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Uganda: Fifth Review Under The Policy Support Instrument And Request For Program Extension—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Uganda.

In the context of the Fifth Review Under The Policy Support Instrument And Request For Program Extension, the following documents have been released and are included in this package:

- The staff report for the fifth review under the Policy Support Instrument and request for program extension, prepared by a staff team of the IMF, following discussions that ended on November 6, 2012 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 December 21, 2012. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A Press Release summarizing the views of the Executive Board as expressed during its January 14, 2013 discussion of the staff report that completed the request and/or review.

- A statement by the Executive Director for Uganda.

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

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

*Also included in Staff Report

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

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UGANDA

FIFTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT AND REQUEST FOR PROGRAM EXTENSION

December 21, 2012

KEY ISSUES

The anti-inflationary strategy was successful but costly in terms of growth. Tight monetary policy and under execution of budget spending brought inflation under control—an important policy achievement. The tightened stance, however, sharply slowed growth. A substantial foreign reserve accumulation created a useful buffer.

Program performance was satisfactory. All end-June 2012 quantitative assessment criteria were met, as were most quantitative indicative targets, except on poverty spending and on the stock of domestic arrears. Achievement of structural benchmarks was mixed, with progress on developing forecasting techniques and publishing data, but delays on other commitments, notably the issuance of national identification cards.

A suspension of aid due to a theft of donor funds led to development spending cuts, and signaled the need for a more radical fight against corruption. The authorities have provided assurances that they will recover the stolen funds, take action against involved officials, and strengthen the public financial management (PFM) system.

Limiting the impact of aid suspension on growth and keeping inflation low are the main priorities. The macroeconomic framework adjusts for the aid suspension by a combination of spending cuts and increased domestic financing. A limited fiscal stimulus and some recovery in private sector activity would allow growth of about 4¼ percent this year. Inflation is expected to remain at around 5 percent, and, supported by exchange rate flexibility, the international reserve coverage would fall to 3¾ months of imports.

Risks to the program stem from external shocks and governance weaknesses. Global financial difficulties and regional political uncertainties could worsen the outlook. An equally serious threat comes from delays in implementing credible measures to fight corruption, strengthening PFM, and rebuilding confidence of the population and the development partners.

Staff supports the authorities' request to complete the fifth PSI review and extend the PSI-supported program to August 10, 2013. The extension will provide time to complete the sixth review and discuss a successor PSI-supported program which the authorities plan to request.

Approved by
Roger Nord and Elliott Harris

IMF team: A. L. Coronel (head, senior resident representative), C. Dieterich, G. Oestreicher (all AFR), P. Wingender (FAD), and Y. Bal Gündüz (SPR).

Discussions: Held in Kampala during October 24-November 6, 2012. The mission met with senior government officials and economic authorities, as well as representatives of parliament, the private sector, NGOs, civil society, development partners, and the media.

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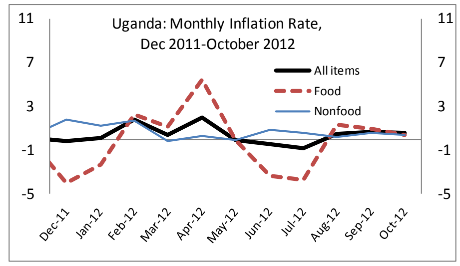
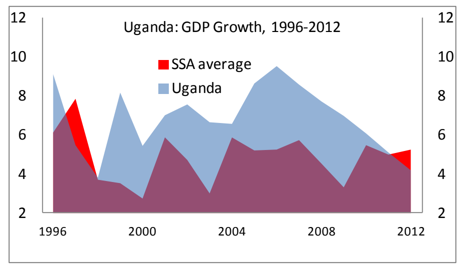
APPENDIXES

BACKGROUND AND RECENT DEVELOPMENTS

A. Recent Developments

1. Recent economic developments have been challenging. Supported by declining food prices and a restrictive fiscal stance, tight monetary policy succeeded in reducing inflation to just under 5 percent in November from 30 percent only a year before (Figure 1). Rapid monetary tightening, however, raised financing costs significantly and disrupted business plans of private companies. With a tighter-than-anticipated fiscal stance, this resulted in the lowest economic growth level in more than a decade. At just below 3½ percent (down from 6½ percent a year earlier), the FY 2011/12 growth outturn barely matched the rate of population increase.





2. International reserve accumulation benefitted from tight monetary policy and strong private capital flows. Despite a deteriorating trade balance, the external current account over performed program expectations on the strength of private remittances and tourism. Portfolio flows, attracted by high interest rates, and sizable foreign direct investment drove international reserves up to the equivalent of 4 months of imports, almost half a month higher than anticipated.

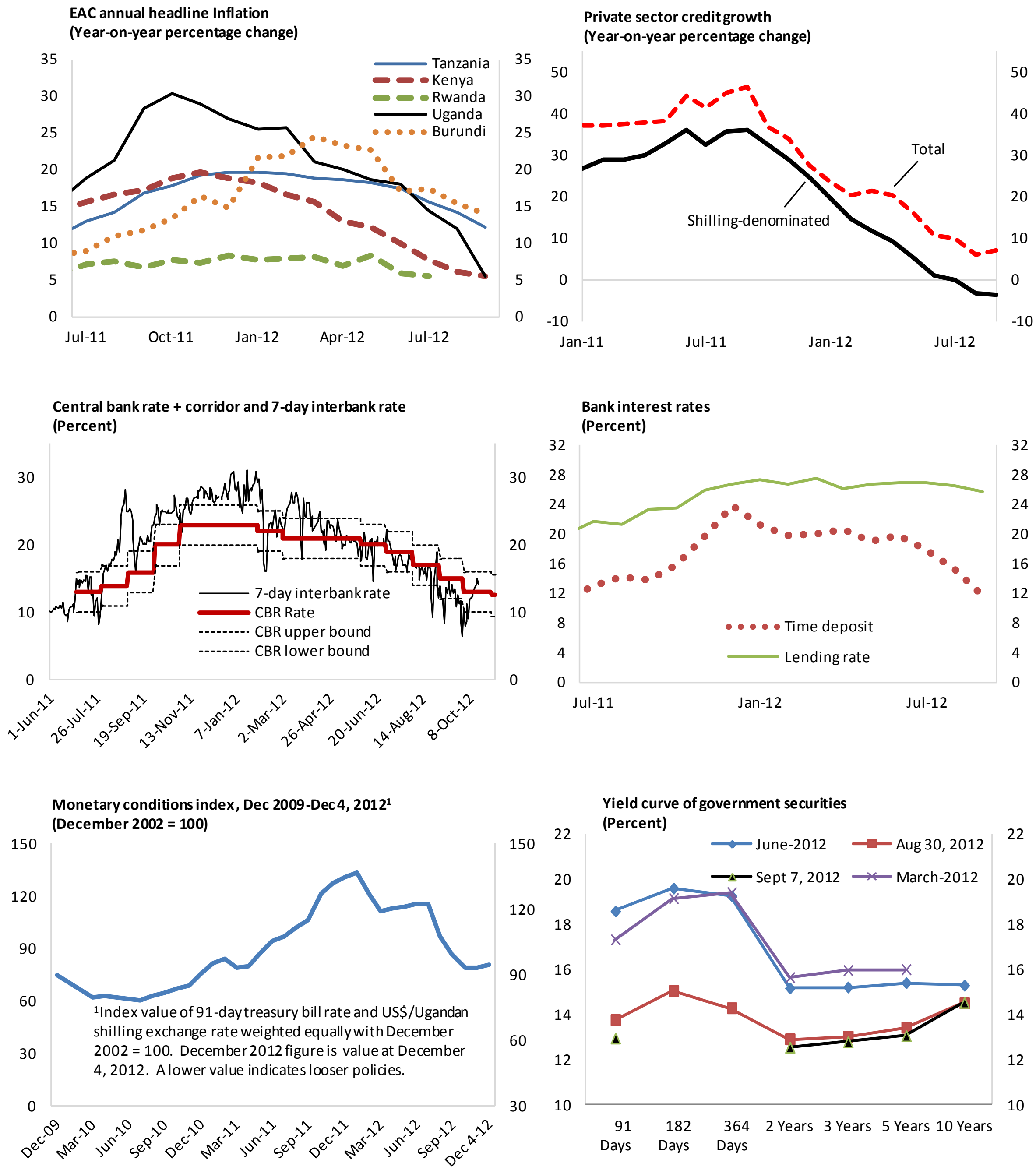
3. The fiscal stance was tighter than programmed mainly owing to delays in execution of a large hydropower project. Revenues and current expenditure performed broadly as anticipated, reflecting the non-recurrence of the previous year's exceptional oil revenue and security spending, and a drop in the wage bill in real terms. However, underperformance on the large Karuma project—due to slow preparation and an investigation into procurement irregularities—led to a lower-than-expected deficit. As projected, financing of the deficit came mainly from external sources. The stock of arrears and payment delays remained broadly stable compared to end-June 2011.

4. The disinflationary strategy dampened credit growth. The Bank of Uganda (BoU) used its new central bank rate to raise market interest rates. The strengthened shilling, which had previously weakened with the onset of high inflation, helped rein in inflation. Subsequent monetary easing, through sharp cuts in the policy rate from 23 to 12 percent, has so far produced only a small decline in lending costs, revealing asymmetries in the transmission mechanism. Slow bank credit recovery is mainly explained by careful risk management to preserve asset quality and the need to meet higher capital requirements. While non-performing loans have risen and provisioning has declined, banks remain solvent, liquid and profitable.

5. A suspension of budget support due to theft of donor funds has curtailed spending plans and hurt growth prospects. Aid totaling 1¼ percent of GDP from both multilateral and bilateral partners was suspended in late October - early November. This followed the theft of about

$15 million of donor funds, meant for post-war recovery in northern Uganda, from the Office of the Prime Minister in a coordinated plot by officials of several ministries and agencies, and a major fraud related to payments of salaries and pensions to ghost workers. These corruption scandals motivated strong reactions from civil society and the international community.

Figure 1. Monetary Developments



6. The authorities have acknowledged the damage from corruption and responded to the concerns of development partners. The authorities and the donors have held continuous discussions since November on a course of action for governance improvement and have reached preliminary understanding on the set of measures contained in Box 1. Clear progress on a credible anti-corruption strategy would allow donors to assess resumption of disbursements by the first quarter of 2013, although some would consider moving away from budget support lending.

Box 1: Short-Term PFM Reform Commitments

In response to the weaknesses identified by recent corruption cases, the government has conveyed to donors its commitment to implement the following short-term actions:

- Moving ahead with investigations and prosecutions of indicted public officials, private persons, and firms, for fraud and corruption in the Prime Minister's office.
- Taking administrative action against responsible officials, and recovering misappropriated funds.
- Implementing key recommendations of previous security audits to fix weaknesses in the integrated financial management system (IFMS), and recruiting an IFMS security consultant.
- Submitting to parliament amendments to the Public Finance Bill (PFB), including improved provisions on oil revenue management, application of sanctions, commitment controls, and creation of an independent directorate of internal audit.
- Making the recruitment, payroll, and pension modules of the integrated payroll and pension system fully operational.
- Constituting the Inspectorate of Government by appointing senior officials.

B. Program Performance

7. Program performance has been satisfactory. All end-June 2012 quantitative assessment criteria (QACs) were met. International reserve accumulation was significantly higher than projected due the large foreign exchange inflows. The BoU held net domestic assets (NDA) well below their program ceiling to preserve the inflation objective. The ceiling on net credit to the government (NCG) was also observed by a large margin, as stronger than expected revenue and lower capital spending decreased reliance on bank financing. Two indicative targets were missed. The one on domestic arrears by ½ percent of GDP, reflecting inefficiencies in cash management and expenditure controls, and the one on poverty reducing expenditure by a small margin.

8. Progress on structural measures under the program has been mixed. Greater transparency is now in place regarding the beneficiaries of tax expenditures, government's net asset position with the banking system, and releases and payments for power and water obligations. In addition, high frequency economic data is now being produced and disseminated. However, reforms to improve public financial management, a key ingredient of the PSI, were insufficient. Commitments to reinforce controls over unpaid bills and publish unspent balances of all government accounts in the BoU and commercial banks have yet to materialize, and the issuance of identification cards has been delayed until end-2013, beyond the program period.

ECONOMIC OUTLOOK AND RISKS

9. **The outlook for this fiscal year is for slow growth recovery from a 10-year low in a context of low inflation**. Under a cautious assumption that aid will not resume during the remainder of this fiscal year, growth projections for FY 2012/13 have been scaled back to 4¼ percent—around one percentage point above last year's disappointing outturn. These projections take account of only a moderate contribution from private investment and consumption, as well as some crowding out of the private sector. Inflation is expected to remain subdued, and the external current account deficit would be broadly unchanged—with an improved trade balance and higher oil taxes offset by lower budget support grants and remittances. The drop in external financing will lead to a slowdown in international reserve accumulation, reducing its coverage from 4 to 3¾ months of imports.

Macroeconomic Impact of Aid Suspension
(In percent of GDP unless otherwise noted)

	2011/12	2012/13	
	Actual	Without aid suspension	With aid suspension
Real sector			
Real GDP (percent change)	3.4	5.0	4.3
Average CPI (percent change)	23.5	6.2	6.2
External sector			
Gross reserves (months of imports)	4.0	3.9	3.7
Net donor inflows	3.6	3.8	2.6
Fiscal Sector			
Revenue	13.3	14.6	14.5
Grants	2.3	2.2	1.9
Total expenditure and net lending	18.6	20.5	19.9
Domestic financing	0.1	0.9	1.6
External financing	2.4	2.8	1.8
Total debt stock	33.3	35.2	35.7
Monetary Sector			
Private sector credit (percent change)	11.1	15.1	13.1

Sources: Ugandan authorities; and IMF staff projections.

10. **Medium-term growth prospects are more encouraging, with a return to its potential of 6-7 percent by FY 2014/15.** Achieving higher growth—through a combination of increased public investment in infrastructure and efforts to improve productivity in tourism and agriculture—is essential to reduce unemployment and poverty. Oil production is set to be a key driver—but its timing and scope depends on the decision on whether the envisaged refinery is to be complemented by a pipeline to export crude oil, and on successful integration of oil revenues into a medium-term fiscal framework.

11. **Risks to the outlook are concentrated on the downside.** Failure to implement the preliminary understanding with bilateral and multilateral partners on actions to restore budget support would further hurt budget financing, development spending, and investor sentiment. In this event, with buffers depleted, the majority of adjustment would need to fall on expenditure, further setting back growth recovery. Success therefore critically depends on forceful action to improve the existing systems and address governance problems. Risks to macroeconomic stability arise from potential spending pressures, which could lead to disorderly domestic borrowing while a more rapid repatriation of short-term capital than currently anticipated could erode reserve cover. On the external front, regional security and political concerns in neighboring countries have potential to disrupt supply, and a deepening of the euro zone crisis could reduce aid and export receipts.

POLICY DISCUSSIONS

A. Ensuring High Quality Fiscal Spending in the Context of Lower External Financing

12. Fiscal plans were adapted to the cuts in external financing. The authorities had planned to boost development spending beyond the level provided for in the budget to stimulate growth. However, the aid suspension forced them to curtail spending, mainly capital outlays by about ¾ percent of GDP (half of the loss in aid) and to forgo plans to frontload expenditure in support of growth. To compensate for the other half of the delayed budget support, the authorities intend to use domestic bridge financing, mostly from the private sector. Staff supported this policy, stressing that cuts be concentrated on less essential outlays to avoid affecting poverty reducing spending, and that additional domestic financing be used to finance high quality development spending.

13. Against this background, the authorities put together a restrictive but coherent fiscal plan. Revenue buoyancy would likely be affected, but current expenditure restraint to favor projects with high local content and proven feasibility is expected to result in a small impulse to growth. Fiscal space from the recent removal of subsidies to power producers, a modest curtailment of tax exemptions, and the elimination of exceptional military expenditures, is expected to be used for this purpose. The authorities indicated that spending pressures, including for recruiting primary health workers, may lead to the approval of a small supplementary budget, but committed to keep the spending envelope within the program. In view of the weak impementation capacity, staff recommended adhering to the execution timeline of the Karuma project, and addressing the persistent arrears problem by ensuring realistic budget appropriations, avoiding irrational cash rationing, and enforcing sanctions for noncompliance.

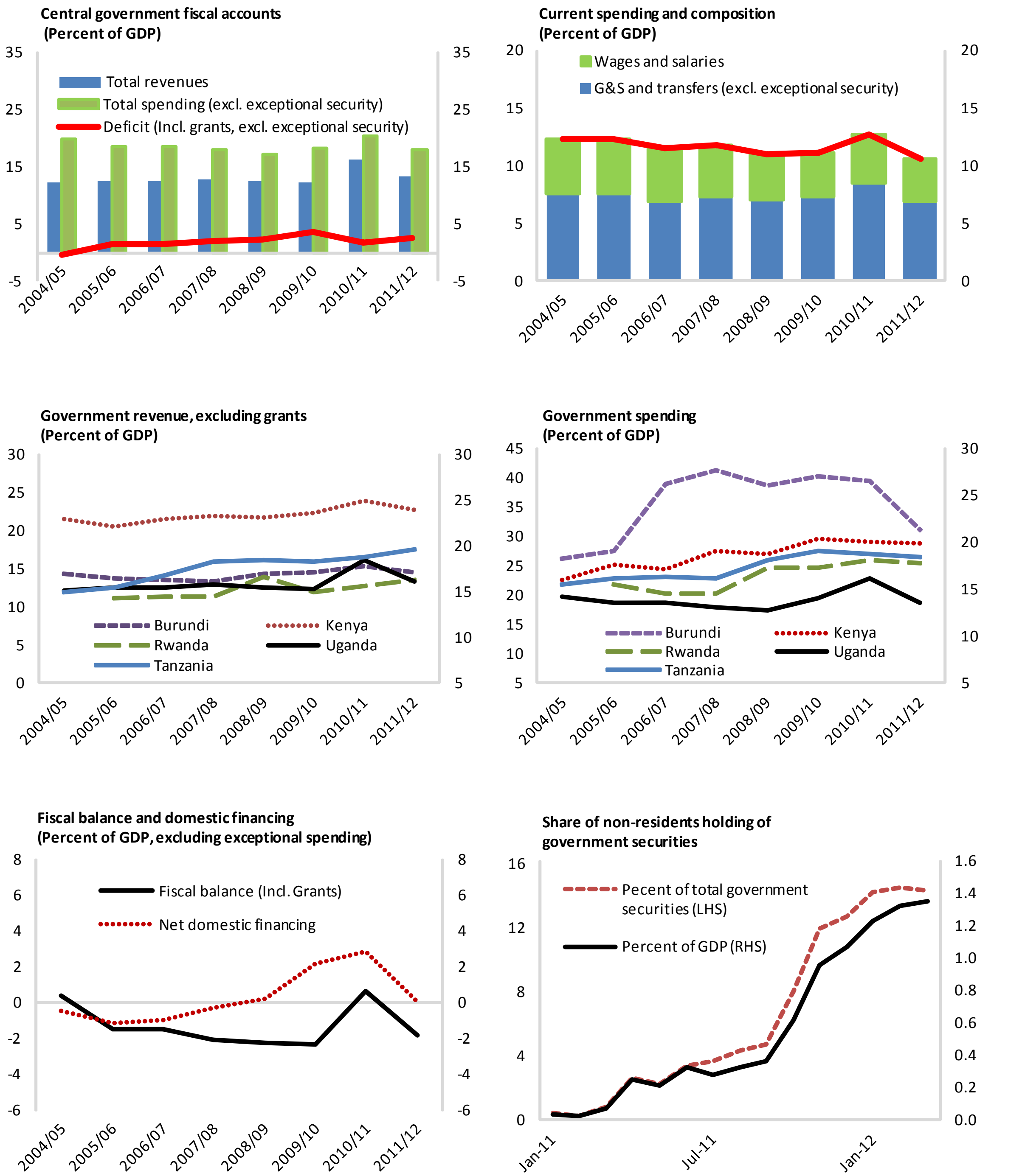
14. Over the medium term, the authorities are encouraged to improve tax collections and further enhance PFM. There is ample room to increase the revenue/GDP ratio and to accelerate ongoing measures to improve project appraisal, implementation, and evaluation, both areas in which Uganda lags behind the SSA and EAC average. Parliamentary approval of the PFB, considered essential to medium-term improvements in PFM and revenue management, has been deferred to mid-2013. The medium-term fiscal trajectory is now somewhat different than it was in the program. It will be important to maintain close control over fiscal deficits in the medium term to avoid any undue deterioration in the overall public debt situation.

Index of Public Investment Efficiency (PIMI)[1]

	Appraisal	Selection	Imple-mentatio	Evaluation	Overall
Uganda	0.8	2.8	1.5	0.7	1.4
EAC Average	1.2	1.8	2.1	0.9	1.5
SSA Average	1.3	1.8	1.9	1.1	1.5

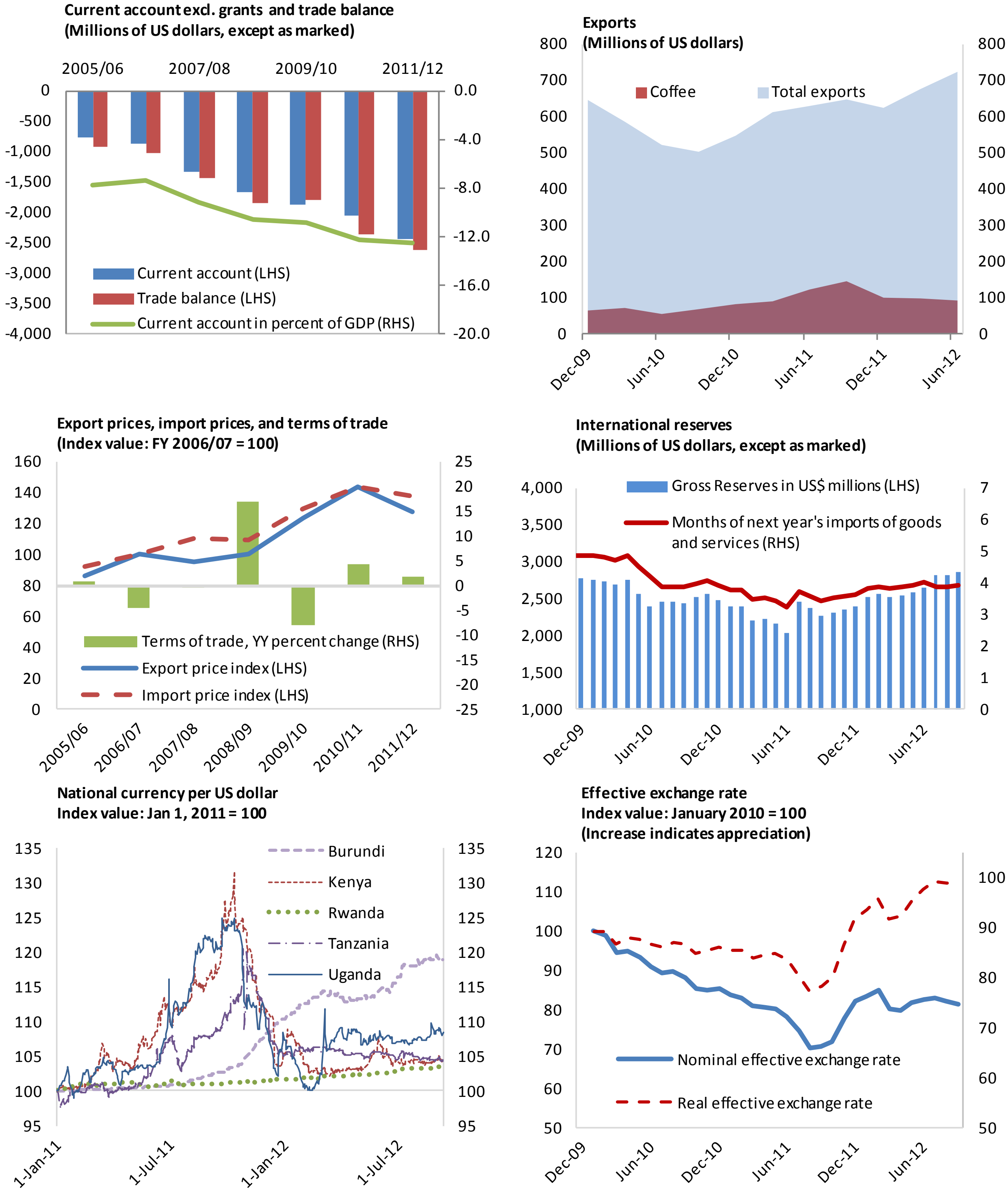
[1]Index values range from 0 to 4, with 4 being the best.
Source: IMF and WB PIMI database.

Figure 2. Fiscal Developments



Source: Ugandan authorities and AFR database.

Figure 3. External Developments



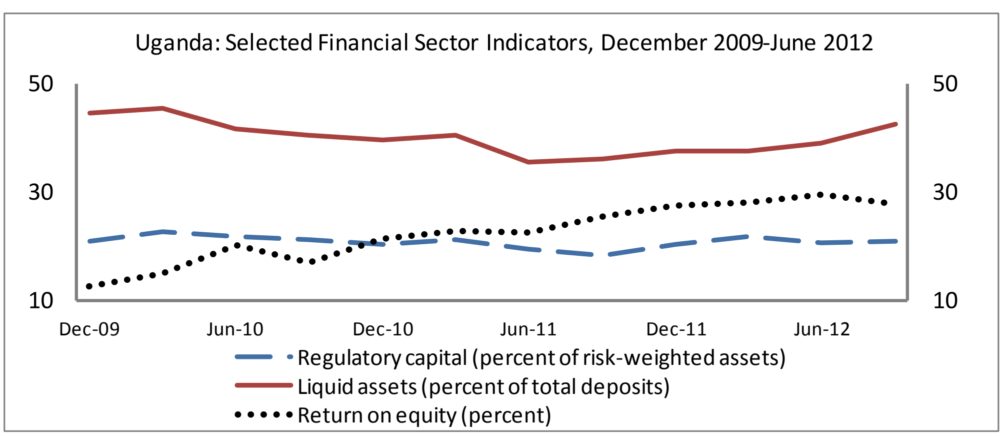
Source: Ugandan authorities and AFR database.

B. Preserving Low Inflation and Safeguarding the Health of the Banking System

15. With inflation below the 5 percent target, discussions focused on how monetary and exchange rate policy could support growth without reigniting price pressures. Staff praised the fast disinflation—aided by better liquidity management and modeling capacity under the new inflation targeting light (ITL) framework—and noted the lag with which credit is expected to react to the ongoing loosening cycle. The authorities agreed that space for further monetary easing is restricted by the need to maintain positive risk-adjusted real returns on domestic assets to promote saving and avoid a disruptive exit of foreign portfolio flows. Accordingly, the BoU cut the policy rate by only 50 basis points in November and December, compared to 200 basis points in each of the previous three months. The shilling is expected to adjust to underlying fundamentals, and the BoU will intervene only to ensure a smooth transition by limiting excess volatility.

16. Staff supported the BoU's decision to refine its ITL policy framework. The authorities see room to improve the inflation target definition, the modeling and forecasting capacity, and the policy communication strategy. Importantly, they agreed that institutional reforms to recapitalize the BoU, ensure its independence of instruments, and improve policy coordination are important priorities. An MCM mission that visited Kampala in December to assist in these areas helped design an action plan to achieve these objectives. The authorities are committed to implementing the recommendations with support of a successor PSI, and are interested in switching to inflation targeting for program purposes at that time.

17. The banking system is strong but needs to be carefully monitored. The BoU has stepped up on-site supervision to ensure early detection of underlying stress. The ongoing rise in nonperforming loans and the corresponding decline in provisioning is a concern, although this is mitigated by high capital levels and profitability—NPLs net of provisions are equivalent to less than 6 percent of annual banking sector profits. Despite the recent increase in the share of foreign currency denominated loans—35 percent of total lending in June 2012—the authorities consider that current lending restrictions to un-hedged borrowers limit indirect credit risk, and noted that personal loans and mortgages account for only 4 percent of the stock of foreign currency lending. Staff stressed the need to strictly enforce bank compliance of existing provisions.



C. Taking Forceful Measures to Strengthen Governance

18. The authorities recognize the need to pursue further governance reforms to enhance growth. The vulnerabilities in systems and processes revealed by the theft of public funds call for more vigorous PFM. Looking forward, transparent administration of oil wealth and clear business rules are crucial to attract high quality investors. Discussions centered on the following key actions:

- ***Approval of the PFB aligned to best international practice.*** The government intends to use the delay in parliamentary consideration of the law to refine its provisions in line with Fund advice, mainly to ensure transparent and sustainable revenue management, including of prospective oil proceeds, and to strengthen sanctions.

- ***Introduction of a treasury single account (TSA)***. Staff called for a swift introduction of a TSA to help consolidate the currently fragmented scheme of government receipts and payments, improve oversight of all cash flows, and strengthen budget control. To this end, the program includes as a structural benchmark the production of a concept note reflecting the decision to introduce a TSA. This is an important first step that seeks to foster consensus within the government on the usefulness of the TSA as a tool to safeguard the integrity of public accounts. IMF technical assistance will be provided for this process.

- ***Use of the IFMS to initiate and record all expenditures.*** Action is needed to ensure better use of the system both at the spending commitment stage and at the payment stage, caution suppliers against the use of non-authorized procedures, and enforce penalties and sanctions in a non-discretionary manner.

- ***Promotion of transparency in public sector contracts.*** To speed up infrastructure development, the authorities favor the use of public-private partnerships (PPPs) and contractor-facilitated financing arrangements. Staff noted the governance risks of such approaches if full transparency is not guaranteed. To mitigate them, the authorities committed to recognize contingent liabilities on ongoing PPP contracts (structural benchmark). They also agreed to differentiate the gross costs of projects from their financing terms and publish the bids for public scrutiny.

- ***Provision of biometric identification cards.*** Despite the delays encountered due to management, governance, and procurement problems, the authorities remain determined to complete this project, not only to properly identify citizens, but to improve tax administration and avoid distortions on the public payroll. Nonetheless, given the extent to which this project is off track, the issuance of four million cards by December 2012, as specified in the PSI's structural benchmarks, is not longer feasible within the program period, and will therefore not be set as a structural benchmark going forward. Government will instead endeavour to issue two million cards by December 2013 and, as a first step, will inventory all existing equipment and develop concrete plans to continue the project.

- ***Effectively implementing the Anti Money Laundering/Countering Financing of Terrorism (AML/CFT) regime.*** This could help detect, investigate, and recover the proceeds of corruption and other crimes.

PROGRAM ISSUES

19. Staff supports the authorities' request to complete the fifth review of the PSI and to extend it from its expiration on May 11, 2013 to August 10, 2013. The attached MEFP outlines the macroeconomic policies and structural measures for the last six months of the program. To reflect the recent economic developments and outlook presented in this report, modifications are proposed to the end-December 2012 QACs on NDA, NCG, and net international reserves (NIR), and end-December 2012 and end-March 2013 indicative targets. The requested PSI extension would allow time to complete the sixth and last review (based on end-December 2012 data). At that time, staff also plans to discuss the authorities' request for a new PSI-supported program.

STAFF APPRAISAL

20. Efforts to tame inflation were costly but helped the authorities build important policy buffers. The BoU tightened monetary policy sharply and halted the credit boom. With scarce and expensive financing, private consumption and investment slowed, also abetted by declines in real wages. Concurrently, weak implementation of infrastructure projects resulted in a tighter-than-expected fiscal stance. As a result, economic activity was sluggish, affecting job creation and poverty reduction. Nonetheless, inflation declined sharply and international reserves increased significantly, creating useful policy space to deal with the subsequent curtailment of aid.

21. Tight policies led to the achievement of program targets. All QACs were met with wide margins, as the BoU over performed on reserves accumulation during the disinflation process while contracting net credit to the economy. Exchange rate flexibility was key in supporting the reduction in inflation. With lower development spending than projected, the government used less net domestic credit than programmed.

22. Reviving growth is a clear priority in Uganda's low-income economy. Short-term policies require careful calibration to maintain essential public investment, encourage a gradual resumption of bank lending, and continue to allow the shilling to reflect market conditions. The suspension of aid adds challenges to this policy mix, but the authorities are committed to maintaining fiscal prudence, preserving the inflation target, and using foreign exchange interventions just to smooth exchange rate volatility.

23. Strengthening of PFM systems and governance remains a challenge. While some structural benchmarks under the program were met, commitments to reinforce control over unpaid bills, issue national identification cards, and publish unspent balances of government accounts have yet to materialize. Further, persistent arrears, insufficient transparency in procurement processes, mismanagement of the payroll system, and theft of public funds highlight the need to process all government spending through the existing accounting system and establish credible controls. The introduction of a TSA and the transparent management of procurement processes and public contracts should also deter mishandling of public funds. Moreover, introduction of national identity cards and effective implementation of the AML/CFT regime will be crucial to fighting tax evasion and money laundering.

24. Sound macroeconomic policies therefore need to be accompanied by reinforced efforts to fight corruption. The recent scandals show the fragility of the public accounts, and the government's decision to step up actions to strengthen governance is welcome. Swift implementation of actions to prevent misappropriation of public funds would add credibility to the anti-corruption strategy. It would restore budget financing and avoid the risks of further hampering development spending and investor confidence, and setting back growth recovery.

25. Over the medium term, growth is set to converge to its potential level of 6-7 percent. This objective needs to be underpinned by a higher contribution of private investment, which would in turn require improvements in the business environment. Approval of the PFB, in a form consistent with international best practices, is critical to ensure sound management of revenues and the budget process. The authorities are interested in a successor PSI to back these efforts as well as the institutional reforms needed to strengthen inflation targeting, support efficient management of prospective oil revenues, and encourage governance enhancing reforms.

26. Staff supports completing the fifth review of the PSI. Staff also recommends modification of the end-December 2012 QACs on NDA, NCG, and NIR, modification of end-December 2012 and end-March 2013 indicative targets, and extension of the program to August 10, 2013. The program extension will allow time to evaluate the end-December 2012 quantitative assessment criteria and to prepare the successor PSI arrangement which the authorities have indicated they will request.

Table 1. Uganda: Selected Economic and Financial Indicators, FY2009/10–2016/17 [1]

	2009/10	2010/11	2011/12		2012/13		2013/14	2014/15	2015/16	2016/17
			Program	Actual	4th Rev	Proj.	Proj.	Proj.	Proj.	Proj.
GDP and prices (percent change)										
Real GDP	5.8	6.7	4.2	3.4	5.4	4.3	5.4	7.0	7.0	7.0
GDP Deflator	9.6	5.0	22.5	23.2	5.3	6.9	6.7	6.4	6.0	5.5
CPI (end of period)	4.2	15.7	15.0	18.0	5.3	4.8	6.7	7.1	5.0	5.0
CPI (average)	9.4	6.5	23.4	23.5	7.6	6.2	6.7	7.1	6.9	6.6
Core inflation (average)	7.8	6.3	24.3	24.6	7.5	6.3	4.6	5.1	5.2	5.2
Core inflation (end of period)	4.6	12.1	17.8	19.6	5.1	5.9	4.6	4.8	4.9	5.0
External sector (percent change)										
Terms of trade (based on all exports, deterioration -) [2]	-8.1	4.3	-7.0	1.8	-12.7	-2.1	-3.9	-1.9	-2.5	0.7
Real effective exchange rate (depreciation –)	4.8	-0.9	…	…	…	…	…	…	…	…
Money and credit (percent change)										
Broad money (M2)	30.3	23.9	1.1	-4.3	23.1	15.6	15.9	18.0	17.5	17.4
Private sector credit	25.3	44.4	10.0	11.1	27.2	13.1	23.6	24.4	23.5	22.4
Savings and investment gap (excluding grants, percent of GDP)	-10.8	-12.3	-15.0	-12.5	-13.2	-11.8	-15.0	-15.7	-14.6	-14.4
Domestic investment	23.5	25.0	25.2	24.7	26.5	22.5	24.2	26.8	26.8	25.8
Public	5.6	5.9	6.3	5.8	7.3	7.6	7.5	7.7	7.1	6.9
Private	17.9	19.1	18.9	18.9	19.2	15.0	16.7	19.1	19.7	18.9
External sector (percent of GDP)										
Current account balance (including grants)	-9.5	-10.9	-12.4	-11.3	-11.0	-11.3	-14.3	-15.1	-14.1	-13.8
Current account balance (excluding grants)	-10.8	-12.3	-15.0	-12.5	-13.2	-11.8	-15.0	-15.7	-14.6	-14.4
Net donor inflows	4.1	3.0	4.2	3.6	3.0	2.6	3.0	2.5	2.5	2.2
Public external debt (including IMF)	13.6	17.3	19.1	20.4	23.6	23.0	27.8	30.7	32.8	34.4
External debt-service ratio [3]	1.8	1.4	1.6	1.5	1.8	1.7	1.8	1.9	1.8	1.4
Government budget and debt (percent of GDP)										
Revenue	12.2	16.2	13.1	13.3	14.7	14.5	13.7	14.1	14.5	14.7
Grants	2.5	2.3	2.6	2.3	2.2	1.9	1.8	1.4	1.2	1.1
Total expenditure and net lending	19.6	22.8	19.5	18.6	18.7	19.9	20.3	20.2	19.4	19.2
Overall balance (including grants)	-4.9	-4.3	-3.8	-3.0	-2.0	-3.4	-4.8	-4.8	-3.7	-3.3
Overall balance (excluding grants)	-7.3	-6.6	-6.4	-5.3	-4.3	-5.3	-6.6	-6.2	-4.9	-4.4
Memorandum items:										
Nominal GDP (Ush billions)	34,909	39,081	49,833	49,794	55,287	55,499	62,402	71,046	80,565	90,965
Nominal GDP (US$ millions)	17,206	16,820	…	19,472	…	…	…	…	…	…
Average exchange rate (Ush/US$)	2,029	2,323	…	2,557	…	…	…	…	…	…
End of period exchange rate (Ush/US$)	2,283	2,623	…	2,472	…	…	…	…	…	…
Gross foreign exchange reserves (US$ millions)	2,385	2,044	2,346	2,644	2,563	2,714	2,894	3,108	3,310	3,511
(months of next year's imports of goods and services)	4.2	3.2	3.6	4.0	3.6	3.7	3.6	3.7	3.7	3.5
Social and poverty indicators	(Population: 34.5 million in 2011; GDP per capita of US$487 in 2011; 24.7 Population below poverty line of 24.5 percent)									

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

[1] Fiscal year begins in July.

[2] Differences in terms of trade projections for the 4th review versus the 5th review reflect mainly a revision in methodology.

[3] Percent of exports of goods and nonfactor services.

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Table 2a. Uganda: Fiscal Operations of the Central Government, FY2009/10–2016/17 [1]

(Billions of Ugandan Shillings)

	2009/10	2010/11	2011/12		2012/13		2013/14	2014/15	2015/16	2016/17
			Program	Actual	4th Rev	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	5,136	7,208	7,800	7,772	9,234	9,124	9,625	10,972	12,661	14,413
Revenue	4,273	6,318	6,526	6,635	8,002	8,069	8,526	9,992	11,663	13,416
Tax	4,067	4,958	5,857	5,983	6,880	6,971	8,123	9,526	11,059	12,748
International trade taxes	352	455	493	503	590	568	658	762	887	1,062
Income taxes	1,361	1,750	2,056	2,112	2,478	2,515	2,929	3,424	3,961	4,554
Excises	1,025	1,186	1,439	1,446	1,631	1,532	1,750	2,072	2,405	2,768
Value-added tax	1,329	1,567	1,870	1,921	2,180	2,355	2,786	3,269	3,807	4,364
Nontax	206	252	266	260	335	338	403	465	604	668
Oil revenue	0	1,108	402	392	788	760	0	0	0	0
Grants	863	891	1,274	1,137	1,232	1,055	1,099	981	998	996
Budget support	467	515	627	581	497	273	418	440	461	514
Project grants	396	375	648	556	735	782	681	541	537	483
Expenditures and net lending	6,836	8,900	9,717	9,281	10,360	11,020	12,649	14,369	15,640	17,430
Current expenditures	4,308	5,963	5,634	5,585	5,095	5,714	6,754	7,522	8,463	9,520
Wages and salaries	1,308	1,664	1,877	1,832	2,059	2,141	2,653	2,999	3,362	3,778
Interest payments	386	424	617	603	767	922	1,034	1,011	1,147	1,289
Other current	2,614	3,875	3,141	3,150	2,269	2,651	3,066	3,512	3,954	4,453
o/w Exceptional security	437	979	300	300	0	0	0	0	0	0
o/w Power sector subsidies	193	194	171	187	0	68	0	0	0	0
Development expenditures	2,312	2,774	3,768	3,458	4,815	5,203	5,794	6,749	7,083	7,815
Externally-financed projects	889	1,042	1,798	1,701	1,805	2,034	2,345	2,626	2,324	2,245
o/w Entebbe highway, road equipment	0	0	193	192	913	237	251	282	456	98
Government of Uganda investment	1,423	1,732	1,970	1,756	3,010	3,169	3,449	4,124	4,758	5,570
o/w Karuma	0	0	443	0	1,029	1,052	896	944	994	773
o/w Oil refinery	0	0	0	0	0	15	0	679	787	0
Net lending and investment	-37	-30	-12	-39	0	0	-34	-37	-40	-40
Other spending	253	194	327	278	450	103	135	135	135	135
Clearance of domestic arrears	84	194	293	278	50	35	50	50	50	50
o/w Power sector arrears	0	0	207	208	50	0	0	0	0	0
Contingency	169	0	33	0	400	68	100	100	100	100
Overall balance	-1,699	-1,692	-1,917	-1,509	-1,126	-1,895	-3,024	-3,396	-2,979	-3,017
Non-oil balance	-1,699	-2,801	-2,320	-1,901	-1,914	-2,655	-3,024	-3,396	-2,979	-3,017
Excluding grants	-2,562	-3,691	-3,594	-3,038	-3,146	-3,710	-4,123	-4,377	-3,976	-4,014
Financing	1,532	1,673	1,919	1,200	1,126	1,895	3,025	3,396	2,979	3,017
External financing (net)	784	546	1,326	1,172	920	1,020	1,617	2,042	2,468	2,494
Disbursement	919	707	1,541	1,372	1,201	1,275	1,918	2,352	2,784	2,836
Budget support	236	229	390	124	130	22	254	268	282	293
Concessional project loans	683	478	958	1,056	810	856	1,101	1,194	1,319	1,275
Non-concessional borrowing	0	0	193	192	261	397	563	891	1,184	1,268
Amortization (–)	-110	-152	-204	-191	-267	-218	-273	-296	-310	-341
Exceptional financing	-26	-8	-11	-10	-14	-37	-28	-15	-6	0
Domestic financing (net)	749	1,127	593	29	206	875	1,407	1,355	510	523
Bank financing	811	432	111	-1,234	-61	547	615	647	-34	-325
Bank of Uganda	473	93	-407	-1,161	-61	32	615	647	-34	-325
o/w Petroleum fund withdrawals	0	0	0	0	982	696	896	944	278	0
o/w Energy fund withdrawals	0	0	443	122	6	357	0	0	0	0
o/w Bank of Uganda repayments	0	0	0	0	-261	-265	-282	-297	-312	-325
Commercial banks	338	339	518	-73	0	515	0	0	0	0
Nonbank financing	-62	694	482	1,262	267	328	793	708	544	848
Errors and omissions/financing gap (- is gap, + is surplus)	-167	-19	2	-309	0	0	0	0	0	0
Memorandum Items:										
Petroleum revenues (Ush billions)										
Inflows (including interest)	0	1,108	403	475	889	839	81	41	4	0
Valuation adjustment	0	52	47	-1	10	138	65	41	2	0
Withdrawals	0	0	0	0	982	696	896	944	278	0
Stock at end period	0	1,128	1,630	1,603	1,547	1,885	1,134	273	0	0

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

[1]Fiscal year runs from July1 to June 30. Revenue figures reported in the fourth review columns have been adjusted to include oil-related inflows, whereas they were previously treated as accruing to an extrabudgetary oil fund that was expected to be created when the Public Finance Act was approved.

Table 2b. Uganda: Fiscal Operations of the Central Government, FY2009/10–2016/17 [1]

(Percent of GDP)

	2009/10	2010/11	2011/12		2012/13		2013/14	2014/15	2015/16	2016/17
			Program	Actual	4th Rev	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	14.7	18.4	15.7	15.6	16.9	16.4	15.4	15.4	15.7	15.8
Revenue	12.2	16.2	13.1	13.3	14.7	14.5	13.7	14.1	14.5	14.7
Tax	11.7	12.7	11.8	12.0	12.4	12.6	13.0	13.4	13.7	14.0
International trade taxes	1.0	1.2	1.0	1.0	1.1	1.0	1.1	1.1	1.1	1.2
Income taxes	3.9	4.5	4.1	4.2	4.5	4.5	4.7	4.8	4.9	5.0
Excises	2.9	3.0	2.9	2.9	2.9	2.8	2.8	2.9	3.0	3.0
Value-added tax	3.8	4.0	3.8	3.9	3.9	4.2	4.5	4.6	4.7	4.8
Nontax	0.6	0.6	0.5	0.5	0.6	0.6	0.6	0.7	0.7	0.7
Oil revenue	0.0	2.8	0.8	0.8	1.6	1.4	0.0	0.0	0.0	0.0
Grants	2.5	2.3	2.6	2.3	2.2	1.9	1.8	1.4	1.2	1.1
Budget support	1.3	1.3	1.3	1.2	0.9	0.5	0.7	0.6	0.6	0.6
Project grants	1.1	1.0	1.3	1.1	1.3	1.4	1.1	0.8	0.7	0.5
Expenditures and net lending	19.6	22.8	19.5	18.6	18.7	19.9	20.3	20.2	19.4	19.2
Current expenditures	12.3	15.3	11.3	11.2	9.2	10.3	10.8	10.6	10.5	10.5
Wages and salaries	3.7	4.3	3.8	3.7	3.7	3.9	4.3	4.2	4.2	4.2
Interest payments	1.1	1.1	1.2	1.2	1.4	1.7	1.7	1.4	1.4	1.4
Other current	7.5	9.9	6.3	6.3	4.1	4.8	4.9	4.9	4.9	4.9
o/w Exceptional security	1.3	2.5	0.6	0.6	0.0	0.0	0.0	0.0	0.0	0.0
o/w Power sector subsidies	0.6	0.5	0.3	0.4	0.0	0.1	0.0	0.0	0.0	0.0
Development expenditures	6.6	7.1	7.6	6.9	8.7	9.4	9.3	9.5	8.8	8.6
Externally-financed projects	2.5	2.7	3.6	3.4	3.3	3.7	3.8	3.7	2.9	2.5
o/w Entebbe highway, road equipment	0.0	0.0	0.4	0.4	1.7	0.4	0.4	0.4	0.6	0.1
Government of Uganda investment	4.1	4.4	4.0	3.5	5.4	5.7	5.5	5.8	5.9	6.1
o/w Karuma	0.0	0.0	0.9	0.0	1.9	1.9	1.4	1.3	1.2	0.8
o/w Oil refinery	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	1.0	0.0
Net lending and investment	-0.1	-0.1	0.0	-0.1	0.0	0.0	-0.1	-0.1	-0.1	0.0
Other spending	0.7	0.5	0.7	0.6	0.8	0.2	0.2	0.2	0.2	0.1
Clearance of domestic arrears	0.2	0.5	0.6	0.6	0.1	0.1	0.1	0.1	0.1	0.1
o/w Power sector arrears	0.0	0.0	0.4	0.4	0.1	0.0	0.0	0.0	0.0	0.0
Contingency	0.5	0.0	0.1	0.0	0.7	0.1	0.2	0.1	0.1	0.1
Overall balance	-4.9	-4.3	-3.8	-3.0	-2.0	-3.4	-4.8	-4.8	-3.7	-3.3
Non-oil balance	-4.9	-7.2	-4.7	-3.8	-3.5	-4.8	-4.8	-4.8	-3.7	-3.3
Excluding grants	-7.3	-9.4	-7.2	-6.1	-5.7	-6.7	-6.6	-6.2	-4.9	-4.4
Financing	4.4	4.3	3.9	2.4	2.0	3.4	4.8	4.8	3.7	3.3
External financing (net)	2.2	1.4	2.7	2.4	1.7	1.8	2.6	2.9	3.1	2.7
Disbursement	2.6	1.8	3.1	2.8	2.2	2.3	3.1	3.3	3.5	3.1
Budget support	0.7	0.6	0.8	0.2	0.2	0.0	0.4	0.4	0.3	0.3
Concessional project loans	2.0	1.2	1.9	2.1	1.5	1.5	1.8	1.7	1.6	1.4
Non-concessional borrowing	0.0	0.0	0.4	0.4	0.5	0.7	0.9	1.3	1.5	1.4
Amortization (–)	-0.3	-0.4	-0.4	-0.4	-0.5	-0.4	-0.4	-0.4	-0.4	-0.4
Exceptional financing	-0.1	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0
Domestic financing (net)	2.1	2.9	1.2	0.1	0.4	1.6	2.3	1.9	0.6	0.6
Bank financing	2.3	1.1	0.2	-2.5	-0.1	1.0	1.0	0.9	0.0	-0.4
Bank of Uganda	1.4	0.2	-0.8	-2.3	-0.1	0.1	1.0	0.9	0.0	-0.4
o/w Petroleum fund withdrawals	0.0	0.0	0.0	0.0	1.8	1.3	1.4	1.3	0.3	0.0
o/w Energy Fund withdrawals	0.0	0.0	0.9	0.2	0.0	0.6	0.0	0.0	0.0	0.0
o/w Bank of Uganda repayments	0.0	0.0	0.0	0.0	-0.5	-0.5	-0.5	-0.4	-0.4	-0.4
Commercial banks	1.0	0.9	1.0	-0.1	0.0	0.9	0.0	0.0	0.0	0.0
Nonbank financing	-0.2	1.8	1.0	2.5	0.5	0.6	1.3	1.0	0.7	0.9
Errors and omissions/financing gap (- is gap, + is surplus)	-0.5	0.0	0.0	-0.6	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items:	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Petroleum revenues (Ush billions)										
Inflows (including interest)	0.0	2.8	0.8	1.0	1.6	1.5	0.1	0.1	0.0	0.0
Valuation adjustment	0.0	0.1	0.1	0.0	0.0	0.2	0.1	0.1	0.0	0.0
Withdrawals	0.0	0.0	0.0	0.0	1.8	1.3	1.4	1.3	0.3	0.0
Stock at end period	0.0	2.9	3.3	3.2	2.8	3.4	1.8	0.4	0.0	0.0
Nominal GDP (Ush billions)	34,909	39,081	49,833	49,794	55,287	55,499	62,402	71,046	80,565	90,965

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

[1]Fiscal year runs from July1 to June 30. Revenue figures reported in the fourth review columns have been adjusted to include oil-related inflows, whereas they were previously treated as accruing to an extrabudgetary oil fund that was expected to be created when the Public Finance Act was approved.

Table 2c. Uganda: Quarterly Fiscal Operations of the Central Government, FY2011/12-2012/2013

(Billions of Ugandan Shillings)

	2011/12					2012/13				
	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual
Total revenue and grants	1,596	2,042	2,037	2,096	7,772	1,827	2,247	2,083	2,968	9,124
Revenue	1,370	1,602	1,895	1,769	6,635	1,585	1,894	1,797	2,793	8,069
Tax	1,314	1,535	1,438	1,696	5,983	1,514	1,799	1,708	1,950	6,971
International trade taxes	128	112	108	155	503	133	146	137	153	568
Income taxes	395	592	437	688	2,112	503	675	619	719	2,515
Excises	328	381	432	305	1,446	337	400	377	418	1,532
Value-added tax	463	449	461	547	1,921	541	578	575	661	2,355
Nontax	56	67	65	73	260	72	95	89	83	338
Oil revenue	0	0	392	0	392	0	0	0	760	760
Grants	226	441	142	327	1,137	241	353	286	174	1,055
Budget support	112	250	65	154	581	142	44	53	34	273
Project grants	115	191	77	173	556	99	309	234	140	782
Expenditures and net lending	2,339	2,045	2,441	2,456	9,281	2,225	2,980	2,727	3,087	11,020
Current expenditures	1,231	1,467	1,465	1,422	5,585	1,386	1,633	1,348	1,347	5,714
Wages and salaries	436	452	457	487	1,832	477	631	500	533	2,141
Interest payments	121	144	156	183	603	239	225	236	222	922
Other current	674	871	851	753	3,150	669	778	613	592	2,651
Development expenditures	872	562	986	1,037	3,458	825	1,334	1,371	1,673	5,203
Externally-financed projects	441	181	537	543	1,701	418	674	574	368	2,034
Government of Uganda investment	431	381	450	494	1,756	406	661	797	1,304	3,169
Net lending and investment	-11	-7	-14	-8	-39	0	0	0	0	0
Other spending	247	23	4	4	278	15	13	7	68	103
Overall balance	-743	-3	-404	-359	-1,509	-398	-734	-643	-119	-1,895
Non-oil balance	-743	-3	-797	-359	-1,901	-398	-734	-643	-880	-2,655
Excluding grants	-969	-444	-939	-687	-3,038	-640	-1,087	-930	-1,054	-3,710
Financing	636	166	24	375	1,200	235	788	698	174	1,895
External financing (net)	179	274	198	521	1,172	110	472	282	157	1,020
Disbursement	233	339	245	556	1,372	163	544	340	228	1,275
o/w Budget support	0	126	0	-1	124	22	0	0	0	22
Amortization (–)	-49	-65	-42	-35	-191	-48	-71	-53	-46	-218
Exceptional financing	-5	0	-5	0	-10	-5	0	-6	-26	-37
Domestic financing (net)	457	-108	-174	-146	29	126	316	416	18	875
Bank financing	25	-458	-495	-306	-1,234	274	219	97	-43	547
Bank of Uganda	342	-345	-784	-375	-1,161	-191	-85	405	-97	32
Commercial banks	-317	-114	289	69	-73	465	304	-308	54	515
Nonbank financing	432	350	320	160	1,262	-148	97	319	61	328
Errors and omissions/financing gap (- is gap, + is surplus)	-107	163	-381	16	-309	-163	54	54	55	0

Source: Ugandan authorities; and IMF staff estimates and projections.

Table 3. Uganda: Monetary Accounts, FY2009/10-2016/17[1]
(Billions of Ugandan Shillings unless otherwise indicated)

	2009/10	2010/11	2011/12		2012/13		2013/14	2014/15	2015/16	2016/17
			Program	Actual	4th Rev	Proj.	Proj.	Proj.	Proj.	Proj.
					Monetary survey					
Net foreign assets	6,384	7,444	7,688	8,754	7,899	9,597	9,105	9,084	9,378	10,071
Bank of Uganda	5,741	6,874	6,990	7,466	7,413	8,564	8,590	8,806	9,553	10,579
Commercial banks	643	570	698	1,288	486	1,034	515	277	-175	-508
Net domestic assets	1,909	2,993	3,321	2,456	5,155	2,954	5,082	7,673	10,205	13,000
Claims on public sector (net)[2]	284	703	875	-532	799	11	626	1,273	1,239	914
Claims on central government (net)	231	663	835	-571	760	-24	591	1,237	1,203	878
Claims on the private sector	4,510	6,513	7,162	7,239	9,110	8,190	10,122	12,595	15,554	19,043
Other items (net)	-2,885	-4,222	-4,715	-4,250	-4,754	-5,248	-5,667	-6,195	-6,587	-6,957
Money and quasi-money (M3)	8,293	10,438	10,970	11,211	13,015	12,551	14,187	16,757	19,584	23,072
Broad money (M2)	6,412	7,946	8,036	7,603	9,891	8,786	10,183	12,018	14,125	16,589
Foreign exchange deposits	1,881	2,492	2,934	3,608	3,124	3,765	4,003	4,739	5,458	6,483
					Bank of Uganda					
Net foreign assets	5,741	6,874	6,990	7,466	7,413	8,564	8,590	8,806	9,553	10,579
Net domestic assets	-3,307	-3,906	-3,934	-4,453	-3,594	-4,923	-4,155	-3,584	-3,387	-3,367
Claims on public sector (net)[2]	-1,672	-1,578	-1,924	-2,740	-1,999	-2,708	-2,093	-1,447	-1,481	-1,806
Claims on government (net)	-1,672	-1,579	-1,925	-2,740	-2,000	-2,708	-2,094	-1,447	-1,481	-1,806
Claims on commercial banks	-51	128	756	71	911	417	978	1,420	2,036	2,748
Other items (net)[3]	-1,584	-2,456	-2,466	-1,785	-2,505	-2,632	-3,041	-3,557	-3,943	-4,309
Base money	2,434	2,968	3,356	3,013	3,820	3,641	4,434	5,223	6,165	7,212
Currency in circulation	1,739	2,190	2,593	2,204	2,763	2,432	2,819	3,212	3,762	4,418
Commercial bank deposits	695	778	763	808	1,057	1,208	1,615	2,011	2,404	2,795
					Commercial banks					
Net foreign assets	643	570	698	1,288	486	1,034	515	277	-175	-508
Net domestic assets	6,207	7,968	7,953	7,970	10,126	9,382	11,197	13,679	16,481	19,731
o/w Claims on central government (net)	1,903	2,242	2,760	2,169	2,760	2,684	2,684	2,684	2,684	2,684
o/w Claims on private sector	4,485	6,476	7,104	7,177	9,056	8,127	10,060	12,533	15,491	18,980
Deposit liabilities to the non-bank public	6,850	8,538	8,652	9,258	10,611	10,416	11,712	13,957	16,307	19,223
Shilling deposits	4,968	6,046	5,718	5,651	7,488	6,651	7,709	9,217	10,848	12,741
Foreign exchange accounts	1,881	2,492	2,934	3,608	3,124	3,765	4,003	4,739	5,458	6,483
Memorandum items:										
(Annual percentage change)										
Base money	24.8	21.9	13.1	1.5	13.8	20.8	21.8	17.8	18.0	17.0
M3	31.7	25.9	5.1	7.4	18.6	12.0	13.0	18.1	16.9	17.8
Credit to the private sector	25.3	44.4	10.0	11.1	27.2	13.1	23.6	24.4	23.5	22.4
Memorandum items:										
Base money-to-GDP ratio (percent)	7.0	7.6	6.7	6.1	6.9	6.6	7.1	7.4	7.7	7.9
M3-to-GDP ratio (percent)	23.8	26.7	22.0	22.5	23.5	22.6	22.7	23.6	24.3	25.4
Base money multiplier (M2/base money)	2.6	2.7	2.4	2.5	2.6	2.4	2.3	2.3	2.3	2.3
Credit to the private sector (percent of GDP)	12.9	16.7	14.4	14.5	16.5	14.8	16.2	17.7	19.3	20.9
Gross reserves of BOU (US$ millions)	2,385	2,044	2,346	2,644	2,563	2,714	2,894	3,108	3,310	3,511
Velocity (M3)[4]	4.2	3.7	4.5	4.4	4.2	4.4	4.4	4.2	4.1	3.9
Exchange rate (Ush/US$, eop)	2,283	2,623	…	2,472	…	…	…	…	…	…

Sources: Uganda authorities; and IMF staff estimates and projections.

[1] Fiscal year begins July 1st.

[2] The public sector includes the central government, public enterprises, and local governments.

[3] Including valuation effects and the Bank of Uganda's claims on the private sector.

Table 4. Uganda: Balance of Payments, FY2009/10-2016/17

(Millions of US Dollars unless otherwise indicated)

	2009/10	2010/11	2011/12		2012/13		2013/14	2014/15	2015/16	2016/17
			Program	Est.	4th Rev	Proj.	Proj.	Proj.	Proj.	Proj.
Current account	-1,630	-1,842	-2,409	-2,208	-2,323	-2,380	-3,165	-3,602	-3,629	-3,858
Trade balance	-1,800	-2,373	-2,520	-2,615	-2,512	-2,687	-3,104	-3,334	-3,340	-3,524
Exports, f.o.b.	2,317	2,298	2,502	2,677	2,882	2,809	2,934	3,135	3,338	3,557
Of which: coffee	262	371	397	444	365	422	408	394	386	373
Imports, f.o.b.	-4,117	-4,671	-5,022	-5,292	-5,394	-5,496	-6,038	-6,469	-6,678	-7,081
Of which: oil	-501	-679	-735	-838	-777	-872	-924	-997	-1,076	-1,160
Of which: government, infrastructure related	-176	-173	-466	-304	-607	-240	-646	-691	-610	-610
Services (net)	-416	-657	-754	-541	-841	-546	-688	-911	-1,036	-1,104
Income (net)	-335	-318	-294	-373	-296	-406	-456	-505	-458	-528
Of which: interest on public debt	-29	-36	-41	-35	-37	-44	-54	-65	-71	-39
Transfers	920	1,507	1,159	1,321	1,326	1,260	1,083	1,147	1,205	1,298
Private transfers	687	833	773	926	827	883	934	999	1,057	1,140
Of which: workers' remittances (inflows)	777	813	863	879	900	893	938	1,005	1,079	1,158
Official transfers	234	675	386	396	499	377	148	148	147	158
Of which: budget support (including HIPC)	234	225	244	224	191	98	148	148	147	158
capital gains tax	0	449	142	171	308	279	0	0	0	0
Capital and financial account	1,757	1,240	2,722	2,654	2,553	2,463	3,355	3,821	3,833	4,059
Capital account	195	160	252	194	282	295	242	182	212	190
Of which: project grants	195	160	252	194	282	295	242	182	212	190
Financial account	1,562	1,079	2,470	2,460	2,272	2,169	3,113	3,639	3,621	3,869
Foreign direct and portfolio investment	656	726	968	1,579	1,221	1,310	1,393	1,621	1,850	2,077
Other investment	906	353	1,503	882	1,050	859	1,721	2,018	1,771	1,792
Of which:										
Public sector (net)	528	-211	828	749	106	232	1,044	1,152	883	767
SDR allocation	224	0	0	0	0	0	0	0	0	0
Build-up (-)/drawdown (+) of petroleum fund	0	-449	307	278	-252	-159	460	460	91	0
Loan disbursements	371	304	600	546	460	472	681	792	891	872
Project support (loans)	263	206	373	396	310	322	391	402	422	392
Budget support (loans)	107	98	152	45	50	0	90	90	90	90
Non-concessional borrowing	0	0	75	105	100	150	200	300	379	390
Amortization due	-67	-66	-78	-75	-102	-81	-97	-100	-99	-105
Commercial banks (net)	33	50	-76	-252	81	113	194	85	142	97
Other private (net)	349	546	750	384	863	514	483	781	745	929
Errors and omissions	80	-10	0	288	0	0	0	0	0	0
Overall balance	207	-612	313	734	230	84	190	219	204	201
Financing	-212	579	-313	-746	-230	-84	-190	-219	-204	-201
Of which:										
Central bank net reserves (increase = –)	-199	583	-302	-743	-217	-70	-180	-214	-202	-201
Of which: SDR allocation	-224	0	…	0	…	0	0	0	0	0
Use of Fund credit	-1	-2	-2	-2	-2	-2	-2	-1	0	0
Memorandum items:										
Gross offical reserves	2,385	2,044	2,346	2,644	2,563	2,714	2,894	3,108	3,310	3,511
Months of imports of goods and services	4.2	3.2	3.6	4.0	3.6	3.7	3.6	3.7	3.7	3.5
Net donor support	692	584	891	746	681	585	716	652	700	686
Of which: budget support (loans and grants)	341	324	396	270	241	98	238	238	238	248
project support (loans and grants)	458	366	625	590	592	616	633	584	634	582
Current account balance (percent of GDP)	-9.5	-10.9	-12.4	-11.3	-11.0	-11.3	-14.3	-15.1	-14.1	-13.8
Current account balance (excluding grants)	-10.8	-12.3	-15.0	-12.5	-13.2	-11.8	-15.0	-15.7	-14.6	-14.4
Trade balance (percent of GDP)	-10.5	-14.1	-13.0	-13.4	-11.9	-12.8	-14.0	-13.9	-13.0	-12.6
Exports (percent of GDP)	13.5	13.7	12.9	13.7	13.6	13.4	13.2	13.1	12.9	12.7
Imports (percent of GDP)	23.9	27.8	25.9	27.2	25.5	26.2	27.3	27.0	25.9	25.3

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

Table 5. Uganda: Banking Sector Indicators, March 2010-September 2012

(In percent)

	2010				2011				2012		
	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12
Capital adequacy											
Regulatory capital to risk-weighted assets	22.7	21.7	21.2	20.2	21.2	19.3	18.3	20.3	21.8	20.7	20.9
Regulatory tier 1 capital to risk-weighted assets	19.9	19.2	18.8	17.5	18.9	17.3	16.2	17.9	19.0	18.3	18.5
Asset quality											
NPLs to total gross loans	3.7	3.3	2.8	2.1	2.5	1.6	1.8	2.2	3.4	3.9	4.7
NPLs to total deposits	2.5	2.1	1.8	1.4	1.7	1.1	1.4	1.7	2.6	2.9	3.4
Provisions to NPLs	93.2	97.1	102.9	112.8	101.4	128.8	113.8	97.1	77.7	75.6	72.7
Earning assets to total assets	82.4	74.9	76.7	77.1	73.6	74.8	74.3	74.0	74.7	72.0	71.9
Large exposures to gross loans	41.0	35.4	35.5	35.7	38.6	41.7	38.3	34.6	33.7	34.6	34.6
Large exposures to total capital	123.9	112.8	116.1	124.4	129.8	156.2	145.4	120.8	109.4	111.5	104.2
Earnings and profitability											
Return on assets	2.3	3.0	2.4	3.0	3.3	3.1	3.6	4.0	4.4	4.4	4.3
Return on equity	14.8	20.2	16.9	21.3	22.9	22.4	25.4	27.4	28.1	29.5	27.9
Net interest margin	…	…	…	10.0	…	…	…	11.7	12.5	12.8	12.9
Cost of deposits	…	…	…	2.9	…	…	…	3.2	…	…	…
Cost to income	…	…	…	75.7	…	…	…	68.1	…	…	…
Overhead to income	…	…	…	53.1	…	…	…	44.3	…	…	…
Liquidity											
Liquid assets to total deposits	45.5	41.6	40.5	39.8	40.5	35.6	36.2	37.6	37.5	38.9	42.5
Total loans to total deposits	…	…	…	68.0	…	…	…	78.4	3.6	…	…
Market sensitivity											
Foreign currency exposure to regulatory tier 1 capital	-3.0	-3.5	-11.8	-1.6	-2.1	-0.9	-3.4	-3.6	-4.1	-5.2	-5.2
Foreign currency loans to foreign currency deposits	59.2	52.1	54.4	65.2	63.4	68.6	66.8	67.9	74.7	67.1	74.8
Foreign currency assets to foreign currency liabilities	101.1	98.4	96.3	98.0	98.1	100.1	98.1	100.2	103.2	103.4	100.7

Source: Bank of Uganda.

Table 6. Uganda: Quantitative Assessment Criteria and Indicative Targets Outturn for June 30, 2012 to September 30, 2012 [1]

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

	June 2012				September 2012[2]			
	Prog.	Adj Prog.	Outturn	Result	Prog.	Adj Prog.	Outturn	Result
				(Ush billions)				
Assessment criteria								
Ceiling on the increase in net domestic assets of the Bank of Uganda	892	1,348	-1,155	**Met**	120	202	-224	**Met**
Ceiling on the increase in net claims on the central government by the banking system	537	-561	-1,238	**Met**	170	1403	207	**Met**
				(US$ millions)				
Ceiling on the stock of external payments arrears incurred by the public sector [3]	0	0	0	**Met**	0	0	0	**Met**
Ceiling on the contracting or guaranteeing of new nonconcessional external debt with maturities greater than one year by the public sector [3, 4]	1,000	1,000	455	**Met**	1,000	1,000	455	**Met**
Ceiling on new external debt with maturity up to one year contracted or guaranteed by the public sector [3 5]	0	0	0	**Met**	0	0	0	**Met**
Minimum increase in net international reserves of the Bank of Uganda (US$mn)	300	295	698	**Met**	41	25	225	**Met**
Share of oil revenue placed in the Petroleum Fund	100	100	100	**Met**	100	100	100	**Met**
Indicative target				(Ush billions)				
Ceiling on the increase in base money liabilities of the Bank of Uganda	471	471	107		156	156	224	
Stock of domestic budgetary arrears under the Commitment Control System (CCS) [6]	0	0	282		…	…	…	
Minimum expenditures under the Poverty Action Fund	1,300	1,300	1,284		…	…	…	
Ceiling on the issuance of guarantees by the Government/Bank of Uganda	0	0	0		0	0	0	
Memo items				(Percent)				
Upper band	18.0	18.0	…		16.0	16.0	…	
Twelve-month consumer price inflation (percent)[7]	15.0	15.0	18.0		13.0	13.0	5.4	
Lower band	12.0	12.0	…		10.0	10.0	…	

[1] Defined in the technical memorandum of understanding (TMU).
[2] Indicative targets.
[3] Continuous assessment criterion.
[4] Cumulative change from May, 2010. To be used exclusively for infrastructure investment projects.
[5] Excluding import-related credits.
[6] Monitored annually. As numbers recorded by the authorities were not yet audited by the Auditor General as required according to the TMU, they are only preliminary indications of the arrears stock. The stock presented here does not include payments disputed in court cases and intra-governmental tax arrears.
[7] Annual end-of-period inflation.

Table 7. Uganda: Structural Benchmarks Under the PSI

Policy Measure	Macroeconomic Rationale	Date	Status
Government to begin to gazette and publish on the internet the names of beneficiaries (whether individual or corporation) of all tax expenditures.	Enforce discipline in issuance of tax exemptions.	July 1, 2012, for quarter ending March 31, 2012; October 1, 2012, for quarter ending June 30, 2012; January 1, 2013, for quarter ending September 30, 2012; and April 1, 2013, for quarter ending December 31, 2012.	Met
Begin submitting to Cabinet regular quarterly reports on unpaid bills of nine Ministries based on data in the Commitment Control System (CCS) for the previous quarter of the fiscal year.	To facilitate control and elimination of expenditure arrears.	As for measure immediately above.	Not met
Produce and disseminate within government a monthly index of economic activity relying on the various high-frequency indicators available.	To facilitate the conduct of monetary policy.	As for measure immediately above.	Met
BoU to include in Quarterly Report data on the net and gross positions of government in the BoU.	Enhance central bank independence and prepare Bank of Uganda to move toward inflation targeting.	As for measure immediately above.	Met
Government to publish releases by MoFPED for power and water obligations of spending ministries, and actual payments by them, with sanctions to be applied to the named Accounting Officers of agencies that run arrears on these utilities.	Help control accumulation of arrears. Replaces benchmark on "straight-through payments".	As for measure immediately above.	Met

As part of introduction of national identification system, 4 million additional citizens will have received IDs.	To support efforts to strengthen revenue collection and combat money laundering and the financing of terrorism.	December 31, 2012	Not met
Government to maintain transparency over the treatment of unspent budgetary funds at the end of the fiscal year by (i) publishing the balances as at June 30 and September 30 on all government accounts in the BoU and commercial banks, and (ii) in order to spend any balances held over from the previous year beyond end June, parliamentary approval as well as supporting work and procurement plans will be required.	To enhance budgetary discipline and promote fiscal transparency.	June 30, 2012 data to be published by July 31, 2012, and September 30 date to be published by October 30. Continuous	Not met
Submit to Cabinet a new tax procedure code.	To improve domestic revenue mobilization.	April 1, 2013	Ongoing
Bank of Uganda to distribute in draft form a quarterly inflation report.	To improve the monetary policy framework.	December 31, 2012	Met

Appendix I. Uganda: Letter of Intent

Kampala, Uganda
December 21, 2012

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

Dear Ms. Lagarde:

On behalf of the Government of Uganda, I would like to provide you with an update on the progress we have achieved under our economic program supported by the IMF's Policy Support Instrument (PSI).

Since the last review, tight monetary and fiscal policies have successfully reduced inflation, allowing it to reach the Bank of Uganda's inflation target, but economic activity has taken a toll. Our policy focus has now turned to strengthening economic growth, which is essential to alleviate poverty and address unemployment.

Unfortunately our growth-enhancing efforts have been negatively affected by the suspension of budget support by our development partners following a regrettable mishandling of public resources. We are deeply committed to restoring fiduciary assurances and rebuilding confidence, and have already started to take action against the involved officials and to strengthen our financial management systems.

The attached Memorandum of Economic and Financial Policies (MEFP) sets out the Government's objectives and policies for the remainder of this financial year and indicates our thinking for the medium term. No quantitative assessment criteria were missed for June 2012, and the majority of indicative targets and structural benchmarks were achieved or missed by small margins. We hereby request modification of assessment criteria for end-December 2012, and completion of the fifth review under the PSI, and a program extension until August 10, 2013. At the completion of the sixth and final review, we will request a successor arrangement.

The Government believes the policies set forth in the MEFP are fully sufficient to achieve the objectives of our PSI-supported program, but as always we stand ready to take any further measures that may become appropriate for this purpose. We consent to publication of the documents for this fifth review under the PSI. We intend to work with the IMF and other development partners in the implementation of our program, and will consult with the Fund on the adoption of any such further measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation.

Sincerely yours,

/s/

Maria Kiwanuka
Minister of Finance, Planning and Economic Development

Attachments
Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

cc: Prof. Emmanuel Tumusiime-Mutebile, Governor, Bank of Uganda

Attachment I: Memorandum of Economic and Financial Policies

December 21, 2012

Introduction

1. This Memorandum of Economic and Financial Policies presents an **update on the economic performance** in the second half of the fiscal year 2011/12, and lays out the policies Government is undertaking **over the period ahead** to stimulate growth and job creation while maintaining overall macroeconomic stability.

2. Thanks to firm measures that have been taken by the Bank of Uganda (BoU), inflation, which accelerated to unacceptable levels in mid-2011, has been reduced. Moving forward, the focus of government policies will be on **stimulating a recovery of real GDP** growth, which has fallen behind Uganda's impressive performance in the past decade, while preserving macroeconomic stability.

3. Unfortunately, **the suspension of budget support** equivalent to 1.3 percent of GDP by several development partners following the uncovering of large scale corruption in the public administration will impede economic recovery in 2012/13, in particular because Government will not have sufficient budgetary resources to implement the fiscal stimulus in the amount it had hoped to provide to the economy. Although the easing of monetary policy, which began in the second half of 2011/2012, will provide some support to domestic demand, because of the smaller fiscal stimulus and weak external demand, real GDP growth is only projected to rise to 4.25 percent in 2012/13 from 3.4 percent in FY 2011/12.

4. Government, after consulting with development partners, has drawn up a **Public Financial Management Reform Action Matrix** designed to strengthen controls against corruption, recover stolen money and protect priority areas of the budget. The implementation of Public Finance Management (PFM) reforms is intended to send a strong message that Government is committed to fighting corruption and reducing its impact on ordinary Ugandans. Further, Government is committed to implementing the actions necessary to normalize relationships with development partners culminating in the lifting of the suspension of official external flows. This will be critical to allow fiscal policy to contribute to economic growth over the medium term.

A. Performance under the PSI

5. All seven **Quantitative Assessment Criteria (QACs)** for end-June 2012 were met. The increase in net credit to the central government by the banking system was below the ceiling by Ush 693 billion. The ceiling on the increase in net domestic assets (NDA) of the BOU was also observed, and international reserves exceeded the target by US$403 million. Government incurred no external payment arrears, and borrowing on non-concessional terms remained about US$545 million below the PSI three-year ceiling of US$1 billion. The over-performance on reserves was welcome—and although it did have the effect of driving end-September base money above its indicative program target, our inflation objective was in no way compromised as evidenced in the sharp turnaround of inflation trends. Unfortunately, the end-June stock of domestic arrears was around 0.5 percent of GDP, exceeding the zero limit set in the program as indicative target, and the indicative target on poverty reducing spending was missed by a small margin. Moving forward, we request an extension of the PSI, currently scheduled to expire in May 2013, until August 10, 2013 to provide sufficient time to complete the 6^{th} and final review under the PSI.

6. The majority of the **structural benchmarks** in the program were also met. The names of beneficiaries of tax exemptions were gazetted and published, and we have developed an index of high-frequency economic indicators. Government's net and gross position in the BoU is being reported. We have published cash releases and actual payments for power and water obligations of spending ministries, although the sanctions applied to the accounting officers who allowed arrears to accumulate are not yet public. However, the quarterly report on unpaid bills of nine Ministries based on data in the Commitment Control System (CCS) to be submitted to Cabinet for the previous quarter of the fiscal year has been delayed, but the memorandum is being prepared. Delays have also occurred regarding the benchmark to publish the balances as of June 30 and September 30 on all government accounts in the BoU and commercial banks, and to seek parliamentary approval as well as supporting work and procurement plans to spend any balances held over from the previous year beyond end June.

Economic and Policy Developments

A. Macroeconomic outturn in FY2011/12

Growth and inflation

7. Due to both internal and external factors, Uganda's **economic growth** rate declined from 6.7 percent in FY 2010/11 to 3.4 percent in FY 2011/12. Factors included internal shocks such as power outages which impacted on private sector competitiveness; high inflation, which led to very high interest rates; and a reduced fiscal impulse due to capacity related delays in implementing the Government investment program—particularly in the construction and energy sectors. External shocks were related to the global financial and economic crisis, which resulted in continued low demand for exports from Uganda's traditional trading partners and in a limited export penetration into emerging markets in Asia including China and India.

8. Annual **inflation,** which rose to a peak of 30.5 percent in October 2011, has dropped to 4.9 percent in November 2012 as a result of tight fiscal and monetary policies. Core inflation dropped from 30.8 percent to 3.8 percent in the same period.

Fiscal outturn

9. The **tax revenue** outturn amounted to 12.0 percent of GDP compared to 12.7 percent in FY 2010/11. This performance was mainly explained by low real GDP growth and high inflation, and was exacerbated by delays in clearance of goods at the Mombasa port. Total **expenditure and net lending** was below the budget largely due to the significant underperformance on the development budget. Significant difficulties were encountered in executing the public investment program. Recurrent expenditure exceeded the budget mainly on account of higher domestic interest rates and non-wage recurrent outlays. However, development expenditure fell substantially short of the budget target largely due to the delayed commencement of the Karuma hydropower plant. There was also a shortfall of nearly US$ 60 million on donor disbursements affecting the external component of the budget. Largely because of the capital expenditure shortfall, the **overall deficit** for FY 2011/12 was 3.0 percent of GDP compared to 4.3 percent in the previous fiscal year. This contributed to the weak growth outturn in FY 2011/12.

Monetary policy and inflation

10. The BoU introduced **an inflation targeting lite** (ITL) monetary policy framework at the start of FY 2011/12, which employs the central bank rate (CBR) as the operating target and an inflation target as the nominal anchor. Under the new framework, the BoU conducts monetary policy using secondary market instruments, mainly repurchase and reverse repurchase operations. The introduction of ITL has been a success, as shown by the reduction in inflation and the effectiveness of the CBR as a signaling device.

11. **The ITL framework** allowed the BoU to reduce mounting inflationary pressures from a combination of food supply shocks, exchange rate depreciation, very strong private sector credit growth, and, up to the end of FY 2010/11, a rising fiscal impulse. In response, the BoU raised the CBR from 13 percent in July 2011 to 23 percent in November 2011, thus curtailing private sector credit and aggregate demand. Coupled with improved food supplies, this led to reduced inflationary expectations. With an abatement of the food price shocks, the reversal of the fiscal impulse, a strengthening of the nominal exchange rate—partly due to strong portfolio inflows in response to higher domestic interest rates—and a sharp deceleration of credit growth, inflation began to fall by the second quarter of FY 2011/12. The easing of inflationary pressures allowed the BOU to begin cutting the CBR in February 2012 and this was followed by further reductions which brought the CBR to 12.5 percent in November.

Banking sector performance

12. **Banking sector credit to the private** sector fell significantly in the course of the fiscal year as a result of monetary tightening, but has begun a slow recovery. Banks recorded strong profits in FY2011/12, with the aggregate return on assets rising to 4.4 percent, mainly due to a widening of the margin between deposits and lending rates. Non-performing loans increased from 1.6 percent of total loans at end June 2011 to 3.9 percent at end June 2012. Nevertheless, because of strong profitability, core capital increased to 18.3 percent of risk-weighted assets at end June 2012 from 17.3 percent at end June 2011.

Outlook and Key Economic Objectives

A. Key goals

13. The key macroeconomic goals for FY 2012/13 are to stimulate economic growth and begin to close the negative output gap, reduce high unemployment and poverty while maintaining macroeconomic stability. However Government's plans to stimulate economic growth through a fiscal stimulus have been weakened by the suspension of budget support by development partners. Government will accommodate the shortfall of budget support through a combination of cuts to budgeted expenditures and additional domestic financing (the details are in paragraph 17 below). The former will reduce the planned fiscal impulse in 2012/13.

14. Nevertheless, Government will continue to implement the structural reforms to the budget which are intended to increase the efficiency of public spending and enhance its contribution to economic growth in the medium term. The envisaged structural policies include reforms to improve government project implementation capacity, promote productivity, and reduce the cost of doing business for the private sector, including through an intensified fight against corruption and theft of public funds. In addition, Government has drawn up a matrix of PFM reforms (see paragraph 28 for more details) designed specifically to tackle corruption in the public administration, build public trust, and restore development partners' confidence in the fiduciary credibility of the budget, which is imperative if the suspension of external support is to be lifted.

B. Macroeconomic outlook and risks

15. Real GDP growth is projected to increase to only 4.25 percent in FY 2012/13 from 3.4 percent in 2011/12, with inflation averaging 6.2 percent. Besides the shortfall in financing for public investment, the main constraints to a stronger recovery lie on the demand side of the economy. External demand continues to be very weak because of the problems in the global economy, with GDP growth forecasts for several of Uganda's major trading partners and sources of remittances scaled down in the October WEO. The BOU began easing monetary policy in February 2012 but this has only recently started to be translated into an expansion of bank lending to the private sector. Consequently, aggregate demand is expected to remain subdued throughout most of 2012/13.

16. Risks to inflation emanate from possible food price and exchange rate pass through effects, but these risks may be offset by continued slack in the economy, with real output projected to remain well below its equilibrium level at least until the 2013/14 fiscal year. The trade balance is expected to widen reflecting robust import volumes to support investments in the oil sector and commencement of the Karuma hydropower plant, coupled with sluggish growth in exports. Nonetheless, Uganda will continue to be a major source of food for the region which will have a positive effect on the balance of payments.

C. Fiscal policy

17. Government will substantially revise its fiscal strategy in 2012/13 because of the suspension of budget support announced by development partners in November following the uncovering of large scale corruption in the Office of the Prime Minister (OPM) and the Ministry of Public Service (MPS). The total amount of budget support which is subject to the suspension is $282 million (equivalent to 1.3 percent of GDP). Government will accommodate the shortfall in budget resources by a combination of expenditure cuts and additional domestic financing. Expenditures will be cut by 0.8 percent of GDP, most of it in development spending while recurrent spending will only be cut moderately because it already dropped from 11.2 percent of GDP in FY 2011/12 to 10.3 percent of GDP for this fiscal year. Domestic borrowing will be increased by 0.7 percent of GDP. The latter will involve additional issuance of government securities through primary auctions. These actions will increase the fiscal burden to Government due to higher interest rates which will translate into higher cost of borrowing to the private sector. This will contribute to reduce the pace of economic recovery in the short term, but will still allow Government to prioritize spending favoring high quality outlays.

18. Given the shortfall in the budget resource envelope in 2012/13, government will ensure that the funds allocated to line ministries are spent on the intended expenditure items and projects. Each quarterly release to MDAs will be conditioned on a work plan for activities and on an account of cash released in the previous quarter including unspent balances.

19. Government hopes that development partners will restore budget support by June 2013 and thereby allow for an expansion in the budget resource envelope in the 2013/14 fiscal year and beyond. This will enable Government to address critical constraints to growth over the medium term. To achieve this objective, it will scale up investments in infrastructure, particularly in roads, railways, energy and water for irrigation. To ensure expenditure efficiency gains, Government will mobilize external resources in line with its debt strategy, and will invite private sector participation in infrastructure projects.

20. Government submitted to Parliament the Public Private Partnership Bill with the aim to ensure that PPP-related public liabilities are properly budgeted, appropriated, and accounted for and that potential risks embodied in this service delivery framework are properly mitigated and integrated in the macroeconomic framework. Government will prepare a status report of all ongoing PPP programmes. Inclusion of this status report in the Budget Framework Paper by end March 2013 will be a structural benchmark under the program.

21. Another key priority is to increase agricultural productivity to boost exports, food production and create employment. Specific actions in this area include the provision of improved seeds, farm inputs and implements to increase production and productivity; and investments in irrigation schemes in partnership with the private sector. Furthermore, Government will boost investments in rural feeder roads to increase access to markets and lower production costs.

D. Monetary and financial sector policies

22. Core inflation was brought down to the 5 percent target by the end of the first quarter of FY2012/13. The BoU will continue to set its policy interest rate at a level consistent with achieving its announced inflation target while, in the short term, supporting stronger growth in aggregate demand to bolster real GDP growth. With output below potential, there is unlikely to be a conflict between the inflation and growth targets in the short term unless there is a substantial supply side shock.

23. The BoU will ensure that the expected increase in commercial bank lending occurs in a stable prudential environment. To this end, the BoU will ensure that credit and currency risks are appropriately assessed, particularly given the recent deterioration of asset quality and the increase in the share of dollar-denominated loans. Legislation which is due to be tabled before Parliament includes a statutory instrument to introduce a capital charge for market risk.

24. Moreover, legislation already enacted will raise the minimum paid up capital for already licensed and operating banks to Shs 25 billion in March 2013 (**from the current level of Shs 10 billion)**. Six of the existing 23 banks will need to mobilize additional capital to meet the March 2013 deadline. The government will also propose amendments to the Financial Institutions Act, which will inter alia, allow banks to engage in banc assurance and provide Islamic financial products.

E. Balance of payments and the exchange rate

25. The current account deficit is projected to remain broadly unchanged an 11¼ percent of GDP in FY 2012/13. The trade balance in goods and services is expected to benefit from lower government imports and continued strong performance of the tourism industry. The capital and financial account surplus, however, is projected to fall in 2012/13, mainly because of much lower short term net private capital inflows and the suspension of budget support loans. While the overall balance is projected to remain in surplus in 2012/13, the surplus will be lower than that in 2011/12. Because of the suspension of budget support by development partners, the BoU has scaled back its target for the accumulation of foreign reserves in 2012/13 from $221 million to $70 million. The BoU will pursue a flexible exchange rate policy which will support the adjustment of the real exchange rate to a more sustainable level, but will take appropriate action to dampen short term volatility.

F. Medium-term outlook

26. Government aims to raise output back to its potential level over the medium term while maintaining inflation of around 5 percent. Sustaining higher growth over the medium to long term will require addressing critical infrastructure gaps in the economy. Financing the needed investment will require leveraging private participation and financing to complement public funds. Furthermore, the National Development Plan will be reviewed by March 2013 to ensure that emerging priorities are reflected in expenditure planning.

G. Structural reforms

Public financial management reforms

27. **Government is prioritising public financial management reforms to be implemented in both the short and medium term**. The reforms include administrative measures and major changes to legislation.

28. **The attached High Level PFM Reform Action Plan Matrix comprises short term measures, the implementation of which began in November 2012, designed to restore confidence among the public and development partners in the fiduciary standards of the budget**. The matrix includes measures to: i) put in place a coordination strategy for PFM reform; ii) prosecute all public officials involved in corruption and recover stolen money; iii) strengthen the fidelity of PFM systems through forensic audits of the systems themselves and of major public expenditure heads in the budget, fully operationalize the Integrated Payroll and Pension System (IPPS), and rotate all officials responsible for monitoring and enforcing fiduciary standards in the public service, and iv) ensure that allocations to key priority areas of the budget, particularly those crucial to support economic growth, are protected in H2 2012/13.

29. A **Public Expenditure and Financial Accountability Assessment (PEFA) was completed in September 2012 and a parallel exercise is currently ongoing for local governments**. Key areas for improvement include ensuring budget credibility, improving policy based budgeting, upgrading controls in budget execution and strengthening revenue forecasting.

30. **Government presented to Parliament a new Public Finance Bill, which seeks to consolidate the existing 2003 Public Finance and Accountability Act (PFAA) and the Budget Act 2001**. It aims at strengthening the macroeconomic framework by introducing a Charter of Fiscal Responsibility. This bill was preceded by Government approval and publication of the oil and gas revenue management policy in February 2012. It is expected that this Bill will be enacted into law during FY 2012/13.

31. **The Executive arm of Government will work with Parliament to ensure that the approved Bill reflects best international practices.** In particular, Government will ensure that the final form of the draft bill contains:

- Appropriate measures to ensure that natural resource revenues are managed transparently and sustainably, while avoiding the introduction of inflexible and unrealistic practices for the use of the petroleum investment reserve such as using future oil revenues as collateral for Government borrowing;

- Measures to minimize extra budgetary funds. Special funds will only be established by an act of Parliament and be prohibited from running deficits;

- Rules limiting withdrawals from the Consolidated Fund without legal appropriation to payments of tax rebates authorized by law;
- Realistic rules on the management of the contingency fund to provide for supplementary budgets and other emergencies. Language that defines all excessive expenditure as a loss of public money will be replaced by more realistic rules;
- Provisions to expand the coverage of public sector institutions beyond the central government;
- Clear procedures for handling the Auditor General's report on the government's annual accounts;
- Provisions to ensure that Government accounts that remain dormant or inactive for one year are automatically closed by BOU.

32. Government shall introduce a Treasury Single Account (TSA) to improve cash management, control, and transparency of government operations and to avoid unnecessary interest costs. In preparation for this, Government will request technical assistance from the IMF. To this end, the program will contain a structural benchmark on the preparation of a concept note, to be finalized by March 2013, reflecting the decision to introduce a TSA.

33. In parallel, the government will introduce measures to ensure that all non wage expenditures are initiated and recorded without delay in the Integrated Financial Management System (IFMS). These measures will cover both the commitment stage, including the issuance of local purchase orders (LPOs), and the goods received and payment stages. To ensure that the measures are respected by suppliers, the government will publicize these measures in newspapers, informing suppliers that use of non-authorized procedures will null-and-void any LPOs and result in government action to recover any payments made. Furthermore, the government will make penalties and sanctions automatic for any staff failing to follow the new procedures and to respect IFMS recording deadlines.

34. A recent audit revealed a still-high level of non-pension arrears, which weakens the credibility of the budget and decreases transparency and accountability. In response, Government intends to implement the following measures: (i) installing pre-paid meters for utilities (already started in Kampala with the power sector); (ii) requiring accounting officers to provide detailed justification for arrears to assess their authenticity; (iii) holding officers responsible for any loss of public monies; and (iv) strictly enforcing the practice of rotating accountants and procurement officers that started in 2010.

35. Government is also taking measures to eliminate the scope for diverting budgetary funds which remain unspent at end of the fiscal year, including by: (i) undertaking a review of all project accounts with the objective of maintaining only active accounts by end December 2012; (ii) freezing all domestic projects accounts by end June and publishing them on the MOFPED website; and (iii) maintaining frozen all unspent balances that have not been authorized for carry-over into the next financial year, and closing the account if no request is made by the accounting officer to activate the account within six months.

Revenue enhancement measures

36. With fiscal revenues low by regional standards, domestic revenue mobilization poses the greatest risk to fiscal sustainability. Government will continue to improve tax policy and administration to enhance revenue collection and achieve the target of increasing the tax-to-GDP ratio by 0.5 percentage points per year. Actions on this front include introducing a tax procedure code; revising tax legislation on excise duties, lotteries and gambling; rolling out e-tax services to upcountry stations; and educating taxpayers on e-registration, e-filing and e-payments. Over the medium-term, and beginning with the FY 2013/14 budget, prospects for enhancing revenue collection and ensuring Uganda's tax system performs at a level comparable to other EAC countries will require a rationalization of tax expenditures, in particular for the VAT and CIT; and a more efficient tax administration. Government intends to seek IMF technical assistance in designing the fiscal regime for prospective mining revenues.

Pension reform

37. Government is advancing reforms in the pension sector. In September 2011, a new regulatory legislation for the pension sector became effective and in August 2012 the Retirement Benefits Regulatory Authority for the entire pension industry was put in place. The Retirement Benefits Sector Liberalization Bill, which is currently before Parliament, introduces competition in the pension industry, increases pension coverage, and improves governance of retirement benefits (pension) schemes. Government will request technical support from the IMF and World Bank to bring the proposed legislation in line with international best practices.

Reforms to strengthen the ITL framework

38. BoU and Government are strengthening the ITL monetary policy framework. In this regard, BOU is refining its use of secondary market operations to guide interbank rates towards the policy rate. To guide its evaluation of the state of the economy, BoU has developed a monthly composite indicator of economic activity, with technical support from East AFRITAC. It will prepare and publish its first quarterly inflation report in the second quarter of 2012/13. BoU is receiving TA from the Research Department of the Fund to strengthen technical capacities for forecasting and modeling. On the institutional side, Government will recapitalize BoU to ensure that it has adequate resources and instruments to fully implement its monetary policy decisions. A technical assistance mission from the Fund to strengthen selected areas of the ITL institutional and operational framework and to improve coordination between fiscal and monetary policies is expected to take place in December.

Domestic debt management

39. Government has prepared a policy document proposing reforms for domestic debt management. The purpose is to clearly differentiate issuance of securities for fiscal policy purposes from any that the BoU may need to use autonomously for monetary policy purposes. The reforms in the policy document will be included in the revised Debt Strategy 2012 to be published by the end of March 2013.

Expenditure efficiency improvements

40. Government will implement expenditure efficiency measures to ensure full budget execution of priority programs and prevent disruptive intra-year adjustments to the budget. On the enactment of the PFA, government will adopt a zero-tolerance policy on supplementary requests above the Contingency Fund and outside the productive priority sectors, and will protect funds allocated to ongoing key priority investments on roads, energy and water to avoid carrying forward outstanding unpaid certificates.

41. Government has introduced an approach called Contractor Facilitated Financing (CFF), a system that integrates supplier credits into the tendering process, which is aimed at reducing delays in the implementation of Government projects in the roads sector. Government considers that this approach has the potential to improve the efficiency of project execution, but is fully mindful of its inherent risks. Consequently, Government will ensure full transparency in the use of CFF including by publishing details of all agreements, clearly differentiating the gross cost of the projects from their financing terms and evaluating the relative costs of any projects in gross terms for the purposes of tender of procurement. To this end, Government will prepare in consultation with Fund staff, by April 2013 a policy paper on the process and procedures for managing the CFF, including provisions on the publication of tender results.

42. A review of the Public Investment Program (PIP) which was originally expected to be carried out and submitted to cabinet in September 2012 was not completed. Government will complete this exercise by end February 2013. The review is intended to ensure that the PIP only contains projects for which cost-benefit analysis and feasibility studies have been conducted and for which sources of financing have been secured. Government will ensure that capacity is developed in respective sectors to carry out cost benefit analysis and prepare feasibility studies. The project portfolio reviews will be on a quarterly basis to ensure implementation of projects by implementing agencies. This will also facilitate credible alignment of the National Development Plan priorities with the Medium Term Expenditure Framework (MTEF) and improve project quality.

National identity cards

43. Delays in the procurement process have affected the timely issuing of national identity cards. However, Government remains committed to proceed with this process as it will greatly facilitate tax administration and financial sector development. Despite this commitment, the issuance of 4 million cards by December 2012, as specified in the PSI's structural benchmarks, is out of reach. Instead Government will endeavour to issue 2 million cards by December 2013. To bring this project back on track, Government will carry out by April 2013 an inventory of all of the equipment purchased so far under the project, and include in the 2013/14 Budget Framework Paper concrete plans and the needed financing to continue the project.

Table 1. Uganda: Proposed Quantitative Assessment Criteria for December 31, 2012 and March 13, 2013[1]

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

	December 31, 2012		March 2013[2]
	Program	Proposed	Proposed
		(Ush billions)	
Assessment criteria			
Ceiling on the increase in net domestic assets of the Bank of Uganda	265	470	887
Ceiling on the increase in net claims on the central government by the banking system	683	543	640
		(US$ millions)	
Ceiling on the stock of external payments arrears incurred by the public sector [3]	0	0	0
Ceiling on the contracting or guaranteeing of new nonconcessional external debt with maturities greater than one year by the public sector [3, 4]	1,000	1,000	1,000
Ceiling on new external debt with maturity up to one year contracted or guaranteed by the public sector [3 5]	0	0	0
Minimum increase in net international reserves of the Bank of Uganda (US$mn)	83	42	30
Share of oil revenue placed in the Petroleum Fund	100	100	100
Indicative target		(Ush billions)	
Ceiling on the increase in base money liabilities of the Bank of Uganda [2]	318	535	559
Minimum expenditures under the Poverty Action Fund	700	1,092	1,690
Ceiling on the issuance of guarantees by the Government/Bank of Uganda	0	0	0
Memo items		(Percent)	
Upper band	12.0	9.2	9.2
Twelve-month consumer price inflation (percent)[6]	9.0	6.2	6.2
Lower band	6.0	3.2	3.2

[1] Defined in the technical memorandum of understanding (TMU).
[2] Indicative target.
[3] Continuous assessment criterion.
[4] Cumulative change from May, 2010. To be used exclusively for infrastructure investment projects.
[5] Excluding normal import-related credits.
[6] Annual end-of-period inflation.

Table 2. Structural Benchmarks under the PSI Arrangement

Policy Measure	Macroeconomic Rationale	Date
Government to gazette and publish on the internet the names of beneficiaries (whether individual or corporation) of all tax expenditures.	Enforce discipline in issuance of tax exemptions.	October 1, 2012, for quarter ending June 30, 2012; January 1, 2013, for quarter ending September 30, 2012; and April 1, 2013, for quarter ending December 31, 2012.
Begin submitting to Cabinet regular quarterly reports on unpaid bills of nine Ministries based on data in the Commitment Control System (CCS) for the previous quarter of the fiscal year	To facilitate control and elimination of expenditure arrears.	As for measure immediately above.
Produce and disseminate within government a monthly index of economic activity relying on the various high-frequency indicators available	To facilitate the conduct of monetary policy.	As for measure immediately above.
BoU to include in Quarterly Report data on the net and gross positions of government in the BoU.	Enhance central bank independence and prepare Bank of Uganda to move toward inflation targeting.	As for measure immediately above.
Government to publish releases by MoFPED for power and water obligations of spending ministries, and actual payments by them, with sanctions to be applied to the named Accounting Officers of agencies that run arrears on these utilities.	Help control accumulation of arrears. Replaces benchmark on "straight-through payments".	As for measure immediately above.
Government to maintain transparency over the treatment of unspent budgetary funds at the end of the fiscal year by (i) publishing the balances as at December 31 and March 31 on all government accounts in the BoU and commercial banks, and (ii) in order to spend any balances held over from the previous year beyond end June, parliamentary approval as well as supporting work and procurement plans will be required.	To enhance budgetary discipline and promote fiscal transparency.	December 31, 2012 data to be published by January 31, 2013, and March 31, 2013date to be published by April 30, 2013. Continuous
Government will include in the Budget Framework Paper a status report of all ongoing PPP programs, including individual estimates of each project's contingent liability.	To enhance fiscal transparency.	March 31, 2013 (new benchmark)

Government will submit to cabinet a concept note, reflecting the decision to introduce a TSA.	To strengthen public financial management.	March 31, 2013 (new benchmark)
Government will submit to Cabinet a new tax procedure code.	To improve domestic revenue mobilization.	April 1, 2013

Annex: High Level Government Financial Management Reform Action Plan Matrix

Key Objective	Key Issue	Actions	Responsible Agency/Person	Timeline/Frequency
1. Effective Coordination and Communication of Reform Strategy	a) Coordination of Reform Strategy Implementation	Constitute Ministerial Committee to Coordinate Reform Strategy	Rt. Hon. Prime Minister	Nov 2012 - ongoing
	b) Regularly Communicate Reform Strategy	Disseminate Government Financial Management Reform Strategy	Office of the President – Media Centre	Nov 2012 - ongoing Review quarterly
	c) Improving GoU/ development partner's dialogue	Meetings with PM, Head of Public Service, MoFPED and development partners to review progress of action plan	Rt. Hon. Prime Minister	Review quarterly from Dec. 2012 until Key Results have been achieved
		Reinvigorate GoU anti-corruption working group (involving CID, DPP, IGG, Judiciary, JLOS and MoFPED)	Minister of Ethics and Integrity	Jan. 2013 until Key Results have been achieved, then quarterly
2. Repayment and Recovery of Public Funds lost through Fraudulent Acts of Public Officials	a) Application of Administrative Measures	Interdict all public officials involved in mismanagement, fraud and corruption	Rt. Hon. Prime Minister	Nov 2012 – Mar 2013
		KEY RESULT 1: Provide from Dec. 2012 monthly written updates on specific satisfactory administrative sanctions taken against each BoU, MoFPED and OPM official named in the AG's report into financial impropriety at OPM	**Rt. Hon. Prime Minister**	**Assessment by Feb. 2013**
	b) Seek Legal Remedies	Request IGG and CID to compare asset declarations and asset inventories for those named in the OPM PRDP case.	Rt. Hon. Prime Minister	Dec 2012 / Jan 2013

Key Objective	Key Issue	Actions	Responsible Agency/Person	Timeline/Frequency
		Written confirmation of freeze of assets of named individuals in the OPM PRDP case in accordance with the laws of Uganda	Rt. Hon. Prime Minister	Dec 2012 / Jan 2013
		Investigate interdicted public officers for fraud and corruption	1. Inspectorate of Government 2. Uganda Police Force Criminal Investigation Department 3. Office of the Auditor General	Nov 2012 – Jun 2013
		Prosecute all public officials indicted for fraud and corruption	1. Inspector General of Government 2. Director of Public Prosecutions	Nov 2012 – Nov 2013
		Investigate and Prosecute all private persons and firms involved in fraud and corruption	1. Inspector General of Government 2. Director of Public Prosecutions	Nov 2012 – Mar 2013
		KEY RESULT 2: Satisfactory progress on investigations and prosecutions of indicted public officials, private persons and firms for fraud and corruption in the OPM case[1]	**1. Police/CIID** **2. DPP**	**Assessment by Feb. 2013**
	c) Recover Funds through actions provided for legally	Enforcement of 'Special Powers of Inspectorate' provisions of the Inspectorate of Government Act to recover lost public funds from public officials and other persons.	Inspector General of Government	Nov 2012 – Jun 2014
		Establish Collection Account in Commercial Bank for banking recoveries from fraudulent public officials and private parties	Ministry of Finance	Nov 2012

[1] The number will be determined by Joint Assessment on the number of cases opened, investigated and prosecuted

Key Objective	Key Issue	Actions	Responsible Agency/Person	Timeline/Frequency
		Commence recovery of misappropriated funds		June 2013
	d) Repayment of misappropriated funds	**KEY RESULT 3: Satisfactory agreements established on amount, timing and methodology of repayment of all misappropriated funds[2] with Denmark, Ireland, Norway, Sweden and the UK**	**Ministry of Finance**	**Assessment by Feb. 2013**
3. Provide assurance of the Fidelity of Government Financial Management Systems	a) Government –Wide Forensic Audit	Undertake Forensic Audit of Financial Management Systems at:- i. Ministry of Finance (main) ii. Treasury iii. Internal Audit iv. Bank of Uganda	Office of the Auditor General	Nov 2012 – Feb 2013
		Undertake Sector Forensic Audits of Major Public Expenditure Heads namely:- i. Energy ii. Roads and Works iii. Education iv. Health v. Agriculture. vi. Justice vii. Ministry of Local Government viii. Water	Office of the Auditor General	Jan 2013-June 2013

[2] This covers funds identified in the OPMPRDP case by the Auditor General and other relevant information. Government of Uganda needs to establish agreements with the individual Development Partners in line with existing bilateral agreements.

Key Objective	Key Issue	Actions	Responsible Agency/Person	Timeline/Frequency
		Address all Actions specified in Budget Monitoring, Internal and External Audit Reports	Permanent Secretary/Secretary to the Treasury	Nov 2012 – Jun 2013
	b) Strengthen Procedures for Management of Public Funds	Undertake Review of entire Public Financial Management process	Ministry of Finance	Nov 2012 – Feb 2013
		List of and written confirmation that all dormant accounts in BoU have been reviewed by Accountant General and closed	Permanent Secretary/Secretary to the Treasury	Dec 2012
		Accountant General to report to DPs on all transfers between budget support donor holding accounts and consolidated fund over the last 10 financial years	Accountant General	Dec 2012
		Establish action plan for the implementation of a Treasury Single Account for MDAs subject to laws of Uganda	Accountant General	Jan 2013
		KEY RESULT 4: Implementation of key recommendations of previous IFMS/IT security audits and fix known weaknesses detected by the OAG, and recruitment of security consultant for IFMS is finalised	**Permanent Secretary/Secretary to the Treasury**	**Assessment by Feb. 2013**
		Implement immediate rotation of Public Financial Management officials including Accounting Officers, Accountants, Internal Audit, and Procurement staff	1. Office of the President 2. Ministry of Finance 3. Ministry of Local Government	Nov 2012 – Mar 2013
		Provide annual report by Accountant General to the PS/ST on the periodic rotation of Accountants, Internal	Accountant General	Nov 2013

Key Objective	Key Issue	Actions	Responsible Agency/Person	Timeline/Frequency
		Audit, and Procurement staff, audited by the Auditor General		
		KEY RESULT 5: Submit for consideration by relevant Committee of Parliament proposed amendments to the Public Finance Bill that include provisions on (i) oil revenue management, in line with international best practice, (ii) a strengthened system of sanctions for breach of PFM regulations, (iii) commitment controls, and (iv) legal creation of an independent directorate of internal audit.	Ministry of Finance	**Assessment by Feb. 2013**
		KEY RESULT 6: Complete migration and fully operationalize the recruitment, payroll and pension modules processing on Integrated Payroll and Pension System (IPPS) including interface with IFMS.	**Ministry of Public Service**	**Assessment by Feb. 2013**
		Engage RDCs, ISO staff to monitor and report on service delivery against funds released up to sub-county level	1. Office of the President 2. Internal Security Organisation	Nov 2012 – on going
		Complete report on pilot Baraza Initiative	Office of the Prime Minister	Nov 2012
		Institute Barazas at Sub-County levels	1. Office of the President 2. Office of the Prime Minister	Jul 2013 – on going on a rotational quarterly basis

Key Objective	Key Issue	Actions	Responsible Agency/Person	Timeline/Frequency
4. Strengthen anti-corruption institutions and legislation	a) Strengthened IGG, DPP and CID	**KEY RESULT 7: Fully constitute the Inspectorate of Government by appointing the 2nd Deputy IGG and a firm commitment for the timely replacement of the 1st Deputy.**	**H.E. The President**	**Assessment by Feb. 2013**
		Increase Budget allocations to IGG, DPP and CID to reduce the current backlog	Ministry of Finance	Sep 2013
		The Leadership Code Tribunal is established and functional	IGG	Nov 2013
	b) Improved anti-corruption laws and regulations	Anti-money laundering legislation is introduced in Parliament with amendments to cover asset recovery and the establishment of a financial intelligence unit.	Ministry of Finance	Apr 2013
		Witness Protection Laws and Whistleblower regulations are tabled in parliament	IGG	Nov 2013
		Leadership Code Tribunal Bill is tabled in parliament	IGG	Apr 2013
5. Budget Management to achieve overall Economic Objectives for FY 2012/13 and the Medium Term	a) Maintenance of Expenditures to Key Growth Areas especially in Development Budget	Prepare Budget Outlay for FY 2012/13 Q3 and Q4 ensuring Development Expenditures are maintained	Ministry of Finance	Nov – Dec 2012
		Review Medium Term Budget Outlook FY 2013 - 17	Ministry of Finance	Nov 2012 - Mar 2013
	b) Improvement of efficiency of public expenditure	Strengthen alignment of budget with strategic objectives (National Development Plan)	Ministry of Finance	Nov 2012 - Mar 2013
		Revise Medium Term Expenditure Frameworks (MTEFs)	Ministry of Finance	Nov 2012 - Mar 2013

Attachment II. Technical Memorandum of Understanding

Introduction

1. This memorandum defines the quarterly assessment criteria and indicative targets described in the memorandum of economic and financial policies (MEFP) for the financial program supported by the IMF Policy Support Instrument (PSI) over the period of June 30, 2012—March 31, 2013, and sets forth the reporting requirements under the instrument.

Ceiling on the Cumulative Increase in Net Domestic Assets (NDA) of the Bank of Uganda (BoU)

2. Net foreign assets (NFA) of the BOU are defined as the monthly average (based on daily data) of foreign assets minus foreign liabilities, and include all foreign claims and liabilities of the central bank, excluding oil revenues in the petroleum fund. The monthly average values of all foreign assets and liabilities will be converted into U.S. dollars at each test date using the average cross exchange rates referred to in the table below for the various currencies and then converted into Uganda shillings using the program average U.S. dollar-Uganda shilling exchange rate for September, 2012.

Program Exchange Rates	
US Dollar (US$)	1.0
British pound/US$	0.6
Japanses Yen/US$	78.2
SDR/US$	0.7
Kenyan Shililngs/US$	82.9
Tanzania Shillings/US$	1576.0
Euro/US$	0.8
Ugandan Shillings/US$	2515.9

3. Net domestic assets (NDA) of the BoU are defined as the monthly average (based on daily data) of base money (defined below) less net foreign assets of the BoU (as defined in paragraph 2). Based on this definition, the NDA limit for December 2012 will be a ceiling on the cumulative change from the monthly average based on daily data for June 2012 to the same monthly average for December 2012. The NDA limits for December 2012, and March 2013 will be ceilings on the cumulative change from the monthly average based on daily data for June 2012 to the same monthly averages for December 2012, and March 2013, respectively. The NDA limit for December 2012 will be a quantitative assessment criterion under the PSI-supported program; and the limit for March 2013 will be an Indicative target.

Base Money

4. Base money is defined as the sum of currency issued by the BoU and the commercial banks' deposits in the BoU. The commercial bank deposits include the statutory required reserves and excess reserves held at the BoU and are net of the deposits of closed banks at the BoU and Development Finance Funds (DFF) contributed by commercial banks held at the BoU. The base money limit for December 2012 will be a ceiling on the cumulative change from the monthly average based on daily data for June 2012 to the same monthly average for December 2012. The base money limits for December 2012 and March 2013 will be ceilings on the cumulative change from the monthly average based on daily data for December 2012 to the same monthly averages for December 2012 and March 2013, respectively. Base money limits for December 2012 and March 2013 will be indicative targets under the PSI-supported program.

Ceiling on the Cumulative Increase in Net Claims on the Central Government by the Banking System[1]

5. Net claims on the central government (NCG) by the banking system is defined as the difference between the outstanding amount of bank credits to the central government and the central government's deposits with the banking system, excluding oil revenues in the petroleum fund and deposits in administered accounts and project accounts with the banking system, including the central bank. Credits comprise bank loans and advances to the government and holdings of government securities and promissory notes. Central government's deposits with the banking system include the full amount of resources freed by the IMF MDRI. NCG by the banking system will be calculated based on data from balance sheets of the monetary authority and commercial banks as per the monetary survey.

Floor on Net International Reserves of the Bank of Uganda

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

7. For program-monitoring purposes, reserve assets and short-term liabilities at the end of each test period will be calculated in U.S. dollars by converting the stock from their original currency denomination at program exchange rates (as specified in paragraph 2). The NIR limit for December 2012 will be a floor on the change of the NIR stock from June 2012 to December 2012. The NIR limits for December 2012 and March 2013 will be floors on the change of the NIR

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

stock from June 2012 to December 2012, and March 2013, respectively. The NIR limit for December 2012 will be quantitative assessment criteria under the PSI-supported program; the floor for March 2013 will be an indicative target.

Ceiling on the Stock of Domestic Budgetary Arrears of the Central Government

8. The stock of domestic payment arrears/unpaid payment claims will be monitored on a quarterly basis. Domestic payments arrears/unpaid payment claims under the CCS are defined as the sum of all bills that have been received by a central government spending unit or line ministry delivered prior to the end of the quarter in question, and for which payment has not been made, under the recurrent expenditure budget (excluding court awards and pensions) or the development expenditure budget. For the purpose of program monitoring, the reports on domestic payment arrears/unpaid payment claims prepared by the Auditor General will be used to monitor this item following the end of the fiscal year. In the interim, the reports prepared by the Accountant General on unpaid claims will be monitored to gauge expenditure pressures.

Expenditures under the Poverty Action Fund (PAF)

9. The indicative target on expenditures under the Poverty Action Fund is designed to ensure that resources freed by debt relief are used for additional PAF expenditures. Compliance with the indicative floor for PAF expenditures will be verified on the basis of releases (PAF resources made available to spending agencies).

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

10. The indicative target on issuance of guarantees by the Government or Bank of Uganda aims to prevent accumulation of contingent liabilities by the Government (including Government entities such as ministries, agencies and authorities). Included against the ceiling are any direct, contingent liabilities of Government (including entities that are part of government such as ministries, agencies and authorities) issued after June 30, 2012, and including any guarantees issued prior to July 1, 2012 but which are extended after June 30, 2012. This excludes guarantee programs which have explicit budget appropriations.

Share of Oil Revenue Placed in Petroleum Fund

11. The purpose of this assessment criterion is to avoid a situation whereby petroleum revenues bypass the Ugandan budget framework. A petroleum fund will be created upon passage of the revised Public Finance Act; in the meantime, government has established a petroleum revenue account in the Bank of Uganda. This QAC will be deemed satisfied if 100 percent of petroleum revenues are transferred to this account upon collection by URA. These resources may then be spent or saved as governed by the organic budget law in force at the time (PFAA 2003 until the new PFA is enacted).

Consumer Price Inflation

12. Inflation is measured by the headline twelve-month rate of annual end-of-period CPI inflation published by the Uganda Bureau of Statistics (UBOS). Quarterly bands denoting the target range are specified in Table 1.

Adjusters

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

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

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

Schedule A: Budget Support (Including HIPC and MDRI)
(Ush billions)

	Sep-12	Dec-12	Mar-13
Cumulative change from July 1, 2012	165	209	261

16. The ceiling on the increases in NDA and NCG of the banking system will be adjusted downward (upward) and the floor on the increase in NIR will be adjusted upward (downward) by the amount by which debt service due[2] plus payments of external debt arrears less deferred payments (exceptional financing) falls short of (exceeds) the projections presented in Schedule B. Deferred payments are defined to be (i) all debt service rescheduled under the HIPC Initiative;

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

and (ii) payments falling due to all non-HIPC Initiative creditors that are not currently being serviced by the authorities (that is, gross new arrears being incurred).

Schedule B: External Debt Service
(Ush billions)

	Sep-12	Dec-12	Mar-13
Cumulative change from July 1, 2012	89	187	285

17. The ceiling on increases in NCG of the banking system will be adjusted downward (upward) by any excess (shortfall) in nonbank financing, relative to the programmed cumulative amounts in Schedule C. Non-bank financing will include any domestic debt—either in domestic currency or foreign currency— of the Government of Uganda that is held by creditors—whether resident or nonresident[3]—that is not included in the Ugandan banking system. It will include the change in government securities held by the nonbank sector as reported in the monetary survey, as calculated by data provided by the Central Depository System (CDS), plus any other claims on government, including entities of government (ministries, agencies, authorities, etc.), held outside the banking system, including those which might be held by the National Social Security Fund (NSSF).

Schedule C: Non-bank Financing
(Ush billions)

	Sep-12	Dec-12	Mar-13
Cumulative change from July 1, 2012	-148	-52	268

18. The floor on the cumulative increase in NIR of the BOU will be adjusted downward by the amount by which foreign exchange expenditures on the Karuma hydropower project exceeds the projected amounts as set out in Schedule D. The ceiling on NDA will be adjusted upward (downward) by the amount by which the domestic currency equivalent of Karuma spending (using the annual program exchange rate) exceeds (falls short of) the projected amounts as set out in Schedule D. The ceiling on NCG will be adjusted upward (downward) by the amount by which the domestic currency equivalent of Karuma spending (using the market exchange rate) exceeds (falls short of) the projected amounts as set out in Schedule D.

[3] Non-residents holding government securities are excluded from the definition of external debt in paragraph 20.

Schedule D: Expenditures for Karuma Hydropower Project
(US$ millions)

	Sep-12	Dec-12	Mar-13
Cumulative change from July 1, 2012	0	0	84

19. The floor on the cumulative increase in NIR of the BOU will be adjusted downward by the amount by which inflows into the Petroleum Fund falls short of the projected amounts as set out in Schedule E. The ceiling on NDA will be adjusted upward (downward) by the amount by which the domestic currency equivalent of Karuma spending (using the annual program exchange rate) falls short of (exceeds) the projected amounts as set out in Schedule E. The ceiling on NCG will be adjusted upward (downward) by the amount by which the domestic currency equivalent of Karuma spending (using the market exchange rate) falls short of (exceeds) the projected amounts as set out in Schedule D.

Schedule E: Inflows into Petroleum Fund
(US$ millions)

	Sep-12	Dec-12	Mar-13
Cumulative change from July 1, 2012	0	0	0

20. The ceiling on NDA of the BoU for every test date will be adjusted upward by the daily average amount of commercial bank automatic access to the BoU discount window and re-discounting of government securities by commercial banks.

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

Ceiling on the Contracting or Guaranteeing of New Nonconcessional External Debt by the Public Sector, and Ceiling on the Stock of External Payments Arrears Incurred by the Public Sector[4]

22. The assessment criterion on short-term debt refers to contracting or guaranteeing external debt with original maturity of one year or less by the public sector. Excluded from this assessment criterion are normal import-related credits and non-resident holdings of government securities and government promissory notes. The definition of "debt" is set out in paragraph 24.

23. The program includes a ceiling on new nonconcessional borrowing with maturities greater than one year contracted or guaranteed by the public sector.[5] For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt.[6] The discount rates used for this purpose are the currency specific commercial interest reference rates (CIRRs), published by the Organization for Economic Cooperation and Development (OECD). For debt with a maturity of at least 15 years, the ten-year-average CIRR will be used to calculate the PV of debt and, hence, its grant element. For debt with a maturity of less than 15 years, the six-month average CIRR will be used. To both the ten-year and six-month averages, the same margins for differing repayment periods as those used by the OECD need to be added (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more).The ceiling on nonconcessional external borrowing or guarantees is to be observed on a continuous basis. The coverage of borrowing includes financial leases and other instruments giving rise to external liabilities, not only current as defined below, but also contingent, on nonconcessional terms. External debt for the purpose of this assessment criterion means borrowing giving rise to liabilities to non-residents. Excluded from the limits are changes in indebtedness resulting from non-resident holdings of government securities and government promissory notes, refinancing credits and rescheduling operations, and credits extended by the IMF. For the purposes of the program, arrangements to pay over time obligations arising from judicial awards to external creditors that have not participated in the HIPC Initiative do not constitute nonconcessional external borrowing. Excluded from these limits are also nonconcessional borrowing within the

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

[5] Contracting and guaranteeing is defined as approval by a resolution of Parliament as required in Section 20(3) and 25(3) of the Public Finance and Accountability Act, 2003

[6] The calculation of concessionality will take into account all aspects of the loan agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees. The most recent version of the Fund's concessionality calculator available in http://www.imf.org/external/np/pdr/conc/calculator/ will be used to calculate loan-by-loan concessionality.

limits specified in Table 1 of the MEFP. The ceiling also excludes nonconcessional borrowing by one state-owned bank, Housing Finance Bank, which poses limited fiscal risk and is in a position to borrow without a government guarantee.

24. The definition of debt, for the purposes of the limit, is set out in point 9 of the Guidelines on Performance Criteria with Respect to External Debt (Executive Board's Decision No. 6230-(79/140), as amended by Decision No 14416-(09/91, effective December 1, 2009). It not only applies to the debt as defined in Point 9 of the Executive Board decision, but also to commitments contracted or guaranteed for which value has not been received. The definition of debt set forth in No. 9 of the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements reads as follows:

> (a) For the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);
> (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lesser retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property. (b) Under the definition of debt set out in point 9(a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

25. The ceiling on the accumulation of new external payments arrears is zero. This limit, which is to be observed on a continuous basis, applies to the change in the stock of overdue payments on debt contracted or guaranteed by the public sector from their level at end-June 2006. External debt payment arrears consist of external debt service obligations (reported by the Statistics Department of the BOU, the Macro Department of the Ministry of Finance) that have not been paid at the time they are due as specified in the contractual agreements but shall exclude arrears on obligations subject to rescheduling.

Monitoring and Reporting Requirements

26. The Government of Uganda will submit information to IMF staff with the frequency and submission time lag as indicated in Table 1. The quality and timeliness of the data submission will be tracked and reported by IMF staff. The information should be mailed electronically to AFRUGA@IMF.ORG.

Attachment II. Table 1. Summary of Reporting Requirements

Reporting institution	Report/Table	Submission Frequency	Submission lag
I. Bank of Uganda	Issuance of government securities, repurchase operations and reverse repurchase operations	Weekly	5 working days
	Operations in the foreign exchange	Weekly	5 working days
	Interest rates (7 day interbank, commercial bank prime lending rate, government securities)	Weekly	5 working days
	Private sector credit growth by shilling and forex, and excess reserves of commercial banks	Weekly	5 working days
	Disaggregated consumer price index.	Monthly	2 weeks
	Balance sheet of the BOU, consolidated accounts of the commercial banks, and monetary survey.	Monthly	4 weeks
	Daily balances of net foreign assets, net domestic assets, and base money of the BoU (as defined in paragraphs 2, 3, and 4)	Monthly	4 weeks
	Monthly foreign exchange cash flow table of BOU.	quarterly	4 weeks
	Statement of (i) cash balances held in project accounts at commercial banks; (ii) total value (measured at issue price) of outstanding government securities from the Central Depository System (CDS); and (iii) the stock of government securities (measured at issue price) held by commercial banks from the CDS.	Quarterly	6 weeks

Attachment II. Table 1. Summary of Reporting Requirements			
Reporting institution	**Report/Table**	**Submission Frequency**	**Submission lag**
	Summary of (i) monthly commodity and direction of trade statistics; (ii) disbursements, principal and interest, flows of debt rescheduling and debt cancellation, arrears, and committed undisbursed balances—by creditor category; and (iii) composition of nominal HIPC Initiative assistance.	Quarterly	6 weeks
	Summary of stock of external debt, external arrears, and committed undisbursed loan balances by creditor.	Quarterly	6 weeks
	Standard off-site bank supervision indicators for deposit money banks.	Quarterly	4 weeks
	Summary table of preliminary program performance comparing actual outcome with adjusted program targets for (i) base money; (ii) net claims on central government by the banking system; ((iv) new nonconcessional external borrowing; and (v) net international reserves	Quarterly	6 weeks

Appendix II. Uganda: Fund Relations

I. Membership Status: Joined: September 27, 1963;

II. General Resources Account:	**SDR Million**	**%Quota**
Quota	180.50	100.00
Fund holdings of currency (Exchange Rate)	180.51	100.00
Reserve Tranche Position	0.00	0.00
III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	173.06	100.00
Holdings	141.01	81.48
IV. Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
ECF Arrangements	3.60	1.99

V. Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF [1/]	Sep 13, 2002	Jan 31, 2006	13.50	13.50
ECF [1/]	Nov 10, 1997	Mar 31, 2001	100.43	100.43
ECF [1/]	Sep 06, 1994	Nov 09, 1997	120.51	120.51

[1/] Formerly PRGF.

VI. Projected Payments to Fund [2]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2012	2013	2014	2015	2016
Principal		1.20	1.20	1.00	0.20
Charges/Interest	0.01	0.03	0.03	0.03	0.03
Total	0.01	1.23	1.23	1.03	0.23

[2] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

VII. Implementation of HIPC Initiative:

I. Commitment of HIPC assistance	Original Framework	Enhanced Framework	Total
Decision point date	Apr 1997	Feb 2000	
Assistance committed			
by all creditors (US$ Million) [1]	347.00	656.00	
Of which: IMF assistance (US$ million)	68.90	91.00	
(SDR equivalent in millions)	51.51	68.10	

Completion point date	Apr 1998	May 2000	
II. Disbursement of IMF assistance (SDR Million)			
Assistance disbursed to the member	51.51	68.10	119.61
Interim assistance	--	8.20	8.20
Completion point balance	51.51	59.90	111.41
Additional disbursement of interest income [2]	--	2.06	2.06
Total disbursements	51.51	70.16	121.67

[1] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts cannot be added.

[2] Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI):

I. MDRI-eligible debt (SDR Million)[1]	87.73
Financed by: MDRI Trust	75.85
Remaining HIPC resources	11.88

II. Debt Relief by Facility (SDR Million)

	Eligible Debt		
Delivery Date	**GRA**	**PRGT**	**Total**
January 2006	N/A	87.73	87.73

[1] The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

Decision point - point at which the IMF and the World Bank determine whether a country qualifies for assistance under the HIPC Initiative and decide on the amount of assistance to be committed.

Interim assistance - amount disbursed to a country during the period between decision and completion points, up to 20 percent annually and 60 percent in total of the assistance committed at the decision point (or 25 percent and 75 percent, respectively, in exceptional circumstances).

Completion point - point at which a country receives the remaining balance of its assistance committed at the decision point, together with an additional disbursement of interest income as defined in footnote 2 above. The timing of the completion point is linked to the implementation of pre-agreed key structural reforms (i.e., floating completion point).

Appendix III. Uganda: Joint Bank-Fund Work Program, July 2012 – June 2013

Title	Products	Provisional timing of missions (if relevant)	Expected delivery date
1. World Bank Work Program	The work program will continue to concentrate on areas infrastructure within the existing portfolio, including development (transport and energy), secondary education, health infrastructure, agricultural research, advisory services and training, Kampala infrastructure development, and local government service delivery (including Northern Uganda rehabilitation). Moreover, the Bank's project to support public service performance enhancement, Northern Uganda social protection, minerals development and environment sustainability will be maintained.		
	The Tenth Poverty Reduction Support Credit (PRSC 10) is the last in a programmatic series of 3 operations focused on enhancing access to, and greater value for money in, public services. A particular emphasis of PRSC 10 is on public financial management.	Sept. 24 – Oct. 5, 2012: Pre-appraisal mission; Jan. 21- Feb. 5, 2013: Appraisal mission.	March 2013
	Public Expenditure Review (FY13) with a focus on decentralization and delivery of social services.		Draft report: March 2013
	Public Investment Management follow-up support to government with support with DFID trust fund.		TBD
	Economic Update series (FY13) Edition 1 - Special focus – regional trade Edition 2 - Special focus - Jobs		 Dec 2012 May 2013
	New PFM project		TBD
	Country Economic Memorandum (FY14) focusing on the Uganda's sources of growth	January 2013	Concept Note: April 2013

	accounting for the linkages of the new natural resources economy.		
2. Fund Work Program	Fifth Review under the PSI: Program emphasis on supporting growth without re-igniting price pressures; ensuring accountability and transparency in budget operations, including those in the extractive industries sector; and achieving the objective of moving to a full-fledged inflation targeting regime.	October/ November 2012	January 2013
	Sixth Review under the PSI and Article IV Consultation: The PSI review priorities will be complemented by a work program for the Art. IV consultation that contains priorities such as promoting inclusive growth by improving the business environment and addressing governance challenges; encouraging financial sector development; and assessing debt sustainability and external competitiveness within the EAC reform agenda.	April/May 2012	July 2012
	TA priorities: • revision of PFA; • management of natural resource industries; • strengthening of monetary policy and transition to inflation targeting; • revenue enhancement, including tax policy and revenue administration; • asset and debt management (including petroleum revenue management); • enhancing of macroeconomic statistics, including national accounts, BoP data, and GFS.	TBD	TBD
3. Joint Work Program	Joint DSA update	April 2013	July 2013

Appendix IV. Uganda —Statistical Issues

As of December 3, 2012

I. Assessment of Data Adequacy for Surveillance

General: Overall data provision is adequate for surveillance purposes, although some shortcomings remain.

Real Sector Statistics: Since 2004 Uganda has been receiving technical assistance from the East African Technical Assistance Center (AFRITAC East) on the compilation of quarterly national accounts. In late 2011 the authorities started to disseminate quarterly GDP estimates at 2002 constant prices using the International Standard Industrial Classification (ISIC) Rev III. Technical assistance continues to be provided to improve the methodology as well as to develop quarterly GDP by economic activity at current prices. Future assistance will focus on developing quarterly estimates of GDP by expenditure share. The Uganda Bureau of Statistics (UBOS) has made significant efforts in the last four years to collect benchmark data for the next GDP rebase for the 2009/10 reference year. Major surveys have been conducted on household consumption expenditure and economic activity, agriculture and livestock, businesses and non-profit institutions. Technical assistance is being provided in compiling the supply-use tables and rebasing of the estimates. Labor market indicators such as employment, unemployment, and wages/earnings are infrequently compiled and disseminated. UBOS aims to compile and disseminate these data categories on an annual basis, but due to resource and data unavailability, these data are compiled with a two year lag. UBOS collects prices of consumer goods and services from six urban centers for computing inflation rates, which are disseminated on the last working day of every month. According to UBOS, there are plans to expand the coverage to include another urban center. UBOS collects producer prices (factory gate prices) from a sample of manufacturing establishments, which undertake manufacturing activities as classified by ISIC. The price information is used to compute the Producer Price Index for Manufacturing (PPI-M).

Government finance statistics: The Ministry of Finance, Planning and Economic Development (MoFPED) compiles fiscal statistics following the Governance Finance Statistics Manual 2011 (GFSM 2011), but for budgetary central government and local governments only. Uganda has not shown any interest for technical assistance in this field for the past five years.

Monetary and financial statistics (MFS): The institutional coverage of other depository corporations (ODCs) excludes deposit-taking savings and credit cooperative societies (SACCOs), credit institutions, and microfinance deposit institution, which deposits represent about ten percent of deposits collected by commercial banks.

The latest MFS mission found that the work of the Bank of Uganda (BoU) on the Depository Corporations Survey was very sound. The mission recommended a number of changes to the form 1SR to reflect the BoU’s adoption of the International Financial Reporting Standards (IFRS).

Compiling data for SACCOs continues to be a major challenge. There are about 2700 SACCOs that are licensed and operating. No agency supervises SACCOs and reporting to the main umbrella agency is voluntary. The mission recommended that the BoU attempt to identify the largest 25-30 SACCOs and compile full balance sheet data for this group.

As regards the data for other financial corporations, the National Social Security Fund (NSSF) now reports monthly data to the BoU in the 4SR format. The mission recommended that these data be disseminated in 2013 when a sufficiently long time series is available. Compiling data for insurance companies is hampered by lack of any standardization of accounting. The mission recommended that the BOU discuss with the Insurance Regulatory Authority (IRA) the possibility of using the form 4SR developed for the NSSF for compiling quarterly data. If this does not prove feasible, collection of data on financial assets should be investigated.
External sector statistics: Quarterly and fiscal year data are disseminated in the BoU's publications *Quarterly Economic Report* and *Annual Report*, as well as the UBOS' annual *Statistical Abstract*. In principle, data cover the entire economy and include all transactions between residents and nonresidents. Quarterly balance of payments and annual international investment position IIP data are disseminated in an analytical format or on the basis of standard components, in accordance with the requirements of the *Balance of Payments and International Investment Position Manual 5* (*BPM5)*. A mission in December 2011 assessed the adequacy and effectiveness of surveys on informal cross-border trade and on financial flows, the coverage of the current and financial accounts, reviewed the compilation of gross reserves and quarterly IIP, and helped to develop a transition plan to the six edition of the *Balance of Payments and International Investment Position Manual (BPM6)*. Proposals were made for collecting a breakdown of imports and exports of services by broad product, for compiling full estimates for direct, portfolio and other investment credits for income and assets for flows and positions, and for imputing a broad current/capital split.

II. Data Standards and Quality	
Uganda participates in the General Data Dissemination System (GDDS) since May 2000. The metadata and plans for improvement need to be updated. Uganda is participating in the SDDS, government finance, and the monetary and financial statistics modules of the Fund's GDDS Project for Anglophone Africa (funded by the U.K. Department for International Development (DFID)). This project aims to assist participating countries to implement plans for improvement identified in the metadata.	In February 2005, a STA mission prepared a Report on the Observance of Standards and Codes (ROSC), with results published in July 2006. The ROSC mission assessed data compilation and dissemination practices against international standards in national accounts, prices, government finance, and balance of payments statistics; the monetary and financial statistics were not assessed.

III. Reporting to STA (Optional)
Uganda reports government finance statistics (GFS) data according to the *GFSM 2001* framework for the *GFS Yearbook,* but does not report any high frequency data for inclusion in the *International Financial Statistics* (*IFS)*. The BoU reports regularly the monetary data for the central bank and other depository corporations (ODCs) in the format of Standardized Report Forms (SRFs).

Press Release No. 13/11
FOR IMMEDIATE RELEASE
January 14, 2013

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Fifth Review Under Policy Support Instrument for Uganda

The Executive Board of the International Monetary Fund (IMF) today completed the fifth review under the Policy Support Instrument (PSI) for Uganda.

The PSI for Uganda was approved on May 12, 2010 (see Press Release No. 10/195) and aims at maintaining macroeconomic stability and alleviating constraints to growth. The IMF's framework for PSIs is designed for low-income countries that may not need, or want, IMF financial assistance, but still seek IMF advice, monitoring and endorsement of their policies. PSIs are voluntary and demand driven (see Public Information Notice No. 05/145).

Following the Executive Board's discussion on Uganda, Mr. Naoyuki Shinohara, Deputy Managing Director and Acting Chair, stated:

"Uganda's macroeconomic performance under their Policy Support Instrument has been satisfactory. The anti-inflationary strategy underpinned by tight monetary policy and under-execution of budget spending brought inflation under control—an important policy achievement. The tightened stance, however, sharply slowed economic growth.

"Reviving economic activity is therefore an urgent priority for Uganda's low-income economy. To this end, the authorities' short-term policies are appropriately geared at maintaining essential public investment and encouraging a gradual resumption of bank lending, while continuing to allow the shilling to reflect market conditions.

"The recent theft of donor funds, resulting in a suspension of aid, signals governance problems and the need for a more radical fight against corruption. The government's action plan to strengthen public financial management in order to reinforce controls and increase transparency of public sector operations is key to rebuilding confidence of the population and development partners. Forceful implementation of this plan is essential to prevent reoccurrence of misappropriation of public funds, restore budget financing and facilitate growth enhancing development spending.

“While medium-term growth is set to converge to its potential level of 6-7 percent, this objective needs to be underpinned by a higher contribution of private investment, which in turn requires improvements in the business environment. In parallel, institutional reforms to refine the inflation targeting framework and efficient management of revenues, including the prospective oil proceeds, will be essential to ensure sustainable and inclusive growth.”

Statement by Mr. Saho, Executive Director for Uganda
January 14, 2013

1. My Ugandan authorities remain determined to persevere with prudent macroeconomic policies despite the protracted global economic uncertainties coupled with heightened regional security challenges. Growth has tapered off, while the authorities' disinflationary effort has yielded positive results with inflation down to the Bank of Uganda's (BoU) target, and the nominal exchange rate has strengthened. Growth will, in the near term, continue to remain constrained due to the suspension of budget support by the country's development partners following a regrettable mishandling of public resources. That notwithstanding, the authorities are determined to deepen structural reforms and strengthen the economy's growth drivers including deepening the EAC regional integration framework. With their policy stance and the envisaged normalization of support from the international community in the near term and policy guidance from the Fund, my authorities are confident that they stand a good chance of shoring up their economy's growth to its trajectory and further strengthening the country's macroeconomic stability.

2. The authorities are also committed to strengthen the implementation of their program under the PSI. In that regard, they are appreciative of the Fund's constructive engagement and support under the PSI and the technical assistance support also in view of the new oil economy. Going forward, they are determined to further strengthen their engagement with the Fund also in the context of a successor PSI engagement, and to quickly normalize their engagement with their development partners.

3. In view of the strong performance under the program, with all of the end-June 2012 quantitative assessment criteria observed with good margins, all but two quantitative indicative targets met, and continued implementation of structural reforms, they request Directors' support for the completion of the fifth review of the PSI. They also request Directors' support for the extension of the PSI until August 2013 to allow for the completion of the sixth and final review under the current arrangement.

Recent economic developments and respective policy environment

4. Uganda's economic growth rate dipped considerably to 3.4 percent in FY 2011/12 from 6.7 percent a year earlier due to a confluence of internal and external factors. Internal shocks such as power outages and high inflation, coupled with disinflationary related high interest rates impacted heavily on private sector competitiveness. A reduced fiscal impulse due to capacity related delays in implementing the Government investment program, particularly in the construction and energy sectors, negatively impacted the economy's growth prospects. Externally, the protracted global economic uncertainties resulted in continued low demand for exports from Uganda's traditional trading partners, and market diversification continued to suffer from limited export penetration into emerging markets in Asia. Because of the smaller stimulus and weak external demand, real GDP growth is projected to slightly recover to 4.25 percent in 2012/13

5. My authorities' fiscal policy remained on the consolidation stance in FY2011/12, but in light of the sharp decline in real GDP growth, they intend to actively use their fiscal policy to support the strengthening of the job-rich economic growth. On the revenue front, the low real GDP growth and high inflation accounted for a limited outturn on tax revenues. Total expenditure and net lending was below the budget largely due to the significant underperformance on the development budget and, especially, the delayed commencement of the Karuma hydropower plant. Recurrent expenditure, however, exceeded the budget mainly on account of higher domestic interest rates and non-wage recurrent outlays. There was also a shortfall of nearly 1.25 percent of GDP on donor disbursements affecting the external finance component of the budget. The resulting large real spending contraction contributed to the weak growth outturn in FY 2011/12.

6. The authorities' tight monetary and fiscal policies, which were in line with staff recommendations, coupled with improved food supplies, helped to significantly contain inflation. To bring down inflation, the BoU raised its central bank rate (CBR) from 13 percent in July 2011 to 23 percent in November 2011, thus curtailing private sector credit and aggregate demand. As a result, annual inflation, which rose to a peak of 30.5 percent in October 2011, had dropped to under 5 percent in November 2012. Core inflation also dropped from 30.8 percent to 3.8 percent in the same period. The easing of inflationary pressures allowed the BoU to begin cutting the CBR as early as February 2012 to support recovery of private sector credit and aggregate demand growth.

7. External balances remained weak and were projected to remain unchanged in FY2012/13. The current account deficit (including grants) is estimated to have worsened to 11.3 percent of GDP from 10.9 percent in FY2010/11. This is on account of the limited growth in exports due to weaker demand, coupled with strong imports, both in volume and value terms. As a result, and also due to the suspension of budget support by the country's development partners, international reserves will decline in 2012/13 from 4 to 3.75 months of imports.

Medium-term policy framework and reforms

Fiscal policy and related reforms

8. My authorities' fiscal policy will strive to maintain an adequate support to job-rich growth though the size of the intended fiscal stimulus has been curtailed by the suspension of budget support (equivalent to 1.3 percent of GDP) by the country's development partners. To achieve the fiscal objectives, the authorities will accordingly revise their fiscal strategy to accommodate the shortfall in budget support with the view of maintaining spending levels for the priority services.

9. The authorities are confident that their expeditious implementation of the six-tier PFM Reform Action Plan conveyed to donors will encourage the development partners to

restore budget support by June 2013. Full restoration of budget support will help strengthen the authorities' FY2013/14 budget framework and that of the outer years and, especially, facilitate the resumption of financing the scaling-up of investments in infrastructure and primary sectors to further shore-up inclusive growth.

10. To maintain prudent spending in the priority areas in an environment of tightened fiscal space, the authorities will continue to strengthen domestic and concessional resource mobilization in the medium term. On the revenue front, the authorities will persevere with enhancing fiscal reforms with the view of raising the revenue yield to levels comparable to their EAC partners. To that end, the scope of tax expenditures and exemptions will be streamlined to boost domestic revenue collections, and efficiency in tax administration will be enhanced. Cognizant of the overall capacity limitations, they intend to request additional TA from the Fund in designing the mining sector fiscal regime.

11. To improve budget execution and efficiency, the authorities intend to expeditiously implement the PFM and IFMS reforms also in line with their renewed commitment to ensure that funds allocated to spending agencies are spent on the intended expenditure items and projects. To further strengthen budget management, they have tabled before Parliament a Public Private Partnership Bill that is intended to ensure that PPP-related fiscal contingent liabilities are appropriately budgeted, appropriated and accounted for. The PPP bill will also ensure that potential risks embodied in this service delivery framework are properly mitigated.

12. The authorities have also tabled before Parliament a comprehensively reviewed Public Finance Bill (PFB) that will, *inter alia*, provide an appropriate mechanism for oil revenue management and consolidate the 2003 Public Finance and Accountability Act (PFAA) and Budget Act of 2001. The revised budget act will strengthen public finance management by enhancing the predictability of the budget including modalities for financing emergencies and supplementary budgets. Further and as part of the PFAA reform, the authorities have resolved to strengthen the internal commitment and control system to rein in the accumulation of expenditure arrears. To improve cash management, the authorities intend to migrate to a treasury single account system for administering government finances, and request Fund TA in this regard.

Monetary and exchange rate policies

13. My authorities' tightened monetary policy successfully brought down core inflation to the BoU's target of 5 percent. They will remain vigilant of the inflationary pressures going forward, and set the policy rate at a level consistent with the BoU's inflation target rate while mindful of the continuous need to support real GDP growth. In that regard, the BoU will also ensure that credit and currency risks are appropriately assessed in view of the recent deterioration of asset quality and the increase in dollar-denominated loans. The BoU will also

continue to improve its inflation-specific analytical and forecasting tools in the context of the ITL monetary policy framework that has, thus far, served the country well. The authorities intend to recapitalize the BoU to ensure it has adequate resources and instruments to fully implement its monetary policy.

14. On the exchange rate, the BoU remains committed to a flexible exchange rate regime. In that regard, the BoU will remain vigilant and only intervene occasionally to smooth out excessive volatility. The authorities will also, over the medium term, seek to rebuild the country's international reserves.

Financial sector

15. The BoU will continue to enhance its supervisory and regulatory services to the financial institutions to enhance the stability of the country's financial system by mitigating NPLs and enforcing bank compliance with existing provisions. The pension sector is now effectively regulated following the operationalization of the Retirement Benefits Regulatory Authority in August 2012. The authorities have also tabled before Parliament the Retirement Benefits Sector Liberalization bill which is intended to improve governance of the pension schemes, introduce competition in the pension sector, and increase pension coverage. The authorities are also committed to implement further financial sector reforms, strengthen the regulatory framework for financial institutions to be fully consistent with the 2005 Basel Core Principles, and to update the Financial Institutions Act to allow banks to offer additional products.

Conclusion

16. The authorities regret the recent mishandling of public funds and the resultant suspension of budget support by the country's development partners. They reaffirm their commitment to expeditiously implement their six-tier PFM Reform Action Plan, in addition to strengthened implementation of their economic program supported by the PSI, to redress the governance deficit and facilitate normalization of relations with their development partners. The authorities are mindful that, in the meantime, the economy's growth prospects will remain constrained also as a result of the protracted global economic uncertainties. They are, in this regard, prepared to take additional measures to protect the country's macroeconomic stability. They, therefore, request continued support from the Fund, other international financial institutions, and development partners in their efforts to strengthen macroeconomic stability, restore high growth rates with low inflation for poverty reduction and attainment of the MDGs.