They regretted, however, that some non-Paris Club creditors have not provided debt relief to Uganda as envisaged in the HIPC Initiative, and that some creditors have filed lawsuits against the government. They encouraged the authorities to continue to seek agreement with creditors and urged all creditors to join the HIPC Initiative for Uganda.

Directors commended the authorities for having put in place a comprehensive legal and regulatory structure for strengthening governance and transparency. They emphasized the need to vigorously follow up on the anti-corruption efforts underway and to ensure adequate funding for the Inspector-General's office. They observed, in particular, the need to address governance issues in the Uganda Revenue Authority and at the level of the local governments.

Directors encouraged the authorities to continue to address the weaknesses in the production and dissemination of statistics, and supported their requests for technical assistance in this area.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board.

Table 1. Uganda: Selected Economic and Financial Indicators, 1997/98–2002/2003 1/

	1997/98	1998/99	1999/00	2000/01	2001/02 Est.	2002/03 Proj.
	(Annual percentage change, unless otherwise indicated)					
National income and prices						
GDP at constant prices	4.7	7.9	5.3	5.5	6.6	5.7
Consumer prices						
End of period	-0.9	5.3	1.9	6.4	-2.5	6.1
Underlying	1.9	4.5	2.9	8.5	0.1	4.5
External sector (in U.S. dollars)						
Terms of trade (deterioration -)	10.6	-10.7	-17.3	-10.7	-3.1	8.9
	(Annual changes in percent of beginning-of-period stock of money and quasi money, unless otherwise indicated)					
Money and credit						
Money and quasi money (M3)	26.1	13.8	16.1	17.5	21.6	10.3
M2	23.7	9.1	8.8	15.2	24.9	9.9
Velocity (GDP/M2) 2/	9.5	8.9	9.0	9.0	7.7	7.1
Interest rate (in percent) 3/	9.3	6.4	10.4	14.3	6.7	...
	(In percent of GDP at market prices)					
External sector						
Current account balance						
(including official grants)	-6.7	-6.2	-6.9	-6.0	-6.0	-6.7
(excluding official grants)	-12.5	-10.8	-13.0	-14.1	-13.4	-14.7
Government budget						
Revenue	10.7	11.7	11.3	10.8	12.2	12.7
Grants	5.3	5.0	5.8	7.6	7.0	7.6
Total expenditure and net lending	17.1	19.4	26.8	21.4	24.9	23.8
Government balance (excluding grants)	-6.4	-7.7	-15.5	-10.6	-12.7	-11.1
Government balance (including grants)	-1.1	-2.7	-9.7	-3.0	-5.7	-3.4
Domestic balance	-0.3	-1.6	-8.9	-4.2	-6.4	-5.4
Net foreign financing	2.6	2.8	3.4	3.4	5.1	4.2
Domestic bank financing	-0.9	0.0	6.1	0.5	0.2	-0.7
Domestic nonbank financing	-0.6	-0.2	0.3	-0.4	-0.7	0.1
Net donor inflows	8.2	7.1	8.0	10.6	11.7	11.4
Debt-service ratio 4/	(In percent of exports of goods and nonfactor services)					
Including Fund obligations	27.1	24.3	20.2	9.7	7.7	8.0
	(In millions of U.S. dollars, unless otherwise indicated)					
Overall balance of payments	361	354	333	321	448	516
Foreign exchange reserves	750	748	719	739	866	970
Gross foreign exchange reserves (in months of imports of goods and nonfactor services)	6.2	6.4	5.9	5.4	6.1	6.5

Sources: Ugandan authorities; and IMF 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/ The debt-service ratio incorporates the effects of rescheduling and assistance provided under the original and enhanced HIPC. Initiatives and estimated HIPC assistance from non-Paris Club bilateral creditors with whom bilateral agreements have not yet been reached.

Statement by Ismaila Usman, Executive Director for Uganda
February 12, 2003

1. We would like to convey the appreciation of my authorities to the Fund Management and staff for their work in Uganda. The support and advice received over the years have been valuable to their process of adjustment and reform. The discussions related to the 2002 Article IV consultation provided yet another opportunity for a useful exchange of views, which my authorities regarded as making a useful contribution to policy formulation.

Background

2. My authorities' steadfast commitment to good economic management since the late 1980s has played a key role in improving the performance and enhancing the resilience of the Ugandan economy against an often adverse external environment. The careful selection of prudent policies and more importantly, the resolute manner in which they were implemented were essential to the remarkable progress made in attaining macroeconomic stability and improving economic efficiency. This has contributed to strengthen the foundations for sustainable higher economic growth and considerably reduced the incidence of poverty. Real GDP growth remained robust for most of this period, at an average of 6.6 percent a year, thus contributing to the reduction in the incidence of poverty to 35 percent of the population in 2000 from 56 percent in early 1990s. Inflation declined sharply from a double digit figure and has been maintained at low levels. Despite the large impact of the protracted and sharp deterioration in the terms of trade—of 36 percent only during the past five years—on the external current account position, gross international reserves position remained at a comfortable level equivalent to the coverage of six months of imports and Uganda's external competitiveness have not apparently been affected. However, developments in the fiscal area were less reassuring with the widening of the overall deficit, during the last fiscal year.

3. While my authorities are encouraged by the impressive improvement in economic performance brought about by the positive, albeit not exempt of difficulties, path that Uganda has followed over the several years, they are fully cognizant of the need to stay the course of reform and indeed accelerate the process in some important areas, in order to sustain stronger economic growth needed to reach the poverty reduction strategy goals.

Fiscal Policy

4. The strengthening of public finances remains the main challenge facing economic policy in the medium-term. The authorities recognize that, in order to preserve the hard-won macroeconomic stability and support the continuation of prudent monetary policy while enhancing the role of the private sector, further fiscal consolidation is required to place the public finances on a sustainable path. The overall fiscal deficit (before grants) is expected to narrow to about 11 percent of GDP in 2002/03 from 12.7 percent in the previous year, and is projected to decline to 7.9 percent by 2006/07. Domestic savings are anticipated to rise during the same period spurred mainly by a steady increase in private savings. The projected

increase in domestic investment will essentially be driven by a marked rise in private investments reflecting a general strengthening in confidence.

5. To attain the fiscal objective, several fiscal measures will be implemented to raising the ratio of revenue to GDP, including through intensified collection efforts and tax administration improvements. In this regard, the authorities are carefully considering the possibility of outsourcing customs administration with a view to enhance the efficiency and effectiveness of the existing system.

6. Expenditures will continue to be restrained. The need to address the security concerns affecting the northern region of the country had increased pressure on the government to shift additional resources in favor of defense spending. While the authorities intend to address this issue by moving resources from other expenditures, they remain committed to protect those related to poverty reduction program. The authorities are determined to strengthening the budget management, monitoring, and accountability systems with the implementation of the Budget Act and to extending the expenditure commitment control system (CCS) to all recurrent nonwage outlays, to further improve fiscal discipline and promote transparency. They, however, consider that it is fundamental that this process be assisted with improved predictability of, and increased channeling of donor assistance through the budget process. Furthermore, the efforts to strengthen the operations and the efficiency of the local governments, as well as the assessment of the true measure of government's liabilities, particularly those linked to pension arrears and the debt of the parastatals, are also important components of the fiscal consolidation process on which the authorities will continue to focus their attention.

Monetary Policy

7. The authorities will continue to pursue prudent monetary policy. They are committed to maintaining liquidity levels consistent with the achievement of the inflation target. Although monetary management has been complicated by the large sterilization operations aimed at absorbing excess liquidity, the authorities have succeeded in offsetting its effects by introducing changes in the operating procedures. Several measures have been considered which will assist in the process of further refining both the procedures and the instruments for liquidity management and sterilization operations. These include the introduction of longer-term treasury bills, establishing a benchmarking system for new issues, decreasing the frequency of auctions, as well as increasing the use of repurchase instruments for liquidity management purpose.

8. The financial system remains fundamentally sound as a result of the authorities' determined efforts to reform the sector aimed at enhancing its safety and stability and enabling it to fulfill its critical role in the economy with increased efficiency. My authorities are in broad agreement with the findings of the FSSA mission and with the thrust of the recommendations to further strengthen the soundness of the financial system. They have started implementing a number of these recommendations.

External Sector and Competitiveness

9. In the external sector, the current account deficit is expected to increase further this year to 14.7 percent of GDP, reflecting the protracted deterioration in the terms of trade. Nevertheless, this current account deficit is expected to be financed by donor assistance and private capital inflows. Despite the significant debt relief provided under the HIPC Initiative, the sharp decline in the terms of trade has led to a significant worsening in debt indicators since reaching the completion point in May of 2000. The NPV of debt-to export ratio is expected to rise to 195.2 percent in 2002/03 and remain well above the threshold of 150 percent, for at least the next five years. The authorities not only continue to face great difficulties in securing agreements with non-Paris Club creditors on the delivery of HIPC assistance, but the law suits filed by some creditors against the government tend to jeopardize their efforts to reach agreement with other creditors.

10. An important challenge confronting the authorities is the need to enhance external sustainability and strengthen the competitiveness of the economy, which they have been addressing through policies aimed at boosting production and increasing productivity. To this end, the authorities consider that the Plan for the Modernization of Agriculture (PMA) intended to increase farmers' productivity and rural incomes and the Strategic Exports Program (SEP) designed to expand and diversify the export base, will contribute significantly to the success of their economic development strategy aimed especially, to reduce the incidence of poverty to less than 10 percent by 2017. External competitiveness will be strengthened by continuing to implement a flexible exchange rate policy.

Governance

11. The authorities recognize the importance of strengthening good governance, absence of which could undermine business activities. Significant steps have already been taken to deal with some of the existing governance cases, including the judicial investigation of the Uganda Revenue Authority (URA) and with the passage of the Leadership Code. It is their intention to address other cases with the same resolve, including the planned investigation into governance issues in the judiciary and into the public procurement and tendering procedures.