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UGANDA

December 2014

THIRD REVIEW UNDER THE POLICY SUPPORT INSTRUMENT—STAFF REPORT; AND PRESS RELEASE

In the context of the third review under the Policy Support Instrument, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on October 29, 2014, 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 November 21, 2014.
- An **Informational Annex** prepared by the IMF.
- A **Press Release**

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

THIRD REVIEW UNDER THE POLICY SUPPORT INSTRUMENT

November 21, 2014

KEY ISSUES

Supported by generally sound policies, economic performance was positive in FY2013/14. A fiscal stimulus and some monetary easing limited the slowdown in growth, which remained robust—albeit below projections. Difficulties in implementation capacity slowed the execution of externally-financed investments, and global and domestic uncertainties prevented further monetary easing. Against this backdrop, low inflation and strong reserves shielded the economy against shocks affecting key trading partners.

The envisaged policy mix is set to maintain the growth momentum in FY2014/15. A strong revenue package approved by parliament eliminated many statutory exemptions and set the basis for a structural change in the tax revenue trend. Its full implementation —alongside tax efficiency gains and expenditure restraint—is expected to create space for scaled-up development investment.

Well-planned infrastructure investment will support medium-term prospects. The upcoming oil production and progress on regional integration will be supported by scaled-up infrastructure. The infrastructure upgrades are ambitious and need to be well defined and sequenced to avoid undue effects on debt and domestic demand.

Progress achieved on structural reforms is expected to improve policy formulation. Institution building in the Ministry of Finance, Planning and Economic Development, with significant progress on public financial management; and improvements in the Bank of Uganda's inflation targeting framework are anticipated to boost public investment management and monetary policy effectiveness.

Risks to the program are not negligible. The pre-electoral period poses risks to fiscal discipline, which are compounded by possible regional and global spillovers.

Based on the satisfactory program performance and the proposed policies, staff supports completion of the third PSI review. All quantitative assessment criteria and structural benchmarks were met, and the authorities have taken action to address the shortfall in tax revenue collection. Progress toward the achievement of other key structural reforms has proceeded as expected.

Approved by
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Discussions: Held in Kampala during October 20-29, 2014. The mission met with senior government officials and economic authorities, parliamentarians, and representatives of the financial, business and international communities.

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RECENT DEVELOPMENTS

1. **Recent economic performance has been positive with robust growth, lower-than-expected inflation, and strong external and financial buffers.**

- At a still robust 5.2 percent, **real GDP growth** in FY2013/14 (July 2013 through June 2014) is estimated to have turned out slightly weaker than expected at the time of the second PSI review, mainly due to under-execution of externally-financed public investment. Despite a strong performance in the service sector (primarily tourism and business travel), growth decelerated with respect to FY2012/13 owing to depressed exports as demand in trading partners stalled.

- A sharp decline in food prices slowed **annual inflation** to 1.8 percent in October from 5.0 percent in June 2014. At 2.4 percent in October, core inflation was also well below the anticipated level, reflecting slower economic activity and possibly a larger-than-expected impact of the 5 percent exchange rate appreciation observed between July 2013 and February 2014.

- The **external current account deficit** narrowed significantly despite weak export performance as imports slowed, tourism receipts strengthened, and earnings repatriation declined. This performance—combined with resilient FDI and a sharp pick up in portfolio inflows—boosted international reserves, bringing its coverage to a peak of 4.7 months of imports in June 2014. A depreciation of the shilling of over 10 percent since February reflects the worldwide strengthening of the dollar and an increased demand for imports. The real effective exchange rate is broadly in line with fundamentals. Debt remained at low level of distress (Annex 1).

- **The banking system** continued to be liquid and solvent. Profitability, which was affected by the sharp increase in non-performing loans (NPLs) in the year up to March 2014, is now recovering as banks completed the provisioning process and bad debts started to decline.

2. **On the fiscal front, tax collections fell short of expectations and project execution was affected by slow implementation**. The overall deficit (excluding recapitalization of the Bank of Uganda (BoU)) increased from 3.4 to 4.1 percent of GDP in FY2013/14. The expansion was lower by 0.7 percent of GDP than anticipated at the time of the second PSI review mainly because procurement and project management difficulties prevented externally-financed projects from being executed to their full extent. Tax revenue in nominal terms was somewhat lower than envisaged (flat as a percent of GDP), affected by challenges in compliance and enforcement and insufficient tax buoyancy. About two thirds of the deficit was domestically financed. On the positive side, domestic arrears declined by 0.8 percent of GDP, of which 0.7 percent involved cash payments, mainly to road construction companies.

3. **The FY2014/15 budget, approved by parliament after intense discussions, removed many tax exemptions.** The elimination of tax exemptions, together with planned efficiency gains, created space to scale up capital expenditure. However, parliament introduced additional

expenditures, which the government decided would be best financed by reducing the contingency reserve rather than increasing domestic borrowing. Fiscal performance in the first four months of FY2014/15 was satisfactory, with tax revenue collection above expectations and only small overruns in expenditure.

4. **Construction of the two large hydropower plants (HPPs) has begun although the external financing agreements have not been finalized.** Based on a financing guarantee from China's Eximbank, the government disbursed its 15 percent financing share using savings originating from windfall capital gain taxes on oil transactions (the oil fund) and the energy fund. The financing agreement for the remaining 85 percent of the cost of the smallest dam, Isimba, has been finalized. The loan document—which as anticipated carries preferential terms—is expected to be ratified by parliament shortly. Financing negotiations for the 85 percent of the cost of Karuma, the largest dam, are ongoing. The authorities indicated that delays stem from protracted due diligence and internal procedures on the part of the creditor.

5. **The BoU has kept monetary policy tight despite receding inflationary pressures.** The BoU reduced the central bank rate (CBR) by 50 basis points to 11 percent in June. Notwithstanding a downward trend in inflation, the BoU kept the CBR constant in the monetary policy committee (MPC) meetings of July and October, noting that higher food prices and shilling depreciation could weigh on inflation, and acknowledging the impact of global and domestic risks on the evolution of domestic prices. Against this backdrop, lending rates have remained high, at 22 percent, while time deposit rates have declined. Credit to the private sector is recovering, driven mainly by personal and household loans for consumption.

PROGRAM PERFORMANCE

6. **Program performance was satisfactory.** Average core inflation reached 5.2 percent in June 2014—within the PSI inflation consultation clause bands—and the end-June quantitative assessment criteria (QAC) on net international reserves and government net domestic financing were met. All other end-June and continuous QAC and most indicative targets (ITs)—including the IT on the reduction in the stock of domestic arrears—were observed. The IT on tax revenue, however, was missed reflecting lower growth and shortfalls in efficiency gains. Preliminary information shows that end-September program performance was also satisfactory, with average core inflation at 4.2 percent, close to the inner band (lower limit) of the consultation clause. The ITs on net government domestic financing and on net international reserves were missed for technical reasons.[1]

7. **Considerable progress on structural reforms was achieved.** Structural benchmarks (SB) on eliminating exemptions from tax on interest earned on loans granted to agriculture and supply of specialized vehicles, plant and machinery were met, although the last one would produce a lower

[1] The government used resources from its main account in the BoU (and not from the oil fund) to finance HPPs in August. This transaction occurred on a temporary basis while waiting parliamentary approval for the use of the oil fund and was reversed in early November.

yield than expected in the PSI. The second recapitalization of the BoU with marketable securities was completed ahead of schedule (SB for October 2014), and a report on the stock of domestic arrears was published with delay in October (SB for September 2014). Progress has been made on upcoming SBs, including on further steps to fully implement the Treasury Single Account (TSA), issue regulations for the Public Finance Management (PFM) bill, use the trading license regime to collect taxes in three municipalities, and issue national identification cards.

ECONOMIC OUTLOOK AND RISKS

8. **Supported by sound policy implementation, the outlook is favorable.** At 6.1 percent, the growth projection for FY2014/15 remains unchanged and is expected to be driven by scaled-up public investment and a recovery in private demand as households and corporations deleverage and start accessing bank credit. Tax increases and the exchange rate depreciation are likely to push up inflation somewhat, but the still negative output gap would contain the impact.[2] At 4.5 percent, average core inflation is projected to remain within the PSI consultation bands. The current account deficit is projected to widen—despite the significant decline in oil prices—as imports related to HPPs and other infrastructure projects rise. Financing would include a combination of FDI, concessional and non-concessional borrowing, and use of savings, bringing down international reserves to 4.1 months of imports, a level that is still adequate for Uganda.

Text Table 1. Macroeconomic Outlook

	FY 2011/12	FY 2012/13	FY 2013/14	FY 2014/15	FY 2015/16
			(Percent)		
Real GDP growth	3.4	6.0	5.2	6.1	6.2
Headline CPI inflation, period average	23.5	5.8	6.7	5.0	5.0
Core CPI inflation, period average	24.6	6.6	5.2	4.5	5.0
		(Percent of GDP, unless otherwise specified)			
External current account balance	-11.2	-9.3	-6.2	-10.3	-9.4
International reserves (stock, months of imports)	4.2	4.4	4.7	4.1	4.1
Fiscal balance (excluding one-off spending)	-3.9	-3.4	-4.1	-3.1	-2.9
Overall balance	-3.0	-4.1	-4.1	-6.8	-5.5
Policy rate (end of period)	20.0	11.0	11.0		
Credit to the private sector (annual growth, percent)	11.5	6.4	13.9	15.6	15.6

Sources: Ministry of Finance, Planning and Economic Development of Uganda, Bank of Uganda, and IMF staff calculations.

9. **Stepped-up infrastructure development, progress on East African Community (EAC) integration, and oil production create favorable medium-term prospects.** Oil production is set to start in FY2018/19, and by FY2020/21 the enhanced electricity supply and road infrastructure are expected to generate significant productivity gains. These developments will certainly lower the

[2] Staff's latest estimates using aggregate (HP filter based), production function (growth accounting) and model based (FPAS) approaches point to potential output of 6.5 percent.

economy's vulnerability to shocks, adding to its current resilience supported by low and stable inflation, large international reserves, and relatively low debt.

10. **Nonetheless risks to the program are not negligible**. Potential external shocks include a deteriorating security situation in the region, delays in the disbursement of donor support and loans for HPPs, and foreign exchange outflows reflecting changing conditions in advanced economies. Ebola currently poses little risk, although its persistence could affect tourism and possibly investor sentiment. Domestically-driven risks lie on implementation capacity constraints and possible fiscal slippages as the election period approaches.

FISCAL POLICY

A. Pursuing a Fiscal Stance Supportive of Program Objectives

11. **Increased revenue and restrained current spending are expected to provide space for the large development projects currently underway.** The overall fiscal deficit is set to widen to 6.8 percent of GDP in FY2014/15 as a result of the significant investment in HPPs (3.4 percent of GDP, with a high import content) and the recapitalization of the central bank (0.4 percent of GDP, with no impact on domestic demand). Excluding these items, a fiscal consolidation of 1 percent of GDP is projected, supported by the authorities' commitment to increase the tax-to-GDP ratio by 0.5 percent to 13.1 percent of GDP, a considerable recovery in donor grants, and important current spending savings. An increase in domestic financing (4 percent of GDP compared to 2.5 percent in FY2013/14) is explained by the use of savings to finance HPPs, but issuances of securities in the market will be limited to an amount that would avoid crowding out private sector credit.

12. **Over the medium term the strategy is to continue to increase tax revenue and speed up project implementation to narrow the infrastructure gap and advance EAC integration.**

- On the **tax front**, further tax measures will have to be identified in the future to broaden the tax base—including cancelling the tax breaks currently granted to specific sectors and companies—as a considerable increase would be needed to reach the long-term EAC convergence criterion of 25 percent of GDP, even after considering the impact of the prospective oil revenues. The authorities reiterated their commitment to increasing the tax-to-GDP ratio by 0.5 percent of GDP per year over the medium term.

- Envisaged **infrastructure projects** include work related to oil production (refinery, pipelines, access roads, and water and electricity access) as well as a standard gauge railway (with a regional dimension) to facilitate access to the sea. These projects—which are now at a preliminary stage of preparation—would be largely financed through non-concessional borrowing. Staff recommended preparing thorough feasibility studies, inviting private sector participation when possible, seeking the most favorable financing terms, sequencing the projects in line with implementation capacity, and carefully assessing the impact on debt sustainability and economic absorption. The authorities agreed that careful planning is needed while noting the strong political pressure to advance the projects. They aim at conducting with staff a comprehensive analysis during the next review mission, with a view to phasing in the projects, starting in FY2015/16.

Text Table 2. Fiscal Operations of the Central Government, FY2012/13–2015/2016
(Percent of GDP)

	2012/13	2013/14	2014/15	2015/16
Total revenue and grants	14.8	14.2	15.1	15.2
Revenue	13.1	13.1	13.6	14.2
Tax	12.6	12.6	13.1	13.5
Non-tax	0.5	0.5	0.6	0.6
Grants	1.7	1.1	1.5	1.1
Expenditures and net lending	18.9	18.4	22.0	20.7
Current expenditures	10.5	10.7	10.5	10.7
Development expenditures	7.6	7.6	7.5	7.0
Net lending and investment [1]	0.7	0.0	3.8	2.6
Other spending [2]	0.1	0.0	0.3	0.4
Overall balance	-4.1	-4.1	-6.8	-5.5
Financing	3.7	3.9	6.8	5.5
External financing (net)	2.6	1.4	2.8	3.5
Domestic financing (net)	1.2	2.5	4.0	2.0
Commercial and non-bank financing	1.3	2.8	2.1	1.8
Errors and omissions	-0.3	-0.2	0.0	0.0
Memorandum items:				
Fiscal balance (excluding one-off spending) [3]	-3.4	-4.1	-3.1	-2.9

Sources: Ministry of Finance, Planning and Economic Development of Uganda and IMF staff calculations.
1/ Net lending and investment includes spending on hydro power projects and recapitalization of the central bank
2/ Other spending includes contingency reserve and repayment of domestic arrears.
3/ One off spending includes net lending and investment and oil revenues.

B. Ensuring Successful Implementation of Revenue-Enhancing Measures and Keeping Expenditure Under Control

13. **The revenue package eliminated inefficient tax exemptions, but needs to be complemented by other policy and administrative measures to achieve the revenue target.** The package eliminated many statutory VAT exemptions and several income tax exemptions, and increased excise taxes on a variety of products. However, the removal of VAT exemptions is now expected to generate less revenue than anticipated (up to 0.2 percent of GDP) because the yield from eliminating a large exemption was overestimated at the time of budget preparations. The authorities explained that another submission of tax measures to parliament this year was not viable, and worked closely with staff to identify corrective action. New tax policy measures —expected to yield about 0.1 percent of GDP—include an increase in the export levy on unprocessed tobacco leaf, withholding tax on re-insurance, and a requirement that parliamentarians pay tax on their allowances. Additional efficiency gains due to standardized valuation controls across customs agents, mandatory tax identification numbers for government suppliers, and additional income tax audits are expected to yield another 0.1 percent of GDP. Staff projections of private sector growth, a key driver of tax revenues, are somewhat stronger than at the time of the second PSI review, helping to further offset the lower revenue yield of the package.

14. **The new measures appear to be performing well, making up for some of the weaknesses observed in collections from traditional sources of tax.** Results for July through October show that the new measures are performing at or above expectations. However, current shortfalls in VAT collections in the electricity and water sectors would likely persist throughout the year, putting downward pressure on the revenue target. Corporate tax—expected to be aided by improvements in banks' profits—is collected in December and will be crucial in determining this year's performance. Staff recommended continuous monitoring of tax revenue with a view to enhancing collections when needed; emphasized the need to step up tax compliance and enforcement; and encouraged the recently appointed head of the Uganda Revenue Authority (URA) to lead these efforts.

15. **Staff supported efforts to keep expenditure under control, but urged the government to resist spending pressures now that fiscal space is limited.** Parliament approved additional current spending of about 0.3 percent of GDP. In reaction to that, the government decided to utilize a portion of the contingency reserve—created to deal with unforeseen events—and identified savings on wages, pensions, and other outlays, mainly as a result of the process of cleaning the payroll system and removing ghost workers. With the contingency buffer significantly diminished and heightened demand for additional spending, there is a need for strong commitment to the fiscal plan, particularly during the second half of the year when savings would prove more challenging. The authorities indicated that they are prepared to resist spending pressures that are likely to occur in the lead up to the 2016 election, and not to use the remaining contingency reserve (0.1 percent of GDP) unless absolutely necessary after fully implementing all identified savings, to maintain issuance of securities at the programmed level.

16. **Considerable progress has been made on reducing arrears.** During FY2013/14, the stock of arrears was reduced by 0.8 percent of GDP to Shs. 584 billion (0.9 percent of GDP). The authorities intend to further reduce it by at least Shs. 80 billion (0.1 percent of GDP) every year over the medium term. Staff urged the authorities to maintain the steady pace of arrears reduction and publish the quarterly reports on arrears and unpaid bills in a timely manner, in line with the agreed SBs.

17. **The authorities are committed to improving coordination within the Ministry of Finance, Planning and Economic Development (MoFPED).** Insufficient internal consistency hampered the preparation of accurate revenue and expenditure estimates, complicating the budgetary process. The authorities are working on enhancing coordination within the Ministry to improve estimates of revenue yields and ensure consistency across all entities producing arrears figures and interest payment projections.

MONETARY AND FINANCIAL SECTOR POLICIES

A. Preserving Low Inflation

18. **Discussions focused on the adequacy of the monetary policy stance.** Staff argued that the August and October MPC meetings could have provided a good opportunity for further monetary

easing because the declining trend in core inflation since January, the presentation to parliament of the budget in June, and overall improvements in confidence helped anchor inflation expectations. The BoU authorities noted that these positive developments were likely offset by the impact on the inflation forecast of expected price increases in food crops, high exchange rate pass-through to domestic prices, and a possible faster recovery of domestic demand. Looking forward, the BoU sees full implementation of the revenue-enhancing measures and adherence to the domestically-financed planned expenditure as necessary to support monetary easing.

19. **In this context, there is room for improving fiscal-monetary coordination.** Better planned issuances of securities for fiscal purposes and more certainty about the extent and timing of the use of government deposits in the BoU are likely to improve monetary decisions—notably because the current BoU Act allows for large intra-year overdrafts in the main government account. The timing of financing and implementation of HPPs and other projects also need to be coordinated, in particular when the BoU is expected to sell foreign exchange to the government for investment-related imports.

20. **The BoU maintained exchange rate flexibility—a key component of its monetary framework.** Despite the changing tendencies in the exchange rate evolution, the BoU intervened in the foreign exchange market only sporadically—on three occasions in June and July—to stem heightened volatility. It also kept its announced program of daily purchases to build up international reserves, but reduced the purchased amount on the days when the market was under excessive pressure. To improve market participants' understanding of the intervention policy, staff advised reminding markets explicitly that the primary BoU objective is achieving the inflation target and that any foreign exchange interventions are subordinate to that objective.

B. Promoting a More Efficient Financial System

21. **Despite better monetary transmission, lending rates reacted slowly to declines in the CBR, making credit recovery sluggish and insufficient to support productive activities.** The 7-day interbank rate follows the CBR closely, and there is a clear correlation between the CBR and the time deposit rate. However, the decline in lending rates over the last year has been negligible and bank spreads have widened. The costs of dealing with NPLs —which had been rising sharply since 2012 and only started declining last June—and the corresponding increase in provisioning and decline in profitability partly explain this situation, but there are structural rigidities that need to be addressed. The recent and expected credit recovery is welcome, but credit is not yet broad-based and leaves key productive sectors underserved (Annex 2).

22. **The financial sector remains subject to strong supervision.** Financial oversight of banks and deposit-taking non-banks remains diligent—as illustrated by the recent BoU's decision to revoke the license of a bank that incurred persistent losses and missed reporting requirements. Recent supervision improvements include on-site inspections focusing on the more risky banks, specific instructions for capital injections when needed, improvements of the governance structure, and joint efforts with foreign regulators to enhance consolidated supervision. Staff encouraged heightened bank risk assessment now that credit is picking up and the shilling is depreciating. It

also recommended further strengthening the AML/CFT framework, particularly in relation to terrorism financing, in line with the action plan agreed with the Financial Action Task Force.

Text Table 3. Key Interest Rates (in percent)[1]

	Jul-11	Jul-12	Jul-13	Jan-14	Apr-14	Jul-14	Sep-14
CBR	13.00	19.00	11.00	11.50	11.50	11.00	11.00
7-day interbank market	15.32	18.52	11.02	11.16	11.35	11.01	11.00
Deposit (shillings)	2.82	3.61	2.90	3.53	3.41	2.40	2.49
Lending (shillings)	21.72	26.88	23.15	21.82	21.65	21.41	21.68
91-day Treasury bill	13.09	16.74	9.37	8.37	9.87	9.07	10.03
182-day Treasury bill	13.47	16.38	10.68	10.66	11.33	10.33	10.87
364-day Treasury bill	13.30	14.93	11.70	10.74	11.53	10.68	11.25

Source: Bank of Uganda

1/ Interest rates are monthly averages. Loan and deposit rates are weighted averages by loan and deposit size across banks.

2/ Data from Aug-14 used when Sep-14 unavailable.

STRUCTURAL REFORMS

A. Public Financial Management and Economic Efficiency

23. **Parliament has yet to approve the PFM bill, but there has been progress on drafting regulations for its implementation, with support from the IMF's Fiscal Affairs Department.** Regulations are meant to cover petroleum revenue management; budget preparation, approval and implementation; and cash management, accounting and auditing. The PFM bill will bring forward the budget cycle, resulting in most milestones advancing by three months. Further work is needed to finalize a charter of fiscal responsibility, which will establish fiscal principles and measurable objectives (Annex 3). Staff encouraged timely completion of the regulations, and continued progress in implementing the TSA by strengthening its design and avoiding movement of cash to subaccounts. The integration of donor funds and autonomous and semi-autonomous agencies would occur somewhat later than envisaged, once the TSA head and sub-account structure is completed. It is proposed that the relevant SB be modified to reflect this approach.

24. **Institutional changes in the MoFPED are meant to improve public investment management.** Aware of the importance of sound public investment management, a new department has been created to strengthen capacity for identifying, appraising, and developing investment projects. With World Bank support, the authorities will develop and publish public investment guidelines for conducting economic, social and financial analysis of proposed projects (new structural benchmark). A new Public Private Partnership (PPP) Act was passed by parliament, and a PPP unit was established within the Ministry.

25. **A population census was completed and the process of issuing national identification cards is underway.** The census took place in August and the results—including crucial statistics on employment—are expected by the end of the year. With new equipment and information campaigns, registration of the national identification cards started in June. This project will support tax collection, promote identification of financial sector clients, and help combat money laundering.

26. **The Uganda Bureau of Statistics is expected to publish rebased GDP figures before the end of the year.** The new GDP base year will be updated from the current FY2001/02 to FY2009/10, and the coverage expanded to include activities related to the information and communications technology sector and mobile money transactions, among others. The rebasing is expected to raise nominal GDP by as much as 17 percent. Discussions on the impact of the rebased GDP on PSI targets and on tax and debt dynamics will take place in the context of the next program review.

27. **A new five year National Development Plan is currently being prepared.** Although initially set to come in force in June 2015, the authorities have extended the current plan for an additional year to provide sufficient time for consultation, and ensure alignment with the rebased GDP, the census results, and the new charter of fiscal responsibility. An updated annual performance review of the poverty reduction strategy, available to the IMF Executive Board, describes recent progress and intended policies (see Uganda's 2014 Poverty Reduction Strategy Paper: Progress Report, and Annex IV). Staff welcomes the progress achieved in improving social indicators supported by sound economic policies, government targeted interventions, and structural reforms. The authorities' progress report provides a satisfactory framework for the implementation of the poverty reduction strategy.

B. Central Bank and Financial Sector Modernization

28. **The BoU continues to strengthen its institutional capacity.** The ongoing recapitalization process with marketable securities is helping improve BoU's instrument independence. Further recapitalizations will be needed to fully align BoU's capital to its monetary liabilities, but signature of a memorandum of understanding between the MoFPED and BoU to that end—also aimed at containing the BoU's administrative costs—has been delayed. Staff encouraged finalization of such agreement and further progress on the planned amendments to the BoU Act, which aim at limiting the government's use of BoU credit, making the BoU's Board more independent, and strengthening internal and external audit functions.

29. **The BoU is also improving its forecasting capacity in support of monetary policy formulation with assistance from the IMF's Research Department.** The schedule for monetary policy signaling was changed, with the CBR now announced every two months on the tenth working day of the month (formerly, the first week of every month). The change intends to improve inflation forecasts by incorporating firmer economic data in the analysis. Capacity building of BoU staff continues, with a plan to enhance the quality and disseminate the use of the Forecast and Policy Analysis System (FPAS) more widely.

30. **Government is discussing amendments to the Financial Institutions Act.** These are expected to open the door to Islamic banking, improve mobile banking and money transfer

services, introduce insurance services by banks, reform the deposit protection fund and the bank resolution process, and expand access to credit bureau data. The Act will also allow inclusion of market risk in the measurement of risk-weighted assets, and introduce additional bank capital buffers. Staff welcomed these reforms, which should boost competition and efficiency in the financial sector.

C. Social Protection

31. **Despite impressive declines in the poverty rate, the absolute number of people living in poverty has remained high.** Given the rapidly expanding population, approximately seven million citizens still live below the poverty line and inequality remains widespread. Together with DFID and the World Bank, staff presented to the authorities evidence of the beneficial impact of well-structured targeted transfer programs to protect the most vulnerable segments of society in other countries in the region and recommended exploring options to ensure that growth remains inclusive (Annex 4). The authorities favored growth inclusiveness and agreed with the principle of social protection. They decided to take stock of ongoing projects and analyze how to enhance the social protection system, considering the limits imposed by the constrained budgetary environment.

D. Regional Integration

32. **As a member of the East African Community, Uganda has recently made further progress in the economic integration process.** In April, the single customs territory system was extended to cover products like cigarettes, cement, and steel goods. To enhance the common market, 36 national priority laws were harmonized, although laws on investment, immigration and external trade are yet to conform to the standards. Free Kiswahili training lessons were opened to the public to promote business at a regional level. Further, the East African Payment System is facilitating cross-border payments and promoting regional trade. Despite these achievements, there was less progress on removing non-tariff barriers (weighbridges, roadblocks, delays at border posts, and inconsistent import and export standards). While partner states were expected to conclude parliamentary ratification of the Monetary Union Protocol by July 2014, Uganda is yet to do so.

STAFF APPRAISAL

33. **Uganda's recent policies have been successful in supporting economic growth, but gains in implementation capacity are critically needed.** Policies have been focused on preserving low inflation and a comfortable international reserve position, and these two buffers have proven crucial in protecting the economy against regional shocks. Government investment was supportive of growth, and the BoU started easing the monetary policy stance with some favorable results in credit expansion. Nonetheless, the space for externally-financed investment was not fully used, with several projects remaining in the pipeline despite availability of financing. This calls for upgrades in the capacity to appraise, analyze and implement investment projects.

34. **The removal of many statutory tax exemptions in a pre-electoral year represents a key milestone in Uganda's efforts to increase its low tax-to-GDP ratio.** Full implementation of the

new measures, together with envisaged action to enforce tax compliance, should enable the authorities to achieve the targeted 0.5 percent increase in the tax-to-GDP ratio. These plans are ambitious, and achievement will critically depend on ensuring strong enforcement and avoiding granting new exemptions. The new head of the URA is encouraged to embrace the opportunity to lead these efforts.

35. **The revenue enhancement effort needs to be complemented by strict adherence to the expenditure envelope and by improvements in coordination within the MoFPED.** The recent clean-up of the payroll and significant reduction of arrears are commendable. Building on these principles, there is a need to resist spending pressures including the use of supplementary budgets; preserve the quality of spending by avoiding reallocations from capital to current expenditure; further reduce and publish arrears in line with PSI understandings; and treat the existing contingency balance as a safeguard against shocks. The authorities' resolve to strengthen coordination within the MoFPED is welcome.

36. **The BoU's prudent monetary stance has brought inflation to a four-year low, setting the conditions for some additional monetary easing.** Provided that the inflation forecast shows well-contained pressures on future inflation and that fiscal risks dissipate, the BoU could consider lowering the CBR to support growth. Better coordination between fiscal and monetary policies should assist these efforts. Strong banking supervision and action to remove banks' structural rigidities and encourage financial deepening should continue.

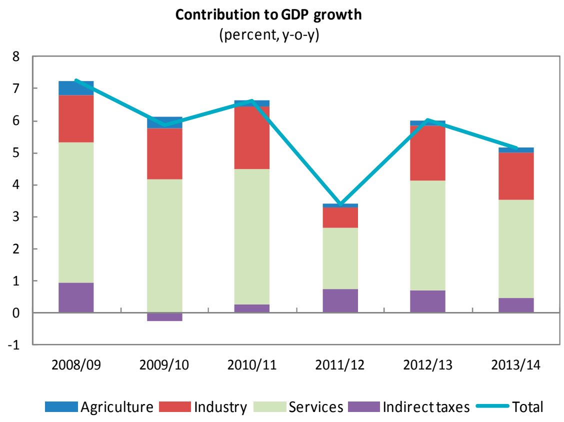
37. **The revamped infrastructure investment plans need to be based on a well-planned rollout strategy.** The financing agreements for the HPPs should be finalized without further delay to avoid interruptions in the execution of projects that already started. The strategy to implement other projects needs to include project selection on the basis of strong feasibility studies and commercial viability analysis; and sequencing that takes into account the impact on debt sustainability, the ability of the economy to absorb investments without generating inflation or crowding out the private sector, and the implementation capacity.

38. **Structural reforms are set to continue.** Approval and implementation of the PFM bill is a priority. The completion of the charter of fiscal responsibility, together with the issuance of PFM bill regulations, will facilitate preparations for petroleum revenue management and improve fiscal policy efficiency. On the monetary front, further progress on the BoU recapitalization process and enhancement of central bank independence will be welcomed. Issuance of national identity cards to all citizens will be an important mechanism for boosting transparency of economic transactions.

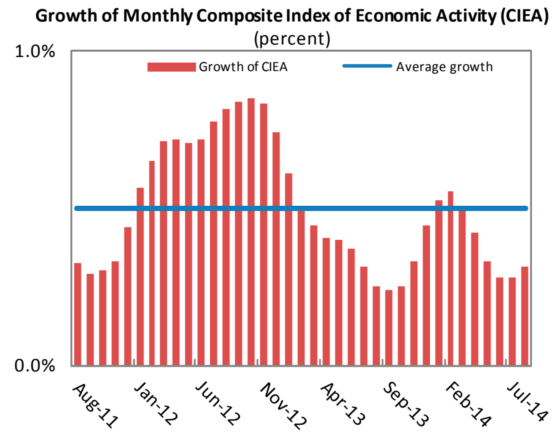
39. **Staff recommends completing the third review of the PSI-supported program.** The attached LoI and MEFP outline policies for the rest of this fiscal year and propose an additional structural benchmark on the development of guidelines to screen, select and finance investment projects. The authorities also propose an increase in the end-December 2014 ceiling on net domestic financing of the central government, which staff supports to reflect the expected lower expansion in nominal GDP. Finally, staff proposes dropping the base money IT, as it is not being taken into consideration for monetary policy, and was introduced on a transitional basis.

Figure 1. Uganda: Recent Economic Developments

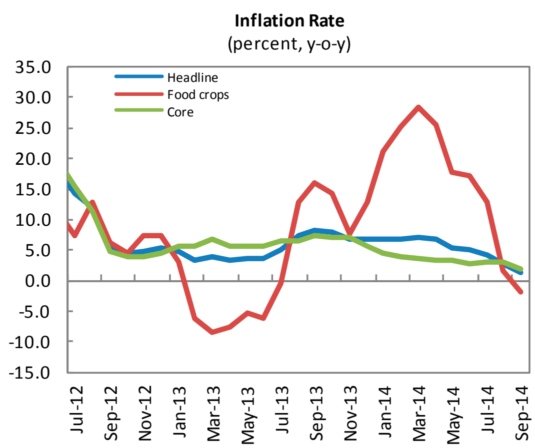
Economic growth has recently decelerated, led by the service sector...



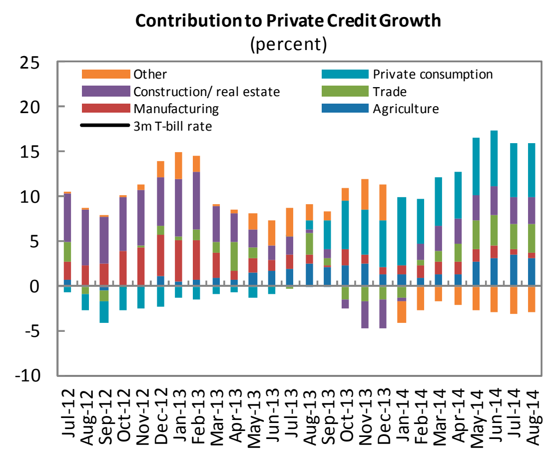
...in line with leading indicators.



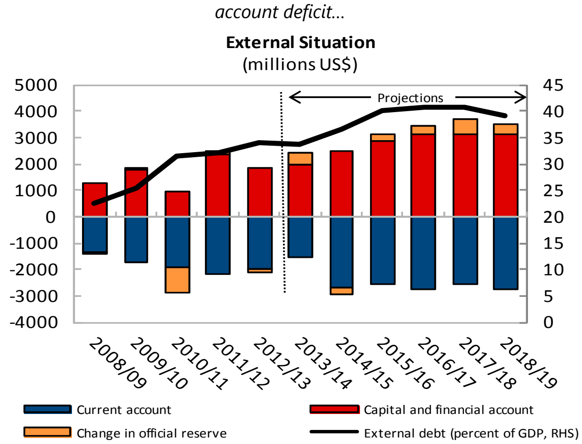
Inflation has been low helped by decelerating food crops' prices...



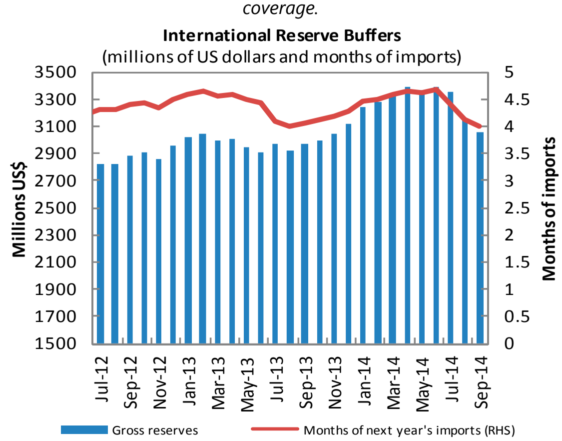
...and private sector credit is gradually rebounding.



Robust investment flows are financing the current account deficit...



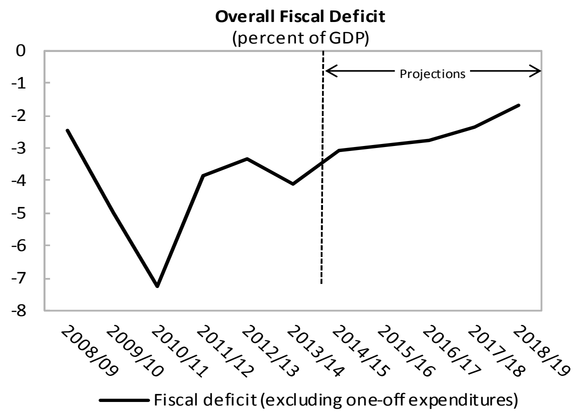
...and international reserves maintain adequate coverage.



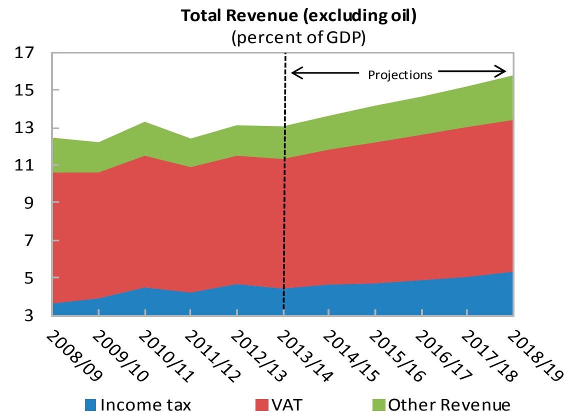
Sources: Bank of Uganda, World Bank and IMF staff calculations.

Figure 2. Uganda: Fiscal Developments and Outlook

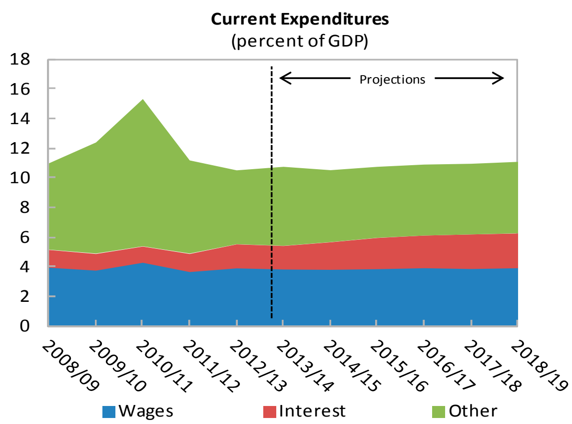
Fiscal consolidation should continue…



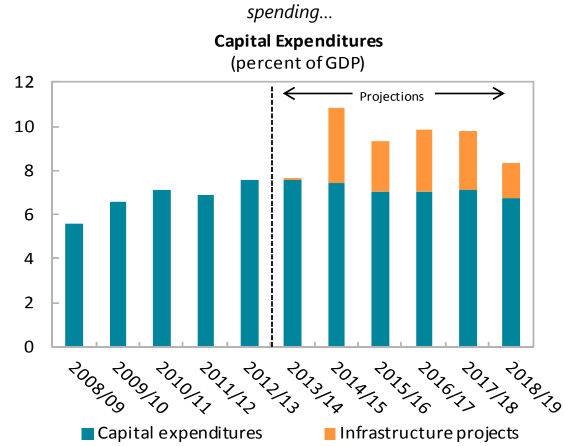
…through higher revenue mobilization…



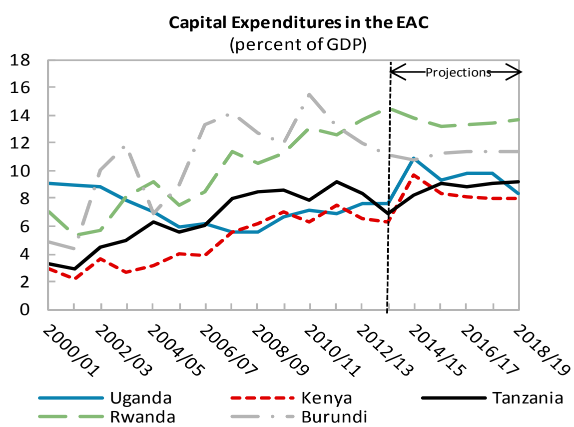
…and streamlining of current spending …



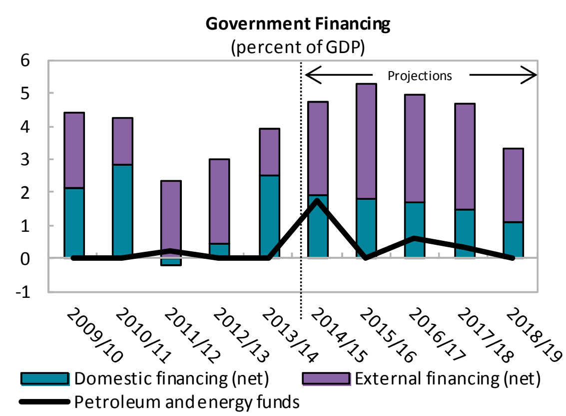
…to provide space for increased infrastructure spending…



…and align public investment to regional standards…



…while containing domestic borrowing requirements.



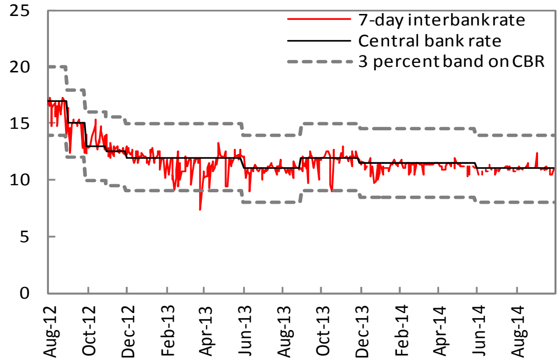
Note: Domestic financing excludes withdrawal of petroleum funds and energy funds and issuance of government securities for the recapitalization of Bank of Uganda.

Sources: Bank of Uganda and IMF staff calculations

Figure 3. Uganda: Monetary and Financial Sector Developments and Outlook

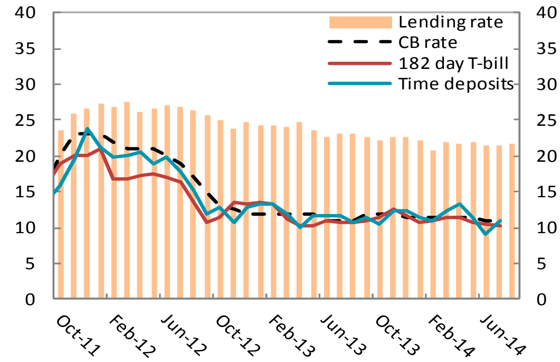
The Central Bank rate has a clear influence on interbank rates…

Central Bank and Interbank Rate
(percent)



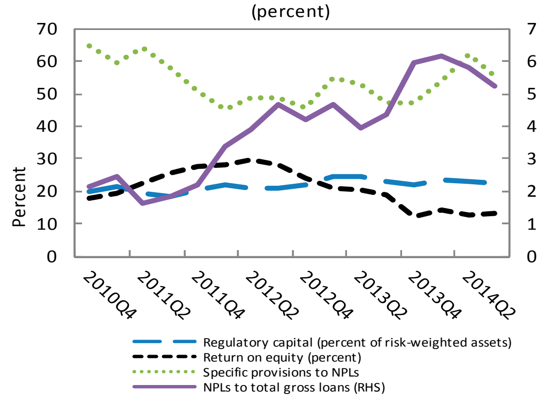
…but the spread between deposit and lending rates remains high.

Interest Rate Structure
(percent)



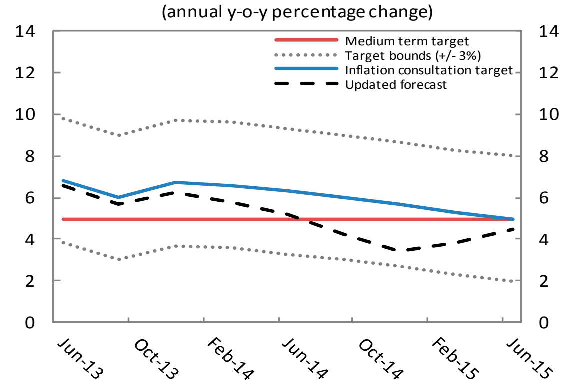
Provisions have increased concurrently with NPLs, negatively impacting profitability.

Selected Financial Sector Indicators
(percent)



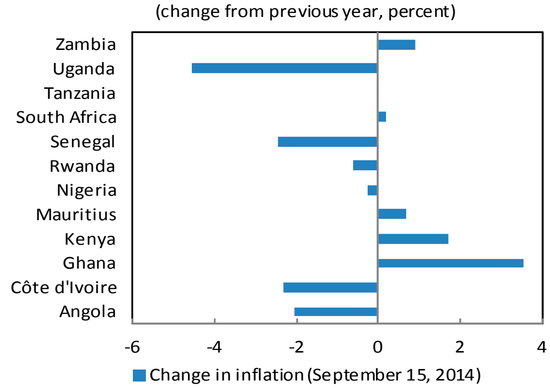
The inflation targeting framework is helping align core inflation forecasts to the medium term target…

Core Inflation Forecast
(annual y-o-y percentage change)



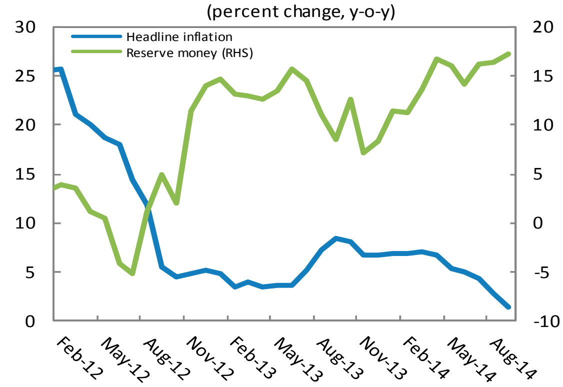
…successfully reducing inflation…

Change in Inflation for Select SSA Countries
(change from previous year, percent)



…and minimizing the effect of reserve money on inflation.

Reserve Money and Inflation Growth
(percent change, y-o-y)



Sources: Bank of Uganda and IMF staff calculations.

Table 1. Uganda: Selected Economic and Financial Indicators FY2010/11–2018/19[1]

	2010/11	2011/12	2012/13	2013/14		2014/15		2015/16	2016/17	2017/18	2018/19
				2nd Rev	Prel.	2nd Rev	Proj.	Proj.	Proj.	Proj.	Proj
	(Annual percentage change, unless otherwise indicated)										
Output, prices, and exchange rate											
Real GDP	6.6	3.4	6.0	5.7	5.2	6.1	6.1	6.2	6.5	6.8	7.0
GDP deflator	5.0	24.2	4.5	7.3	6.7	7.2	5.7	4.9	4.3	4.3	4.3
CPI (period average)	6.5	23.5	5.8	6.9	6.7	6.9	5.0	5.0	5.0	5.0	5.0
CPI (end of period)	15.7	18.0	3.6	6.0	5.0	6.4	6.0	5.0	5.0	5.0	5.0
Core inflation (end of period)	12.1	19.6	5.7	5.1	2.9	5.9	5.7	5.0	5.0	5.0	5.0
Core inflation (period average)	6.3	24.6	6.6	5.4	5.2	5.7	4.5	5.0	5.0	5.0	5.0
Terms of trade (deterioration, -)	4.3	3.5	-8.2	-0.7	-0.3	-1.5	0.0	-0.4	-0.6	-0.3	0.2
Exchange Rate (Ugandan Shilling/US$)	14.5	10.1	1.3	...	-2.0	...	...	...	...	...	...
Real effective exchange rate (depreciation, -)	-0.9	4.5	5.4	...	8.3	...	...	...	...	...	...
Money and credit											
Broad money (M3)	25.7	7.2	6.6	13.4	17.4	16.3	17.5	17.5	15.2	15.9	14.9
Credit to non-government sector	43.6	11.5	6.4	10.6	13.9	14.7	15.6	15.6	15.4	15.1	15.7
Bank of Uganda policy rate [2]	...	20.0	11.0	...	11.0	...	...	...	...	...	...
M3/GDP (percent)	27.0	22.5	21.7	21.7	22.7	22.2	23.8	25.1	26.0	27.0	27.8
NPLs (percent of total loans)	1.6	3.9	4.0	...	5.8	...	...	...	...	...	...
	(Percent of GDP, unless otherwise indicated)										
Central government budget											
Revenue and grants	18.5	15.5	14.8	14.5	14.2	15.4	15.1	15.2	15.6	16.1	16.5
Of which : grants	2.3	2.3	1.7	1.4	1.1	1.7	1.5	1.1	0.9	0.9	0.7
Expenditure	22.8	18.5	18.9	19.5	18.4	22.6	22.0	20.7	21.5	21.2	19.9
Current	15.3	11.1	10.5	10.7	10.7	10.5	10.5	10.7	10.8	10.9	11.0
Capital	7.1	6.9	7.6	8.6	7.6	8.2	7.5	7.0	7.1	7.1	6.7
Primary balance	-3.2	-1.8	-2.5	-3.3	-2.6	-5.4	-5.0	-3.4	-3.8	-2.8	-1.1
Overall balance	-4.3	-3.0	-4.1	-5.0	-4.1	-7.2	-6.8	-5.5	-5.9	-5.1	-3.4
Excluding grants	-6.6	-5.3	-5.8	-6.4	-5.3	-8.9	-8.3	-6.6	-6.9	-6.0	-4.1
Net domestic borrowing	2.8	0.0	1.2	2.6	2.5	3.6	4.0	2.0	2.7	1.9	1.2
Public debt											
Public gross nominal debt	31.0	26.5	30.1	33.7	30.6	37.0	33.7	37.0	39.3	40.7	40.3
of which : external public debt	17.3	16.2	17.5	17.5	17.1	20.5	19.5	22.2	24.0	25.3	25.3
Investment and savings											
Investment	25.0	24.6	24.5	23.6	22.6	27.1	27.1	26.1	27.2	27.6	26.4
Public	6.7	5.7	5.9	6.8	6.1	9.3	8.6	7.7	8.1	8.0	6.8
Private	18.3	18.9	18.7	16.8	16.5	17.8	18.5	18.5	19.1	19.6	19.5
Savings	12.3	12.3	14.9	13.6	16.1	15.5	16.5	16.4	17.4	19.1	18.2
Public	-1.6	0.6	1.4	1.4	1.6	1.7	1.4	1.8	1.8	2.6	3.2
Private	13.9	11.6	13.5	12.1	14.5	13.8	15.1	14.6	15.6	16.5	15.0
External sector											
Exports (goods and services)	22.8	23.2	22.9	20.0	21.8	20.5	21.0	22.1	22.4	24.2	24.9
Imports (goods and services)	40.6	38.8	33.3	31.0	32.0	33.1	33.2	33.3	33.6	33.7	33.9
Current account balance (including grants)	-11.4	-11.2	-9.3	-9.7	-6.2	-11.2	-10.3	-9.4	-9.5	-8.2	-7.9
Current account balance (excluding grants)	-12.7	-12.3	-9.6	-10.0	-6.5	-11.6	-10.6	-9.7	-9.8	-8.5	-8.1
Gross international reserves											
In billions of US$	2.0	2.6	2.9	3.0	3.4	3.0	3.2	3.4	3.7	4.3	4.6
In months of next year imports	3.2	4.2	4.4	4.2	4.7	4.0	4.1	4.1	4.2	4.3	4.3
Memorandum items:											
GDP at current market prices											
Billion of Ugandan shillings	39,086	50,193	55,602	62,999	62,392	71,650	69,962	77,921	86,591	96,439	107,634
US$ billion	16,822	19,629	21,459	...	24,583	...	...	...	...	...	...
GDP per capita (Nominal US$)	487	551	583		646		669	676	701	735	778
Population (million)	...	34.1	...	...	...	...	... ..	...	...	...	...
Share of population below poverty line (percent)	...	...	22.0	22	...	...	... ..	...	...	...	...

Sources: Ugandan authorities and IMF staff estimates and projections.

[1] Fiscal year runs from July 1 to June 30.

[2] The CBR was introduced following the start of Inflation Targeting Lite in July 2011. End of year CBR.

Table 2a. Uganda: Fiscal Operations of the Central Government, FY2010/11–2018/19[1]
(Billions of Ugandan Shillings)

	2010/11	2011/12	2012/13	2013/14		2014/15		2015/16	2016/17	2017/18	2018/19
				2nd Rev	Prel.	2nd Rev	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	7,221	7,771	8,245	9,130	8,874	10,999	10,569	11,872	13,510	15,537	17,726
Revenue	6,330	6,634	7,309	8,252	8,165	9,777	9,547	11,048	12,691	14,656	16,988
Tax	4,958	5,983	7,005	7,914	7,831	9,372	9,132	10,544	12,111	13,963	16,159
International trade taxes	455	503	599	765	747	893	845	1,020	1,179	1,387	1,722
Income taxes	1,750	2,112	2,588	2,809	2,756	3,318	3,243	3,654	4,210	4,855	5,713
Excises	1,186	1,446	1,466	1,739	1,757	2,094	2,098	2,439	2,784	3,151	3,480
Value-added tax	1,567	1,921	2,353	2,600	2,570	3,066	2,946	3,432	3,939	4,570	5,245
Nontax	251	259	304	339	334	405	416	504	580	693	829
Oil revenue	1,121	392	0	0	0	0	0	0	0	0	0
Grants	891	1,137	936	877	709	1,222	1,022	824	819	881	738
Budget support[2]	515	581	199	218	215	257	222	256	254	274	229
Project grants	375	556	738	660	494	964	800	568	564	607	509
Expenditures and net lending[3]	8,900	9,281	10,523	12,281	11,456	16,177	15,358	16,156	18,653	20,466	21,372
Current expenditures	5,963	5,585	5,813	6,713	6,675	7,491	7,324	8,332	9,394	10,516	11,870
Wages and salaries	1,664	1,832	2,160	2,422	2,384	2,913	2,654	2,991	3,375	3,714	4,196
Interest payments	424	603	890	1,055	970	1,291	1,277	1,614	1,880	2,210	2,492
Other current	3,875	3,150	2,763	3,236	3,321	3,287	3,392	3,727	4,139	4,592	5,182
Development expenditures	2,774	3,458	4,237	5,448	4,740	5,894	5,225	5,477	6,140	6,844	7,264
Externally-financed projects	1,042	1,701	2,163	2,412	1,674	2,664	1,902	1,764	1,843	1,836	1,570
Government of Uganda investment	1,732	1,756	2,074	3,036	3,066	3,230	3,323	3,713	4,297	5,008	5,694
Net lending and investment[4]	-30	-39	409	120	21	2,512	2,629	2,017	2,740	2,677	1,809
Of which: HPP projects		0	0	120	21	2,262	2,379	1,817	2,390	2,577	1,709
Of which: Bank of Uganda recapitalization		0	410	0	0	250	250	200	350	100	100
Other spending	194	278	63	0	20	280	180	330	380	430	430
Clearance of domestic arrears	194	278	63	0	20	80	80	80	80	80	80
Contingency	0	0	0	0	0	200	100	250	300	350	350
Overall balance	-1,680	-1,510	-2,277	-3,152	-2,582	-5,178	-4,789	-4,284	-5,144	-4,929	-3,646
Financing	1,654	1,191	2,084	3,152	2,455	5,178	4,789	4,284	5,144	4,929	3,646
External financing (net)	549	1,171	1,418	1,505	879	2,578	1,957	2,698	2,810	3,084	2,359
Disbursement	703	1,374	1,628	1,752	1,120	2,859	2,251	3,013	3,149	3,466	2,770
Budget support	233	126	324	0	0	0	0	0	0	0	0
Concessional project loans	470	1,056	1,303	1,496	1,120	1,699	1,102	1,196	1,278	1,228	1,060
Non-concessional borrowing	0	192	0	256	0	1,160	1,148	1,817	1,870	2,238	1,710
Amortization (–)	-146	-193	-200	-217	-212	-275	-275	-295	-328	-382	-410
Exceptional financing	-8	-10	-10	-30	-30	-7	-19	-20	-11	0	0
Domestic financing (net)	1,105	20	666	1,647	1,576	2,600	2,832	1,585	2,334	1,844	1,287
Bank financing	622	-1,242	508	881	647	1,550	2,083	863	1,550	1,077	615
Bank of Uganda[5]	270	-1,182	-77	-72	-198	1,214	1,334	200	870	438	100
Of which: Petroleum fund withdrawals	0	0	0	0	-1	448	482	0	520	338	0
Of which: Energy fund withdrawals	0	122	0	120	21	654	748	0	0	0	0
Of which: Government Securities[4]	0	0	410	0	0	250	250	200	350	100	100
Commercial banks	351	-60	585	953	845	336	749	663	680	639	515
Nonbank financing	483	1,262	158	766	930	1,050	749	722	784	767	673
Errors and omissions/financing gap (- is gap, + is surplus)	-26	-319	-193	0	-127	0	0	0	0	0	0
Memorandum Items:											
Overall balance, excluding HPPs and BoU recapitalization	-2,377	-1,942	-1,868	-3,032	-2,561	-2,666	-2,160	-2,267	-2,404	-2,252	-1,155
Petroleum revenues (Ush billions)											
Inflows (including interest)	1,121	405	16	16	16	15	15	13	14	9	6
Valuation adjustment	52	156	-58	-17	4	109	91	69	31	22	4
Withdrawals	0	0	0	0	-1	448	482	0	520	338	0
Stock at end period	1,121	1,682	1,640	1,639	1,661	1,314	1,284	1,366	892	585	595
Public domestic debt[6]	5,382	5,206	7,033	10,170	8,798	11,783	10,400	11,985	13,799	15,305	16,592

Sources: Ugandan authorities and IMF staff estimates and projections.

[1] Fiscal year runs from July 1 to June 30.

[2] Include mainly HIPC-related grants from FY 2013/14 onwards.

[3] Expenditure categories in FY2013/14 include clearance of arrears totaling Shs. 544 billion, mainly in Government of Uganda investment and other current spending.

[4] Reflects actual and projected issuances for the recapitalization of Bank of Uganda.

[5] Net financing from the Bank of Uganda includes resources freed by MDRI relief.

[6] Public domestic debt has been revised following methodological discussions, and new information, on intra-public sector transactions.

Table 2b. Uganda: Fiscal Operations of the Central Government, FY2010/11–2018/19[1]
(Percent of GDP)

	2010/11	2011/12	2012/13	2013/14		2014/15		2015/16	2016/17	2017/18	2018/19
				2nd Rev	Prel.	2nd Rev	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	18.5	15.5	14.8	14.5	14.2	15.4	15.1	15.2	15.6	16.1	16.5
Revenue	16.2	13.2	13.1	13.1	13.1	13.6	13.6	14.2	14.7	15.2	15.8
Tax	12.7	11.9	12.6	12.6	12.6	13.1	13.1	13.5	14.0	14.5	15.0
International trade taxes	1.2	1.0	1.1	1.2	1.2	1.2	1.2	1.3	1.4	1.4	1.6
Income taxes	4.5	4.2	4.7	4.5	4.4	4.6	4.6	4.7	4.9	5.0	5.3
Excises	3.0	2.9	2.6	2.8	2.8	2.9	3.0	3.1	3.2	3.3	3.2
Value-added tax	4.0	3.8	4.2	4.1	4.1	4.3	4.2	4.4	4.5	4.7	4.9
Nontax	0.6	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.7	0.7	0.8
Oil revenue	2.9	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	2.3	2.3	1.7	1.4	1.1	1.7	1.5	1.1	0.9	0.9	0.7
Budget support[2]	1.3	1.2	0.4	0.3	0.3	0.4	0.3	0.3	0.3	0.3	0.2
Project grants	1.0	1.1	1.3	1.0	0.8	1.3	1.1	0.7	0.7	0.6	0.5
Expenditures and net lending[3]	22.8	18.5	18.9	19.5	18.4	22.6	22.0	20.7	21.5	21.2	19.9
Current expenditures	15.3	11.1	10.5	10.7	10.7	10.5	10.5	10.7	10.8	10.9	11.0
Wages and salaries	4.3	3.6	3.9	3.8	3.8	4.1	3.8	3.8	3.9	3.9	3.9
Interest payments	1.1	1.2	1.6	1.7	1.6	1.8	1.8	2.1	2.2	2.3	2.3
Other current	9.9	6.3	5.0	5.1	5.3	4.6	4.8	4.8	4.8	4.8	4.8
Development expenditures	7.1	6.9	7.6	8.6	7.6	8.2	7.5	7.0	7.1	7.1	6.7
Externally-financed projects	2.7	3.4	3.9	3.8	2.7	3.7	2.7	2.3	2.1	1.9	1.5
Government of Uganda investment	4.4	3.5	3.7	4.8	4.9	4.5	4.7	4.8	5.0	5.2	5.3
Net lending and investment	-0.1	-0.1	0.7	0.2	0.0	3.5	3.8	2.6	3.2	2.8	1.7
Of which: HPP projects		0.0	0.0	0.2	0.0	3.2	3.4	2.3	2.8	2.7	1.6
Of which: Bank of Uganda recapitalization[4]		0.0	0.7	0.0	0.0	0.3	0.4	0.3	0.4	0.1	0.1
Other spending	0.5	0.6	0.1	0.0	0.0	0.4	0.3	0.4	0.4	0.4	0.4
Clearance of domestic arrears	0.5	0.6	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Contingency	0.0	0.0	0.0	0.0	0.0	0.3	0.1	0.3	0.3	0.4	0.3
Overall balance	-4.3	-3.0	-4.1	-5.0	-4.1	-7.2	-6.8	-5.5	-5.9	-5.1	-3.4
Financing	4.2	2.4	3.7	5.0	3.9	7.2	6.8	5.5	5.9	5.1	3.4
External financing (net)	1.4	2.3	2.6	2.4	1.4	3.6	2.8	3.5	3.2	3.2	2.2
Disbursement	1.8	2.7	2.9	2.8	1.8	4.0	3.2	3.9	3.6	3.6	2.6
Budget support	0.6	0.3	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Concessional project loans	1.2	2.1	2.3	2.4	1.8	2.4	1.6	1.5	1.5	1.3	1.0
Non-concessional borrowing	0.0	0.4	0.0	0.4	0.0	1.6	1.6	2.3	2.2	2.3	1.6
Amortization (–)	-0.4	-0.4	-0.4	-0.3	-0.3	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
Exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing (net)	2.8	0.0	1.2	2.6	2.5	3.6	4.0	2.0	2.7	1.9	1.2
Bank financing	1.6	-2.5	0.9	1.4	1.0	2.2	3.0	1.1	1.8	1.1	0.6
Bank of Uganda[5]	0.7	-2.4	-0.1	-0.1	-0.3	1.7	1.9	0.3	1.0	0.5	0.1
Of which: Petroleum fund withdrawals	0.0	0.0	0.0	0.0	0.0	0.6	0.7	0.0	0.6	0.4	0.0
Of which: Energy fund withdrawals	0.0	0.2	0.0	0.2	0.0	0.9	1.1	0.0	0.0	0.0	0.0
Of which: Government Securities[4]	0.0	0.0	0.7	0.0	0.0	0.3	0.4	0.3	0.4	0.1	0.1
Commercial banks	0.9	-0.1	1.1	1.5	1.4	0.5	1.1	0.9	0.8	0.7	0.5
Nonbank financing	1.2	2.5	0.3	1.2	1.5	1.5	1.1	0.9	0.9	0.8	0.6
Errors and omissions/financing gap (- is gap, + is surplus)	-0.1	-0.6	-0.3	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items:											
Overall balance, excluding HPPs and BoU recapitalization	-6.1	-3.9	-3.4	-4.8	-4.1	-3.7	-3.1	-2.9	-2.8	-2.3	-1.1
Petroleum revenues (Ush billions)											
Inflows (including interest)	2.9	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation adjustment	0.1	0.3	-0.1	0.0	0.0	0.2	0.1	0.1	0.0	0.0	0.0
Withdrawals	0.0	0.0	0.0	0.0	0.0	0.6	0.7	0.0	0.6	0.4	0.0
Stock at end period	2.9	3.4	2.9	2.6	2.7	1.8	1.8	1.8	1.0	0.6	0.6
Public domestic debt[6]	13.8	10.4	12.6	16.1	14.1	16.4	14.9	15.4	15.9	15.9	15.4

Sources: Ugandan authorities and IMF staff estimates and projections.

[1] Fiscal year runs from July 1 to June 30.

[2] Include mainly HIPC-related grants from FY 2013/14 onwards.

[3] Expenditure categories in FY2013/14 include clearance of arrears totaling 0.8 percent of GDP, mainly in Government of Uganda investment and other current spending.

[4] Reflects actual and projected issuances for the recapitalization of Bank of Uganda.

[5] Net financing from the Bank of Uganda includes resources freed by MDRI relief.

[6] Public domestic debt has been revised following methodological discussions, and new information, on intra-public sector transactions.

Table 2c. Uganda: Quarterly Fiscal Operations of the Central Government, FY2014/15–2015/16[1]
(Billions of Ugandan Shillings)

	2014/15					2015/16				
	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual
	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	2,333	2,764	2,607	2,865	10,569	2,648	3,170	2,785	3,270	11,872
Revenue	2,135	2,436	2,314	2,662	9,547	2,465	2,816	2,682	3,085	11,048
Tax	2,035	2,326	2,214	2,556	9,132	2,345	2,683	2,560	2,956	10,544
International trade taxes	195	204	200	246	845	242	246	241	291	1,020
Income taxes	648	896	691	1,007	3,243	731	1,010	778	1,135	3,654
Excises	475	513	570	541	2,098	570	596	662	610	2,439
Value-added tax	717	713	754	762	2,946	802	831	878	921	3,432
Nontax	99	110	101	106	416	120	133	122	129	504
Oil revenue	0	0	0	0	0	0	0	0	0	0
Grants	198	328	293	203	1,022	183	353	103	185	824
Budget support[2]	67	62	59	34	222	85	95	32	44	256
Project grants	131	266	234	169	800	97	258	71	141	568
Expenditures and net lending	4,069	4,486	3,601	3,202	15,358	3,651	4,400	3,882	4,223	16,156
Current expenditures	1,713	2,007	1,929	1,675	7,324	1,845	2,104	2,214	2,169	8,332
Wages and salaries	590	720	669	674	2,654	715	743	754	778	2,991
Interest payments	373	328	314	263	1,277	351	397	421	444	1,614
Other current	750	959	945	738	3,392	778	963	1,039	947	3,727
Development expenditures	1,181	1,580	1,262	1,203	5,225	1,221	1,524	1,180	1,552	5,477
Externally-financed projects	392	661	493	357	1,902	368	553	320	522	1,764
Government of Uganda investment	789	919	769	846	3,323	852	971	860	1,030	3,713
Net lending and investment	1,149	856	380	244	2,629	454	654	454	454	2,017
Other spending	26	44	30	80	180	131	118	33	47	330
Overall balance	-1,736	-1,722	-993	-337	-4,789	-1,004	-1,230	-1,097	-953	-4,284
Overall balance, excl. one-off spending	-587	-866	-613	-93	-2,160	-549	-576	-643	-498	-2,267
Financing	1,577	1,881	993	337	4,789	1,004	1,231	1,097	953	4,284
External financing (net)	147	850	558	401	1,957	651	647	627	773	2,698
Disbursement	261	919	639	433	2,251	725	749	703	836	3,013
Concessional project loans	261	395	259	188	1,102	271	295	249	382	1,196
Non-concessional borrowing	0	524	380	244	1,148	454	454	454	454	1,817
Amortization (–)	-104	-70	-70	-31	-275	-65	-103	-65	-62	-295
Exceptional financing	-9	1	-11	0	-19	-10	1	-11	0	-20
Domestic financing (net)	1,430	1,032	435	-65	2,832	353	584	470	179	1,585
Bank financing	1,138	914	205	-174	2,083	167	330	213	154	863
Bank of Uganda	682	799	0	-147	1,334	0	200	0	0	200
Commercial banks	456	115	205	-27	749	167	130	213	154	663
Nonbank financing	292	118	230	109	749	186	254	257	25	722
Errors and omissions/financing gap (- is gap, + is surplus)	-159	159	0	0	0	0	0	0	0	0

Sources: Ugandan authorities and IMF staff estimates and projections.

[1] Fiscal year runs from July 1 to June 30.

[2] Include mainly HIPC-related grants from FY 2013/14 onwards.

Table 3. Uganda: Monetary Accounts, FY2010/11–2018/19[1]
(Billions of Ugandan Shillings unless otherwise indicated)

	2010/11	2011/12	2012/13	2013/14		2014/15		2015/16	2016/17	2017/18	2018/19
				2nd Rev	Prel.	2nd Rev	Proj.	Proj.	Proj.	Proj.	Proj.
Depository Corporations Survey[2]											
Net foreign assets	6,669	7,901	8,427	8,357	8,851	8,211	8,509	9,554	10,010	11,043	12,311
Bank of Uganda	6,177	6,845	8,305	8,852	9,455	8,637	8,855	10,059	10,721	12,301	13,758
Commercial banks	491	1,056	122	-494	-604	-426	-346	-504	-711	-1,258	-1,446
Net domestic assets	3,874	3,395	3,621	5,294	5,291	7,660	8,109	9,970	12,475	15,015	17,629
Claims on public sector (net)[3]	772	-496	-17	877	623	2,427	2,798	3,662	5,212	6,289	6,904
Claims on central government (net)	692	-569	-105	788	539	2,338	2,722	3,586	5,135	6,213	6,828
Claims on the private sector	6,756	7,532	8,011	8,858	9,124	10,160	10,547	12,191	14,068	16,187	18,736
Other items (net)[4,5]	-3,654	-3,641	-4,373	-4,436	-4,456	-4,922	-5,228	-5,876	-6,796	-7,454	-8,003
Money and quasi-money (M3)	10,542	11,296	12,047	13,657	14,142	15,876	16,618	19,524	22,485	26,058	29,940
Broad money (M2)	8,056	7,721	8,932	9,780	10,195	11,401	11,822	13,974	16,221	19,462	23,410
Foreign exchange deposits	2,486	3,575	3,115	3,877	3,947	4,475	4,796	5,551	6,264	6,595	6,530
Bank of Uganda											
Net foreign assets	6,177	6,845	8,305	8,852	9,455	8,637	8,855	10,059	10,721	12,301	13,758
Net domestic assets	-3,209	-3,832	-4,760	-5,057	-5,363	-4,284	-4,127	-4,627	-4,474	-5,151	-5,554
Claims on public sector (net)[3]	-1,561	-2,749	-2,858	-2,931	-3,059	-1,717	-1,725	-1,525	-656	-217	-117
Claims on central government (net)	-1,561	-2,750	-2,858	-2,931	-3,059	-1,717	-1,725	-1,525	-656	-217	-117
Claims on commercial banks	26	-1	-518	11	-889	114	-582	-601	-382	-1,125	-1,212
Other items (net)[4,5]	-1,675	-1,082	-1,383	-2,142	-1,415	-2,685	-1,820	-2,501	-3,436	-3,809	-4,225
Base money	2,968	3,013	3,545	3,795	4,092	4,353	4,728	5,431	6,247	7,150	8,204
Currency in circulation	2,190	2,204	2,453	2,722	2,746	3,065	3,179	3,757	4,362	5,233	6,295
Commercial bank deposits[6]	778	808	1,092	1,073	1,346	1,288	1,549	1,674	1,885	1,916	1,909
Other Depository Corporations											
Net foreign assets	491	1,056	122	-494	-604	-426	-346	-504	-711	-1,258	-1,446
Net domestic assets	8,180	8,318	9,805	11,807	12,432	13,684	14,248	16,818	19,470	22,845	26,009
Of which: Claims on central government (net)	2,228	2,168	2,753	3,719	3,598	4,056	4,447	5,111	5,791	6,430	6,945
Of which: Claims on private sector	6,720	7,471	7,964	8,812	9,069	10,114	10,488	12,132	14,009	16,128	18,677
Deposit liabilities to the non-bank public	8,671	9,373	9,927	11,313	11,828	13,257	13,902	16,314	18,759	21,587	24,562
Shilling deposits	6,185	5,798	6,812	7,435	7,881	8,782	9,106	10,764	12,495	14,992	18,033
Foreign exchange accounts	2,486	3,575	3,115	3,877	3,947	4,475	4,796	5,551	6,264	6,595	6,530
Memorandum items:											
(Annual percentage change)											
Base money	21.9	1.5	17.7	14.1	15.4	14.7	15.6	14.9	15.0	14.5	14.7
M3	25.7	7.2	6.6	13.4	17.4	16.3	17.5	17.5	15.2	15.9	14.9
Credit to the private sector	43.6	11.5	6.4	10.6	13.9	14.7	15.6	15.6	15.4	15.1	15.7
Memorandum items:											
Base money-to-GDP ratio (percent)	7.6	6.0	6.4	6.0	6.6	6.1	6.8	7.0	7.2	7.4	7.6
M3-to-GDP ratio (percent)	27.0	22.5	21.7	21.7	22.7	22.2	23.8	25.1	26.0	27.0	27.8
Base money multiplier (M2/base money)	2.7	2.6	2.5	2.6	2.5	2.6	2.5	2.6	2.6	2.7	2.9
Credit to the private sector (percent of GDP)	17.3	15.0	14.4	14.1	14.6	14.2	15.1	15.6	16.2	16.8	17.4
Gross reserves of BoU (US$ millions)	2,044	2,644	2,912	3,092	3,394	2,984	3,158	3,408	3,728	4,268	4,635
Velocity (M3)	3.7	4.4	4.6	4.6	4.4	4.5	4.2	4.0	3.9	3.7	3.6
Exchange rate (Ush/US$, eop)	2,623	2,472	2,593	…	2,600	…	…	…	…	…	…

Sources: Ugandan authorities and IMF staff estimates and projections.

[1] Fiscal year runs from July 1 to June 30.

[2] Starting on June 2013, the Bank of Uganda expanded the reporting coverage from Monetary Survey to Depository Corporations Survey.

[3] The public sector includes the central government, public enterprises, other financial corporations and local governments.

[4] Including valuation effects, the Bank of Uganda's claims on the private sector and Claims on Other Financial Corporations.

[5] Reflects actual and projected issuances for the recapitalization of Bank of Uganda.

[6] Inclusive of foreign currency clearing balances.

Table 4. Uganda: Balance of Payments, FY2010/11–2018/19[1]
(Millions of US Dollars unless otherwise indicated)

	2010/11	2011/12	2012/13	2013/14		2014/15		2015/16	2016/17	2017/18	2018/19
				2nd Rev	Prel.	2nd Rev	Proj.	Proj.	Proj.	Proj.	Proj.
Current account	-1,916	-2,190	-1,999	-2,396	-1,524	-2,998	-2,700	-2,581	-2,792	-2,601	-2,762
Trade balance	-2,373	-2,581	-2,123	-2,368	-2,331	-2,742	-2,536	-2,512	-2,574	-2,214	-2,368
Exports, f.o.b.	2,298	2,660	2,912	2,758	2,709	3,099	3,051	3,343	3,689	4,501	4,888
Of which: coffee	371	444	423	404	404	415	415	423	453	479	507
Imports, f.o.b.	-4,671	-5,241	-5,035	-5,126	-5,040	-5,841	-5,588	-5,855	-6,262	-6,716	-7,255
Of which: oil	-679	-947	-1,028	-993	-1,074	-1,060	-1,052	-1,133	-1,214	-1,293	-1,380
Of which: government, infrastructure related	-173	-304	-359	-464	-301	-748	-419	-416	-453	-466	-480
Services (net)	-627	-412	-415	-357	-197	-617	-664	-584	-702	-834	-774
Income (net)	-345	-435	-660	-753	-159	-811	-665	-758	-846	-952	-1,017
Of which: interest on public debt	-36	-35	-39	-53	-49	-69	-49	-100	-120	-155	-189
Transfers	1,430	1,238	1,199	1,082	1,163	1,172	1,165	1,273	1,329	1,398	1,397
Private transfers	756	838	1,121	996	1,073	1,076	1,082	1,183	1,243	1,308	1,323
Of which: workers' remittances (inflows)	751	792	976	879	938	950	933	1,029	1,078	1,132	1,149
Official transfers	675	400	79	86	90	96	83	90	86	90	74
Of which: budget support (including HIPC)	225	224	71	86	83	96	83	90	86	90	74
capital gains tax	449	176	7	0	7	0	0	0	0	0	0
Capital and financial account	956	2,326	1,857	2,579	1,961	2,895	2,472	2,838	3,115	3,141	3,129
Capital account	160	211	330	259	206	359	301	200	192	201	165
Of which: project grants	160	211	330	259	206	359	301	200	192	201	165
Financial account	796	2,115	1,527	2,319	1,755	2,536	2,171	2,638	2,924	2,941	2,964
Foreign direct investment	719	1,261	1,009	980	1,165	1,390	1,376	1,691	1,766	1,819	1,942
Portfolio investment	-29	264	29	140	211	50	-3	-100	80	70	115
Other investment	106	590	490	1,199	379	1,096	798	1,046	1,078	1,052	907
Of which:											
Public sector (net)	-211	745	534	604	304	1,133	914	958	958	1,018	763
SDR allocation	0	0	0	0	0	0	0	0	0	0	0
Build-up (-)/drawdown (+) of petroleum fund	-449	273	-7	0	-7	171	172	0	0	0	0
Loan disbursements	304	546	617	689	403	1,064	846	1,061	1,069	1,145	896
Project support (loans)	202	392	497	588	322	632	414	421	434	406	343
Budget support (loans)	102	49	120	0	0	0	0	0	0	0	0
Non-concessional borrowing	0	105	0	101	81	432	432	640	635	739	553
Amortization due	-66	-75	-76	-86	-92	-102	-104	-104	-112	-126	-133
Commercial banks (net)	66	-240	380	234	279	-37	-107	48	65	174	50
Other private (net)	250	349	-425	362	-204	0	-10	41	55	-140	94
Errors and omissions	338	623	479	0	-23	0	0	0	0	0	0
Overall balance	-622	759	337	183	414	-103	-229	257	324	540	367
Financing	622	-759	-337	-183	-414	103	229	-257	-324	-540	-367
Of which:											
Central bank net reserves (increase = –)	626	-755	-333	-178	-409	109	236	-250	-320	-540	-367
Of which: SDR allocation	0	0	0	0	0	0	0	0	0	0	0
Use of Fund credit	-2	-2	-2	-2	-2	-1	-1	0	0	0	0
Memorandum items:											
Gross offical reserves	2,044	2,644	2,912	3,092	3,394	2,984	3,158	3,408	3,728	4,268	4,635
Months of imports of goods and services	3.2	4.2	4.4	4.2	4.7	4.0	4.1	4.1	4.2	4.3	4.3
Net donor support	584	764	900	798	473	913	643	505	477	415	260
Of which: Budget support (loans and grants)	327	273	191	86	83	96	83	90	86	90	74.2
Project support (loans and grants)	362	604	827	848	529	991	715	622	626	606	507
Current account balance (percent of GDP)	-11.4	-11.2	-9.3	-9.7	-6.2	-11.2	-10.3	-9.4	-9.5	-8.2	-7.9
Current account balance (excluding grants)	-12.7	-12.3	-9.6	-10.0	-6.5	-11.6	-10.6	-9.7	-9.8	-8.5	-8.1
Trade balance (percent of GDP)	-14.1	-13.1	-9.9	-9.6	-9.5	-10.3	-9.6	-9.2	-8.8	-7.0	-6.8
Exports of goods (percent of GDP)	13.7	13.6	13.6	11.1	11.0	11.6	11.6	12.2	12.5	14.1	14.0
Imports of goods (percent of GDP)	27.8	26.7	23.5	20.7	20.5	21.9	21.2	21.3	21.3	21.1	20.8

Sources: Ugandan authorities and IMF staff estimates and projections.

[1] Fiscal year runs from July 1 to June 30.

Table 5. Uganda: Banking Sector Indicators, March 2010–September 2014
(In percent)

	2010				2011				2012				2013				2014		
	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14
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	21.9	24.5	24.3	23.1	22.1	23.6	22.8	22.5
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	18.8	21.4	21.2	20.3	19.1	20.9	20.3	19.9
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	4.2	4.7	4.0	4.4	6.0	6.2	5.8	5.3
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	3.1	3.5	2.9	3.2	4.3	4.2	4.1	3.7
Specific provisions to NPLs	65.4	58.9	70.6	65.0	59.7	64.4	58.1	51.0	45.2	48.7	49.0	45.9	55.1	53.1	47.3	64.8	53.9	62.1	55.4
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	71.3	69.6	70.0	70.7	69.6	69.3	68.9	71.5
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	34.6	34.8	36.0	35.4	37.9	33.6	32.3	37.2
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	104.7	95.4	103.4	102.2	113.6	97.7	96.4	109.7
Earnings and profitability																			
Return on assets	2.4	2.3	2.4	2.7	2.9	3.1	3.6	4.0	4.4	4.4	4.3	3.9	3.6	3.3	3.2	2.0	2.4	2.1	2.2
Return on equity	15.5	16.1	16.2	18.0	19.6	22.4	25.4	27.4	28.1	29.5	27.9	24.2	21.0	20.4	18.9	12.4	14.2	12.8	13.1
Net interest margin	10.0	9.9	10.0	10.0	10.1	10.5	11.0	11.7	12.5	12.8	12.9	12.8	12.5	12.2	11.8	11.6	11.4	11.5	11.3
Cost of deposits	3.5	3.3	3.2	2.9	2.7	2.5	2.8	3.2	3.4	3.6	4.0	4.1	4.3	4.1	3.9	3.7	3.6	3.7	3.7
Cost to income	78.9	79.2	78.7	75.7	73.5	71.2	68.8	68.2	67.5	68.1	68.8	70.9	72.0	72.4	73.2	80.1	76.6	75.8	74.8
Overhead to income	53.0	53.7	54.0	53.1	52.5	50.4	47.5	43.9	40.9	39.6	38.5	40.1	41.9	43.2	45.3	46.7	45.4	41.9	41.1
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	42.0	42.7	41.1	40.6	42.5	45.4	46.5	41.8
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	-0.6	-5.1	-6.7	-8.2	-3.2	-2.6	-6.7	-1.4
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	87.0	72.3	72.8	63.0	57.6	73.7	65.0	64.3
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	105.0	104.8	104.9	100.6	97.3	39.5	95.4	95.2

Source: Bank of Uganda.

Annex I. Uganda: Joint Fund-Bank Staff Debt Sustainability Analysis Update

November 2014

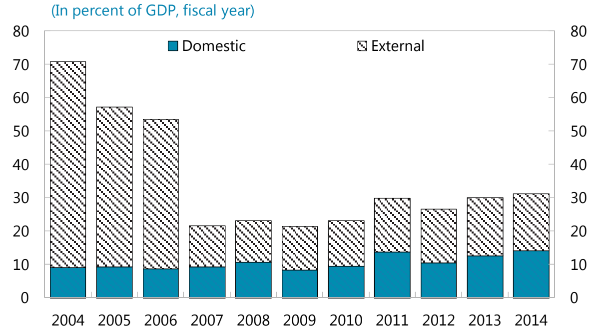
This debt sustainability analysis (DSA) updates the joint IMF/IDA DSA from December 18, 2013 to incorporate recent macroeconomic developments[1]. Results indicate that Uganda remains at low risk of debt distress. Nonetheless, the debt service-to-revenue ratio is high owing to the relatively low revenues and the short maturity of domestic debt, posing some sustainability risks. Given the limited information available, this DSA update does not include any revenues related to the envisaged oil production, and includes only the oil infrastructure investment that has been defined so far.

A. Background and Recent Developments

1. **Since Uganda benefited from debt relief, the authorities have been cautious in accumulating new external debt while steadily developing the domestic debt market**. At about 5 percent of GDP, the increase in external debt in 2007–2014 was limited. In the same period, public domestic debt increased by 5 percent of GDP, reflecting efforts to diversify funding sources, develop the market, and compensate declining donor support. The composition of public debt has been fairly stable, with the share of external debt remaining at more than 50 percent (Text Figure 1).

Text Figure 1. Uganda: Public Debt

(In percent of GDP, fiscal year)

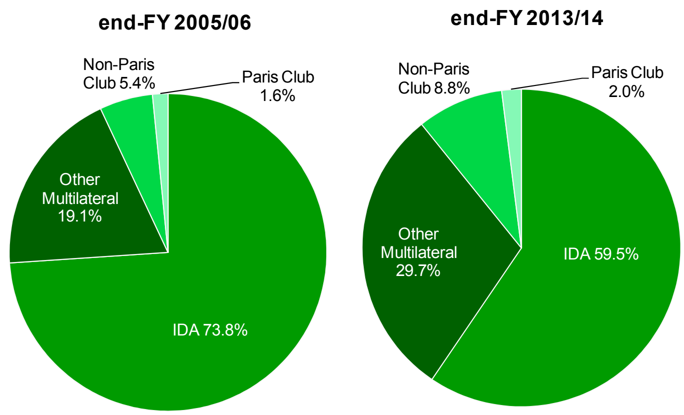


Sources: Ugandan authorities and IMF staff.
Note: Data provided by fiscal year covering July to June.

2. **Concessional multilateral debt continues to constitute most of Uganda's public and publicly guaranteed (PPG) external debt.** The share of multilateral creditors—primarily the World Bank and the African Development Bank—remains close to 90 percent, only marginally lower than their pre-MDRI share. Owing almost exclusively to higher borrowing from China, non-Paris Club creditors account for close to 10 percent of PPG external debt (Text Figure 2).

[1] In line with the 2010 Staff Guidance Note, a full joint LIC DSA is expected to be prepared once every three years for PRGT-eligible IDA-only countries. In between, short annual updates are produced unless macroeconomic conditions since the last full DSA have significantly changed. See Staff Guidance Note on the Application of the Joint Fund-Bank Debt Sustainability Framework for Low-Income Countries (www.imf.org). Under the Country Policy and Institutional Assessment (CPIA), Uganda is rated as a "strong performer." The updated three-year average CPIA index during 2011–13 has dropped from 3.75 to 3.73, which is less than 0.05 below the threshold of 3.75, and therefore, the country's performance category remains a strong performer. Hence, the DSA uses the policy-dependent thresholds for strong performers. All data refers to the fiscal year which runs from July to June (e.g., FY2014 covers July 2013 to June 2014).

Text Figure 2. Uganda: Composition of PPG External Debt



3. **Despite a recent increase, private sector debt is relatively low.** Preliminary data shows that after remaining stable at about 8 percent of GDP in FY2001–2008, private sector external debt has increased to about 17 percent of GDP in FY2014. The upsurge was driven by intercompany lending, which now represents more than half of private external debt.

4. **The authorities have taken steps to improve debt management.** The government is undertaking regular assessments of debt maturities and associated risks, notably exchange rate and rollover risks. In line with its revised debt strategy, in 2013 the government started restructuring debt management processes and the institutional framework. The Cash and Debt Management Directorate has been established within the Ministry of Finance. The new medium-term debt strategy accounts for a planned scaling up of non-concessional borrowing (NCB) to finance key infrastructure projects.

Underlying Macroeconomic Assumptions

5. **This DSA is consistent with the macroeconomic framework supported by the PSI.** The baseline scenario assumes implementation of the authorities' economic and structural policies. Expected gains in revenue mobilization, further deepening of domestic debt markets, and greater availability of financing at non-concessional but still reasonable terms (with a grant element of 15–20 percent over the long run) are expected to create the fiscal space for infrastructure investment. The envisaged NCB under the PSI of $2.2 billion will finance the construction of the Karuma and Isimba dams ($1.4 billion and $0.5 billion, respectively), some oil-related infrastructure ($0.2 billion), and industrial substations (0.1 billion). The macroeconomic framework does not include revenues from the envisaged oil production, given the limited information available. Projections for key macroeconomic variables are explained below.

- **Average medium-term growth** is projected at 6½ percent, mainly supported by infrastructure investment. It was slightly reduced from 7 percent in the previous update, reflecting recent weaker-than-anticipated growth performance and some delays in project execution. Once the large energy and road projects are completed and ease the acutely binding infrastructure gap, potential output is likely to be higher, particularly if supported by an environment conducive to private sector development. On this basis, average long-term growth is projected at 7¼ percent.

- **The current account deficit** is projected at 9 percent of GDP on average over the medium term, reflecting high import demand associated with the construction of large infrastructure projects. Once these are completed, import demand would decline while export receipts would increase on account of potential energy surpluses and better road and railway infrastructure. As a result, under the baseline scenario —which does not include oil exports given high uncertainty regarding the timing and volumes—the current account deficit is projected, on average, at 7 percent of GDP in the long term.

- **The fiscal deficit** is projected to widen from about 4 percent of GDP in FY2013/14 to an average of 5¼ percent of GDP in the medium term, peaking at about 7 percent of GDP in FY2014/15. This increase reveals the impact of the construction of large projects. The long-term average is expected to come down to about 2¾ percent of GDP.

B. External Debt Sustainability Analysis

6. **PPG external debt is assessed to be sustainable over the projection period**. All debt burden indicators are projected to remain below Uganda's country-specific debt burden thresholds under the baseline scenario and the standardized stress tests (Figure 1, Tables 1 and 3). The upcoming GDP rebasing would likely improve the PV of debt-to-GDP ratio, although the debt indicators involving fiscal revenues are not likely to improve, in the context of low revenue collection.

7. **In the future, there is a risk of downgrading in the CPIA rating.** The updated three-year average CPIA index during 2011–13 has dropped from 3.75 to 3.73, which is marginally below the threshold of 3.75. If the three-year average CPIA index during 2012-2014 were to remain below 3.75, then Uganda's performance category would be downgraded from "strong performer" to "medium performer" and thus the thresholds for debt indicators would become lower (Text Table 1). It is therefore important to retain the high quality of policies and institutions to maintain debt sustainability.

Text Table 1. PPG External Debt Thresholds

		Strong performer	Medium performer
PV of debt in percent of	Exports	200	150
	GDP	50	40
	Revenue	300	250
Debt service in percent of	Exports	25	20
	Revenue	22	20

C. Public Debt Sustainability Update

8. **The evolution of total public debt (external and domestic debt) is sustainable over the projection period under the baseline scenario and when subject to stress tests.** The NPV of public debt-to-GDP ratio is projected to peak at about 34½ percent in FY2019, well below the benchmark level of 74 percent associated with heightened public debt vulnerabilities for strong performers. However, the relatively short average maturity of domestic debt (less than three years) combined with a low revenue base leads to a debt service-to-revenue ratio of about 39 percent, among the highest in LICs. This significantly increases the rollover and interest rate risks, and needs to be addressed in the medium term by a combination of stronger revenue mobilization and deeper financial markets to extend average maturities.

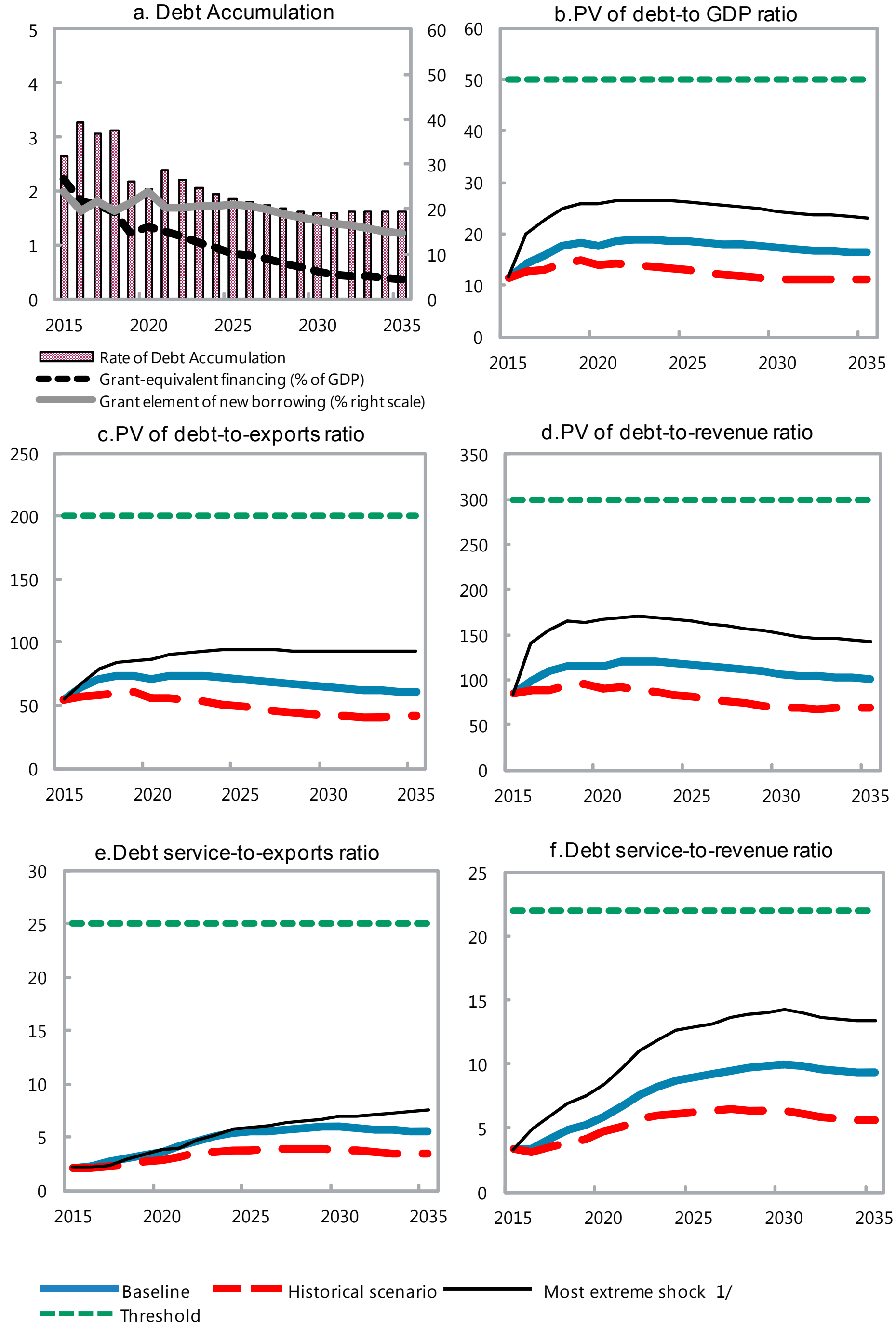
9. **Stress tests indicate that without some long-run fiscal consolidation debt would gradually trend upward.** In an illustrative scenario that assumes an unchanged primary deficit over the projection period of 4.9 percent of GDP rather than an average primary deficit of 1.5 percent of GDP as in the baseline scenario, the NPV of public debt-to-GDP ratio would grow and reach 62 percent of GDP by FY2035 (Figure 2, Tables 2 and 4). These results highlight the importance of reducing fiscal deficits after the temporary increase (to 7 percent of GDP in FY2015) during the scaling up of public investment.

D. Conclusions

10. **Uganda continues to face low risk of debt distress.** The government's cautious approach in accumulating new external debt during the post-MDRI period has provided the economy with significant borrowing space to scale up public investment. However, the authorities should ensure economic viability and appropriate cost recovery of any new projects and carefully plan the pace of execution with due regard to absorptive and implementation capacity constraints. They should also ensure appropriate cost recovery and avoid delays and inefficiencies that could add costs. Once the construction of the projects is completed, the temporary increase in fiscal deficits should be halted to bring public debt back to a sustainable path. The planned increase in tax revenues and maintenance of a stable economic environment should help reduce the existing rollover and interest risk of domestic debt.

11. **The authorities concurred with staff's views.** The authorities remain committed to ensuring debt sustainability through long-term prudent debt management, outlined in their Medium Term Debt Strategy, which aims to minimize costs and risks from financing large public investment projects. The authorities acknowledged the importance of taking into account the absorptive capacity of the economy to maintain macroeconomic stability, as well as ensuring projects' viability and efficient implementation. The authorities will continue to engage with IMF/IDA staff on debt management issues.

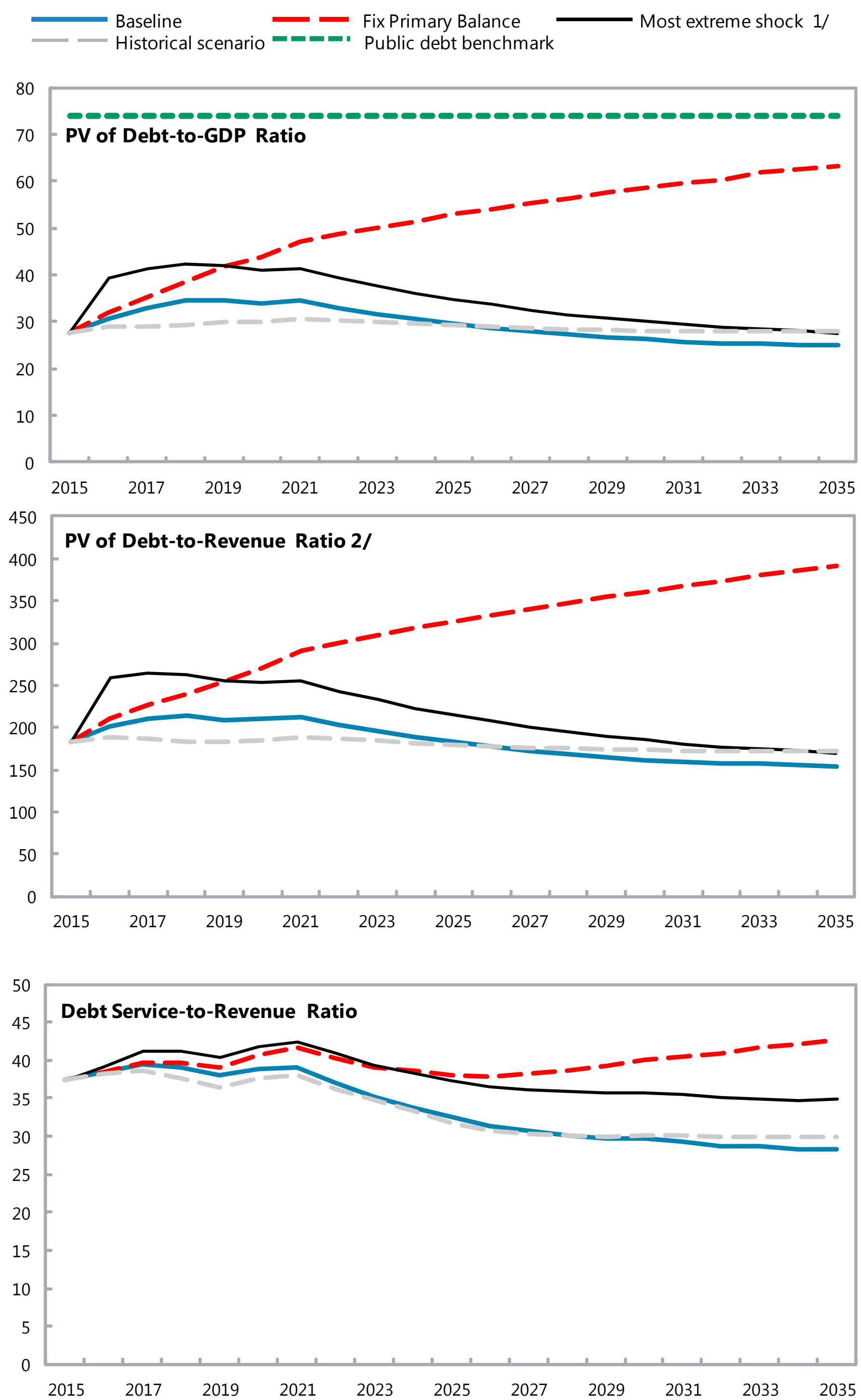
Figure 1. Uganda: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2015–2035



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

1/ The most extreme stress test is the test that yields the highest ratio on or before 2025. In figure b. it corresponds to a One-time depreciation shock; in c. to a Terms shock; in d. to a One-time depreciation shock; in e. to a Terms shock; and in figure f. to a One-time depreciation shock.

Figure 2.Uganda: Indicators of Public Debt Under Alternative Scenarios, 2015–2035



Sources: Ugandan authorities; and IMFstaff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2025.

2/ Revenues are defined inclusive of grants.

Table 1. Uganda: External Debt Sustainability Framework, Baseline Scenario, 2012–2035 [1/]

(In percent of GDP, unless otherwise indicated)

	Actual			Historical [6/]	Standard [6/]	Projections									
	2012	2013	2014	Average	Deviation	2015	2016	2017	2018	2019	2020	2015-2020 Average	2025	2035	2021-2035 Average
External debt (nominal) 1/	**31.5**	**34.1**	**34.8**			**36.7**	**39.0**	**39.7**	**39.1**	**38.2**	**38.1**		**37.7**	**37.9**	
of which: public and publicly guaranteed (PPG)	15.6	17.4	17.6			19.7	22.5	24.2	25.6	25.9	24.9		24.7	20.9	
Change in external debt	-2.1	2.6	0.7			2.0	2.2	0.7	-0.5	-1.0	0.0		-0.1	0.1	
Identified net debt-creating flows	0.0	1.9	-2.9			3.1	1.1	1.1	0.0	-0.1	1.3		1.3	1.3	
Non-interest current account deficit	**10.8**	**8.9**	**5.9**	**6.9**	**3.5**	**9.7**	**8.8**	**8.8**	**7.4**	**7.0**	**6.5**		**6.1**	**5.5**	5.9
Deficit in balance of goods and services	15.2	11.8	10.3			12.2	11.3	11.1	9.6	9.0	10.0		9.0	8.0	
Exports	23.8	23.3	21.8			21.0	22.1	22.4	24.2	24.9	25.1		26.2	27.1	
Imports	39.1	35.1	32.0			33.2	33.3	33.6	33.7	33.9	35.1		35.1	35.1	
Net current transfers (negative = inflow)	-6.3	-5.6	-4.7	-7.2	1.6	-4.4	-4.6	-4.5	-4.4	-4.0	-4.1		-3.3	-2.9	-3.2
of which: official	-2.0	-0.4	-0.4			-0.3	-0.3	-0.3	-0.3	-0.2	-0.3		-0.3	0.0	
Other current account flows (negative = net inflow)	1.9	2.7	0.3			2.0	2.1	2.2	2.2	2.0	0.6		0.5	0.4	
Net FDI (negative = inflow)	**-6.4**	**-4.7**	**-4.7**	**-4.9**	**0.8**	**-5.2**	**-6.2**	**-6.0**	**-5.7**	**-5.6**	**-3.7**		**-3.4**	**-2.9**	-3.3
Endogenous debt dynamics 2/	**-4.5**	**-2.3**	**-4.0**			**-1.4**	**-1.5**	**-1.7**	**-1.7**	**-1.6**	**-1.5**		**-1.4**	**-1.4**	
Contribution from nominal interest rate	0.3	0.4	0.3			0.5	0.7	0.7	0.8	0.9	0.9		1.0	1.1	
Contribution from real GDP growth	-1.0	-1.7	-1.5			-2.0	-2.2	-2.4	-2.5	-2.5	-2.5		-2.5	-2.5	
Contribution from price and exchange rate changes	-3.8	-1.0	-2.8			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-2.1**	**0.7**	**3.6**			**-1.1**	**1.2**	**-0.4**	**-0.5**	**-0.8**	**-1.3**		**-1.4**	**-1.2**	
of which: exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	26.7			28.5	30.6	31.4	31.1	30.4	30.9		31.5	33.4	
In percent of exports	...	...	122.6			135.7	138.9	140.0	128.5	122.1	123.2		120.5	123.0	
PV of PPG external debt	**...**	**...**	**9.4**			**11.5**	**14.1**	**15.9**	**17.6**	**18.1**	**17.7**		**18.5**	**16.4**	
In percent of exports	**...**	**...**	**43.4**			**54.8**	**64.1**	**70.9**	**72.6**	**72.9**	**70.5**		**70.8**	**60.3**	
In percent of government revenues	**...**	**...**	**72.1**			**84.4**	**99.6**	**108.6**	**115.5**	**115.0**	**114.3**		**116.1**	**100.9**	
Debt service-to-exports ratio (in percent)	**5.6**	**5.4**	**5.6**			**6.1**	**7.7**	**7.6**	**7.4**	**7.6**	**7.7**		**9.6**	**11.1**	
PPG debt service-to-exports ratio (in percent)	**2.4**	**2.3**	**2.7**			**2.1**	**2.2**	**2.7**	**3.0**	**3.3**	**3.6**		**5.5**	**5.6**	
PPG debt service-to-revenue ratio (in percent)	**4.3**	**4.1**	**4.5**			**3.3**	**3.4**	**4.1**	**4.8**	**5.2**	**5.9**		**8.9**	**9.3**	
Total gross financing need (Billions of U.S. dollars)	1.1	1.2	0.6			1.5	1.2	1.3	1.1	1.2	1.8		3.4	10.4	
Non-interest current account deficit that stabilizes debt ratio	13.0	6.3	5.2			7.8	6.5	8.1	7.9	8.0	6.5		6.3	5.4	
Key macroeconomic assumptions															
Real GDP growth (in percent)	3.4	6.0	5.2	6.9	2.1	6.1	6.2	6.5	6.8	7.0	7.2	6.6	7.2	7.2	7.2
GDP deflator in US dollar terms (change in percent)	12.8	3.1	8.9	6.1	8.3	0.9	-1.7	0.5	1.4	2.2	3.6	1.1	3.6	3.6	3.5
Effective interest rate (percent) 5/	1.2	1.3	1.2	2.0	1.6	1.7	1.9	1.9	2.2	2.5	2.7	2.1	3.0	3.2	3.0
Growth of exports of G&S (US dollar terms, in percent)	22.1	6.9	7.1	18.5	10.2	3.4	9.5	8.9	16.7	12.6	12.0	10.5	12.0	10.9	11.6
Growth of imports of G&S (US dollar terms, in percent)	12.3	-1.8	4.6	17.4	12.4	10.9	4.8	7.9	8.8	9.9	15.0	9.5	11.1	11.1	11.0
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	24.0	19.7	21.9	19.5	21.4	24.0	21.8	20.9	14.6	18.5
Government revenues (excluding grants, in percent of GDP)	13.2	13.1	13.1			13.6	14.2	14.7	15.2	15.8	15.5		16.0	16.2	16.0
Aid flows (in Billions of US dollars) 7/	0.8	1.0	0.5			0.7	0.6	0.7	0.6	0.6	0.7		0.8	1.1	
of which: Grants	0.4	0.4	0.3			0.4	0.3	0.3	0.3	0.2	0.3		0.2	0.0	
of which: Concessional loans	0.3	0.6	0.2			0.3	0.3	0.4	0.4	0.3	0.4		0.6	1.1	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			2.2	1.8	1.7	1.6	1.2	1.4		0.8	0.4	0.7
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			47.7	37.0	38.0	35.8	38.0	41.3		27.1	14.6	23.1
Memorandum items:															
Nominal GDP (Billions of US dollars)	19.6	21.5	24.6			26.3	27.4	29.4	31.8	34.8	38.7		65.3	184.9	
Nominal dollar GDP growth	16.7	9.3	14.6			7.0	4.4	7.1	8.3	9.3	11.1	7.9	11.1	11.1	11.0
PV of PPG external debt (in Billions of US dollars)			2.3			2.9	3.8	4.6	5.5	6.2	6.9		11.9	29.8	
(PVt-PVt-1)/GDPt-1 (in percent)						2.7	3.3	3.1	3.1	2.2	2.0	2.7	1.9	1.6	1.8
Gross workers' remittances (Billions of US dollars)	0.8	1.1	1.1			1.1	1.2	1.2	1.3	1.3	1.6		2.5	6.4	
PV of PPG external debt (in percent of GDP + remittances)	...	...	9.0			11.1	13.5	15.3	16.9	17.5	17.0		17.8	15.8	
PV of PPG external debt (in percent of exports + remittances)	...	...	36.1			45.8	53.6	59.7	62.1	63.2	60.7		61.8	53.5	
Debt service of PPG external debt (in percent of exports + remittanc	...	...	2.2			1.8	1.8	2.3	2.6	2.9	3.1		4.8	4.9	

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

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Assumes that PV of private sector debt is equivalent to its face value.

5/ Current-year interest payments divided by previous period debt stock.

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 2. Uganda: Public Sector Debt Sustainability Framework, Baseline Scenario, 2012—2035

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2012	2013	2014	Average 5/	Standard Deviation 5/	2015	2016	2017	2018	2019	2020	2015-20 Average	2025	2035	2021-35 Average
Public sector debt 1/	26.0	30.1	33.2			35.9	39.0	41.2	42.5	42.2	41.2		35.7	29.4	
of which: foreign-currency denominated	15.6	17.4	17.6			19.7	22.5	24.2	25.6	25.9	24.9		24.7	20.9	
Change in public sector debt	-5.9	4.1	3.1			2.8	3.1	2.1	1.3	-0.3	-1.0		-1.2	-0.4	
Identified debt-creating flows	-4.9	2.3	2.4			4.3	2.8	2.5	1.5	-0.4	-1.0		-1.2	-0.4	
Primary deficit	1.8	2.5	2.6	1.4	1.7	5.0	3.5	3.8	2.8	1.0	1.5	2.9	0.8	1.1	1.0
Revenue and grants	15.5	14.8	14.2			15.1	15.2	15.6	16.1	16.5	16.2		16.2	16.2	
of which: grants	2.3	1.7	1.1			1.5	1.1	0.9	0.9	0.7	0.7		0.2	0.0	
Primary (noninterest) expenditure	17.3	17.3	16.8			20.1	18.7	19.4	18.9	17.5	17.7		17.0	17.3	
Automatic debt dynamics	-6.7	-0.2	-1.7			-0.7	-0.7	-1.3	-1.3	-1.5	-2.5		-2.0	-1.5	
Contribution from interest rate/growth differential	-2.7	-0.6	-1.0			-1.2	-1.1	-1.3	-1.4	-1.5	-1.5		-1.6	-1.2	
of which: contribution from average real interest rate	-1.6	0.9	0.5			0.7	1.0	1.1	1.2	1.2	1.4		0.8	0.8	
of which: contribution from real GDP growth	-1.1	-1.5	-1.5			-1.9	-2.1	-2.4	-2.6	-2.8	-2.8		-2.5	-2.0	
Contribution from real exchange rate depreciation	-4.0	0.3	-0.7			0.4	0.4	0.0	0.1	0.0	-1.0		...	...	
Other identified debt-creating flows	0.0	0.0	1.5			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	1.5			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-1.0	1.8	0.7			-1.5	0.3	-0.4	-0.1	0.2	0.0		0.0	0.0	
Other Sustainability Indicators															
PV of public sector debt	...	...	25.0			27.7	30.7	32.9	34.4	34.4	34.0		29.5	24.9	
of which: foreign-currency denominated	...	...	9.4			11.5	14.1	15.9	17.6	18.1	17.7		18.5	16.4	
of which: external	...	...	9.4			11.5	14.1	15.9	17.6	18.1	17.7		18.5	16.4	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	6.0	10.9	12.4			16.2	15.0	15.7	15.0	13.0	13.3		9.8	8.1	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	176.0			183.5	201.5	211.0	213.5	209.1	209.6		182.1	153.3	
PV of public sector debt-to-revenue ratio (in percent)	...	...	191.3			203.2	216.6	224.7	226.3	218.1	219.7		184.9	153.3	
of which: external 3/	...	...	72.1			84.4	99.6	108.6	115.5	115.0	114.3		116.1	100.9	
Debt service-to-revenue and grants ratio (in percent) 4/	24.7	31.6	37.6			37.3	38.4	39.4	39.1	38.0	38.9		32.5	28.2	
Debt service-to-revenue ratio (in percent) 4/	29.0	35.7	40.8			41.3	41.2	41.9	41.4	39.6	40.8		33.0	28.2	
Primary deficit that stabilizes the debt-to-GDP ratio	7.7	-1.6	-0.5			2.2	0.4	1.6	1.5	1.3	2.5		2.0	1.5	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	3.4	6.0	5.2	6.9	2.1	6.1	6.2	6.5	6.8	7.0	7.2	6.6	7.2	7.2	7.2
Average nominal interest rate on forex debt (in percent)	1.3	1.2	1.3	1.2	0.4	1.2	1.7	2.1	2.3	2.5	2.6	2.1	3.0	3.5	3.1
Average real interest rate on domestic debt (in percent)	-11.8	10.2	5.1	3.6	6.5	5.8	6.6	7.2	7.2	7.1	8.1	7.0	5.3	6.1	5.8
Real exchange rate depreciation (in percent, + indicates depreciation	-23.0	2.3	-4.2	-2.1	11.6	2.6	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	24.2	4.5	6.7	8.9	6.3	5.7	4.9	4.3	4.3	4.3	3.3	4.5	6.7	6.7	6.5
Growth of real primary spending (deflated by GDP deflator, in percer	-17.5	6.2	1.9	-0.9	6.2	27.1	-1.2	10.2	4.3	-0.9	8.3	8.0	7.6	7.2	7.1
Grant element of new external borrowing (in percent)	...	...	...	...	...	24.0	19.7	21.9	19.5	21.4	24.0	21.8	20.9	14.6	...

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

1/ The public sector includes the central government only and gross debt is used for all presentations.

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 3. Uganda: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2015–2035

(In percent)

	Projections							
	2015	2016	2017	2018	2019	2020	**2025**	2035
PV of debt-to GDP ratio								
Baseline	12	14	16	18	18	18	**19**	16
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	12	13	13	14	15	14	**13**	11
A2. New public sector loans on less favorable terms in 2015-2035 2	12	15	18	20	21	22	**25**	25
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	12	14	16	18	18	18	**19**	17
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	12	14	16	18	18	18	**18**	16
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	12	14	16	18	18	19	**19**	17
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	12	15	17	19	19	19	**19**	16
B5. Combination of B1-B4 using one-half standard deviation shocks	12	12	12	14	14	14	**16**	15
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	12	20	23	25	26	26	**26**	23
PV of debt-to-exports ratio								
Baseline	55	64	71	73	73	70	**71**	60
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	55	57	58	59	60	56	**49**	41
A2. New public sector loans on less favorable terms in 2015-2035 2	55	67	79	84	85	87	**94**	93
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	55	62	70	72	72	71	**70**	59
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	55	64	73	75	75	74	**72**	60
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	55	62	70	72	72	71	**70**	59
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	55	67	77	78	78	77	**73**	60
B5. Combination of B1-B4 using one-half standard deviation shocks	55	55	51	54	55	55	**58**	53
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	55	62	70	72	72	71	**70**	59
PV of debt-to-revenue ratio								
Baseline	84	100	109	116	115	114	**116**	101
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	84	89	89	94	95	90	**80**	69
A2. New public sector loans on less favorable terms in 2015-2035 2	84	104	120	133	135	141	**154**	155
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	84	98	110	118	117	119	**118**	102
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	84	98	111	117	116	119	**116**	99
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	84	98	111	118	117	120	**118**	102
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	84	104	118	125	123	125	**120**	100
B5. Combination of B1-B4 using one-half standard deviation shocks	84	86	80	89	90	93	**98**	93
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	84	140	154	165	163	167	**164**	143

Table 3. Uganda: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2015–2035 (concluded)

(In percent)

	Projections							
	2015	2016	2017	2018	2019	2020	2025	2035
Debt service-to-exports ratio								
Baseline	2	2	3	3	3	4	**5**	6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	2	2	2	2	3	3	**4**	3
A2. New public sector loans on less favorable terms in 2015-2035 2	2	2	2	3	3	4	**6**	8
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	2	2	3	3	3	4	**5**	6
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	2	2	3	3	3	4	**6**	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	2	2	3	3	3	4	**5**	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	2	2	3	3	4	4	**6**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	2	2	2	2	3	3	**4**	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	2	2	3	3	3	4	**5**	6
Debt service-to-revenue ratio								
Baseline	3	3	4	5	5	6	**9**	9
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	3	3	4	4	4	5	**6**	6
A2. New public sector loans on less favorable terms in 2015-2035 2	3	3	4	5	5	6	**10**	13
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	3	3	4	5	5	6	**9**	10
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	3	3	4	5	5	6	**9**	9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	3	3	4	5	5	6	**9**	10
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	3	3	4	5	6	6	**10**	9
B5. Combination of B1-B4 using one-half standard deviation shocks	3	3	4	4	4	5	**7**	8
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	3	5	6	7	8	8	**13**	13
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	13	13	13	13	13	13	**13**	13

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

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

Table 4. Uganda: Sensitivity Analysis for Key Indicators of Public Debt 2015–2035
(In percent)

	Projections							
	2015	2016	2017	2018	2019	2020	2025	2035
PV of Debt-to-GDP Ratio								
Baseline	28	31	33	34	34	34	30	25
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	28	29	29	29	30	30	29	28
A2. Primary balance is unchanged from 2015	28	32	35	39	42	44	53	63
A3. Permanently lower GDP growth 1/	28	31	33	35	36	35	34	36
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-20	28	31	34	36	37	37	33	30
B2. Primary balance is at historical average minus one standard deviations in 2016-201	28	30	32	34	34	33	29	25
B3. Combination of B1-B2 using one half standard deviation shocks	28	30	31	33	33	33	29	26
B4. One-time 30 percent real depreciation in 2016	28	36	37	39	39	37	33	29
B5. 10 percent of GDP increase in other debt-creating flows in 2016	28	39	41	42	42	41	35	28
PV of Debt-to-Revenue Ratio 2/								
Baseline	184	202	211	213	209	210	182	153
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	184	189	186	183	182	185	180	172
A2. Primary balance is unchanged from 2015	184	210	226	239	254	270	326	391
A3. Permanently lower GDP growth 1/	184	203	214	218	216	219	207	223
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-20	184	205	221	225	223	226	206	188
B2. Primary balance is at historical average minus one standard deviations in 2016-201	184	199	206	208	204	205	179	152
B3. Combination of B1-B2 using one half standard deviation shocks	184	195	198	203	200	202	181	160
B4. One-time 30 percent real depreciation in 2016	184	234	240	240	234	231	203	180
B5. 10 percent of GDP increase in other debt-creating flows in 2016	184	258	264	263	255	253	215	170
Debt Service-to-Revenue Ratio 2/								
Baseline	37	38	39	39	38	39	32	28
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	37	38	39	38	36	38	32	30
A2. Primary balance is unchanged from 2015	37	38	40	40	39	41	38	43
A3. Permanently lower GDP growth 1/	37	39	40	40	39	40	34	34
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-20	37	39	41	40	39	40	34	31
B2. Primary balance is at historical average minus one standard deviations in 2016-201	37	38	39	39	38	39	32	28
B3. Combination of B1-B2 using one half standard deviation shocks	37	38	39	39	38	39	32	29
B4. One-time 30 percent real depreciation in 2016	37	39	41	41	40	42	37	35
B5. 10 percent of GDP increase in other debt-creating flows in 2016	37	38	42	42	40	41	36	30

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

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

2/ Revenues are defined inclusive of grants.

Annex II. Uganda: Encouraging Productive Credit

Three groups of factors seem to explain the recently sluggish credit recovery and the composition of credit in favor of consumption rather than production: industry structural rigidities, structural economic weaknesses, and economic policies. The authorities are working on all fronts to deal with these issues.

1. Industry structural rigidities

Interest rate spreads between lending and deposit rates have been consistently high. At an average 11 percent in domestic currency and 6½ percent in foreign currency over 2000–2014, spreads are the highest among EAC countries[1]. A BoU study finds that operational costs and bank profitability are the main determinants of high spreads.[2] These results point to low efficiency and insufficient competition in the banking sector.

- **Bank efficiency.** While resource intermediation has been significantly improving (the share of income from securities trading has dropped from 35 percent in 2003 to less than 15 percent in 2013), bank efficiency problems are visible. The cost-to-income ratio (among the highest in the EAC) has remained sticky and generally exhibiting an upward trend, possibly suggesting that banks have not exhausted economies of scale. This suggests that banks have room to switch to more competitive business models to reduce their operational costs.

- **Banking competition.** The number of commercial banks has increased from 14 to 24, with a large influx of foreign owned banks especially from Africa (assets of foreign banks make up to 80 percent of total assets). While this expansion of the system was expected to intensify competition, particularly among medium sized banks, it has so far failed to induce a substantial increase in the number of depositors and increased access to credit. Concentration of market power remains high, with the 3 largest banks still holding about 50 percent of system assets.

2. Structural weaknesses in the economy

Despite its recent expansion, the banking system remains small. Financial depth and deposit mobilization levels lag regional peer averages. The system is segmented and concentrated in servicing the corporate sector, with smaller enterprises effectively underserved.

[1] Source: World Bank databank.

[2] Mugume, A., Apaa, J. and Ojwiya, C., Interest Spreads in Uganda: Bank Specific Characteristics or Policy Changes, Bank of Uganda Staff Papers (2009).

- **Financial deepening.** Private sector credit has increased from 9 percent of GDP in 2007 to 14 percent in 2013. Uganda is mainly a cash based economy and it suffers from a low savings rate. Demand for project finance cannot be matched with longer term maturities on deposits, severely curtailing the development of finance for the housing market.

- **Financial access.** As of 2013, only about 20 percent of adults owned a formal bank account in a financial institution, and 15 percent remained financially excluded (underserved by any kind of financial institution, formal or informal). The pool of wholesale depositors is shallow and dominated by the national social security fund. Costs of operating branches in remote rural areas are high. On the positive side, financial access benefited from a massive expansion in mobile money transactions from 3 percent of GDP in 2010 to 30 percent in 2013. This expansion helped reduce the use of cash, encouraged savings, and enabled users to conduct transactions without visiting a bank branch. The use of mobile transactions also provided an opportunity for strengthening tax mobilization.

- **Financial literacy**. A large segment of the population has poor information on savings and investments. This is, of course, more evident for the poor, rural and less educated population.

3. **Economic policies**

In general, policies have been supportive of sustainable credit growth and efficient intermediation, but there is room for improvement on:

- **Policy predictability.** The swings in growth and inflation outcomes have created a challenging environment for banks' business models. Uncertainty hampered banks' capacity to screen borrowers and adequately price risk. Volatility has also contributed to increasing dollarization, which made banks' decisions more difficult.

- **Regulation and supervision.** Better systems for risk assessment and collateral management will allow banks to take more efficient credit decisions.

The authorities are taking action on all these fronts. Maintaining the recent gains on the inflation front and improving fiscal-monetary policy coordination will certainly help to avoid repeating the credit boom-bust cycles observed in the past while safeguarding financial sector stability. Continued analytical work to assess the sustainability of credit growth, follow developments in the real estate sector, and monitor short term liabilities to foreign portfolio investors will support better understanding of financial sector developments. Similarly, strengthening the macro-prudential framework to improve risk management in systemically important banks, introduce a capital conservation buffer, and introduce counter-cyclical financial regulation will help anticipate and deal with risks. On the structural front, a sharper focus on licensing, mergers/acquisitions, and collateral management would help overcome market segmentation, improve bank business models and boost competition. The envisaged amendments to the Financial Institution Act, including the introduction of Islamic banking; the ongoing improvements to mobile and money transfer services;, and the expansion of access to the credit bureau are expected to enhance financial deepening and access. Consumer education to enhance financial literacy would help attract depositors to the system. Bank business models would also need to adapt to the increasing use of mobile money transactions to make them safe and efficient.

Annex III. Uganda: Charter of Fiscal Responsibility

The Public Finance Management (PFM) bill, currently at the final stages of parliamentary approval, requires the Minister of Finance to submit to parliament a Charter of Fiscal Responsibility (CFR), which will provide guidance on the formulation and implementation of fiscal policy. The authorities—with technical support from the IMF´s Fiscal Affairs Department— have begun drafting the CFR, with the aim of having it completed by May 2015 (structural benchmark under the PSI).

Fiscal responsibility principles: The PFM bill will contain five main principles: i) maintaining prudent and stable levels of public debt; ii) ensuring that the non-oil fiscal balance is maintained at sustainable levels; iii) managing petroleum resources and other finite natural resources for the benefit of current and future generations; iv) managing fiscal risks in a prudent manner; and v) ensuring efficiency, effectiveness, and value for money in expenditures.

Fiscal responsibility objectives: Consistent with the fiscal principles contained in the PFM bill, the CFR will include a statement of the government's measurable fiscal policy objectives for a period of no less than three fiscal years. The government has set two measurable objectives: i) keeping the overall deficit below a ceiling; and ii) maintaining the net present value of gross public debt below a sustainable ceiling. The authorities are working on determining the value of these ceilings and analyzing ways of introducing counter cyclical provisions.

Medium-term expenditure framework (MTEF): The annual Budget Framework Paper (BFP) will determine the medium-term expenditure framework limits for each financial year consistent with the objectives for fiscal responsibility by i) determining a specific path for the fiscal balance; ii) forecasting revenues in a transparent, prudent, and realistic basis; and iii) calculating the annual expenditure ceilings which are compatible with the projected path of revenues.

Reporting on performance against the objectives: The government should report to parliament at least twice a year on performance against the fiscal objectives set out in the CFR. Performance will be reported in the annual BFP, in a half-year fiscal and economic update, and in a final report on fiscal and economic outturns. The reports must explain how government policy is consistent with the fiscal principles and allow transparent assessment of performance against fiscal objectives by including i) an account of developments since the previous fiscal forecast, ii) a medium-term macroeconomic forecast and the assumptions underpinning it, iii) medium-term fiscal forecasts including detailed breakdowns of revenues and expenditures, iv) projections for the flows in the petroleum fund, v) costs of all significant fiscal policy measures, vi) a fiscal risk statement, and vii) a statement of responsibility signed by the Minister and the PS/ST attesting to the reliability and completeness of the information in the reports.

New budget calendar: The BFP will be submitted to parliament by December 31 of the previous financial year. The BFP will be approved and published by parliament no later than March 1. The budget will be presented and passed by parliament no later than May 31 of the same year.

Annex IV. Uganda: Social Safety Nets

Uganda could benefit from a well-run integrated national social safety net (SSN). Despite a significant decline in the poverty rate—which halved since the 90s making Uganda one of the very few countries that met this Millennium Development Goal (MDG) ahead of time—the absolute number of people living in poverty, close to 7 million, has remained high. Vulnerability and insecurity (defined as being able to meet basic needs, but having very volatile incomes) have increased due to the negative impact of shocks, including changes in employment status, droughts, and personal disasters. Regional inequalities are large, with poverty rates in the north at almost 50 percent vs. 5 percent in central Uganda. Studies by Oxford Policy Management and EPRC on Uganda show that traditional family and community self-help safety nets are becoming overstretched as poverty has become more widespread within these networks.[1]

Progress is ongoing towards achieving MDGs and Uganda's own goals stated in the National Development Plan (NDP). In particular, the quality of health services has improved; under-five mortality has significantly declined; and maternal health indicators are better, although the maternal mortality ratio remains high. Life expectancy has increased from 50.4 to 59.2 years. However, the UNDP Human Development Index remains low —with Uganda ranking number 164 out of 187 countries.[2]

International experience shows that SSNs contribute to reducing poverty and enhancing inclusiveness. Flagship cases, such as Mexico, Brazil, Indonesia, Bangladesh, South Africa, and more recent experiences in Ethiopia, Kenya, and Rwanda show that SSNs allow the poorest households to meet basic needs and invest in more productive livelihood options.

SSNs can also improve human capital, lead to increased labor productivity, create employment, build community assets, and enhance resilience against crisis. World Bank studies find that SSNs have a positive impact on the local economy through a multiplier effect (which is as high as 1.34 in the Kenya case), as beneficiaries tend to consume the cash they get in local goods and services. Other interventions, like involvement of the poor in public works, can improve infrastructure and community assets. Moreover the SSN-related reduction in inequality is associated with higher and more durable growth and a positive impact on the local economy. Finally, SSNs provide a useful tool for crisis response, by allowing fast interventions to address shocks.

[1] Over half of the population is below 15 years old, more than 10 percent of children below 18 are orphans, and 4½ percent of the population is aged 60 or more. EPRC (2009), "Social Cash Transfers for the Poorest in Uganda", Research Series No. 60, Sennoga, Matovu and Twimukye. Oxford Policy Management (2013): Evaluation of the Uganda Social Assistance Grants for Empowerment (SAGE) program.

[2] Uganda's Poverty Reduction Strategy Paper: Progress Report, November 2014, and Millennium Development Goals Report for Uganda 2013, Ministry of Finance, Planning, and Economic Development.

SSNs are increasingly used in Africa as a key element in the social protection strategy. In the EAC region, Kenya is stepping up its social protection system, with the 2014/15 budget accommodating an increase of about 11 percent in real terms to finance well-targeted cash transfer programs. In Rwanda, the coverage of its social protection program, Vision 2020 Umurenge Program, is being expanded. In Tanzania, the authorities are harmonizing the large number of fragmented interventions into a coherent program. Uganda has so far limited its interventions, with the largest initiatives being a pilot program, the Social Assistance Grants for Empowerment (SAGE), and Food/Cash for Assets, supporting approximately 1 percent and 0.9 percent of the population, respectively. The Constitution, Vision 2040 and the National Development Plan highlight the need for social protection.

To be efficient, building on other countries' experiences (World Bank, 2014[3]) and other research, the establishment of a SSN should be:

- **Targeted only to groups in need of support.** It is neither efficient nor sustainable or affordable to target all the poor population, or to provide universal benefits. Maximizing coverage of the target groups while minimizing leakages is crucial to optimize cost-effectiveness and ensure transparency. The availability of frequent and well-document National Household Surveys in Uganda can be a useful starting point to identify vulnerable groups.

- **Affordable and well coordinated.** The average developing country spends between 1 and 2 percent of GDP on social safety nets per year. Simulations from the World Bank and Uganda's Expanding Social Protection Secretariat[4] show that at a cost of about 0.15 percent of GDP, Uganda could reduce poverty by 2.6 percent targeting children of school age. At a cost of 0.9 percent of GDP, poverty prevalence could be reduced by 8.6 percent when directing grants to children between 0 and 2. Financing can initially come from a joint effort by government and donors (possibly through the World Bank, DFID, World Food Program, the UN Children's Fund and other bilateral partners). The government could create fiscal space within its currently constrained budget in the context of their revenue enhancing strategy. The forthcoming oil wealth will facilitate this task in the medium term.

- **Supported by an appropriate institutional and organizational design.** Adequate coordination among the different ministries and agencies involved will be needed. Consistent definitions, rules and targeting criteria, and appropriate registries, payment and monitoring systems need to be put into place. There is space for harmonizing fragmented interventions and reducing implementation and monitoring costs. The use of mobile money and the involvement of private sector companies, like in the current pilot (SAGE) scheme, would

[3] World Bank, 2014: "Reducing Poverty and Investing in People. The New Role of Safety Nets in Africa", V. Monchuk.

[4] World Bank September 2014 Country Economic Memorandum, and Expanding Social Protection Secretariat, 2012.

facilitate the task. The inclusion of mechanisms for oversight and controls for fraud prevention remains essential to ensure the resources are properly spent.

- **Consistent with the country's objectives, implementation capacity, and social and cultural characteristics**. For example, Uganda could decide if it is more socially acceptable to implement interventions with a conditional component or with a work requirement in exchange. Uganda could provide working tools (for example, a cow) or school meals if cash transfers are not politically acceptable.

Appendix I. Letter of Intent

Kampala, Uganda,
November 19, 2014

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

Dear Madame Lagarde:

On behalf of the Government of Uganda, we would like to provide you with an update on the progress we have achieved under our economic program supported by the IMF's Policy Support Instrument (PSI). Although economic growth was slightly lower than projected, there are indicators that growth is rebounding, despite the adverse impact of the ongoing regional conflict on agricultural production, trade, and remittances. In the context of our inflation targeting framework, we have successfully kept inflation under control. On account of a benign current account outlook and strong capital inflows, we have maintained our international reserves at comfortable levels.

Performance under the PSI-supported program remains satisfactory. In particular, we observed all June 2014 quantitative assessment criteria and indicative targets, with the exception of the indicative target on tax revenue, which was unfortunately missed. The implementation of the revenue enhancing package, together with new corrective measures to compensate for the lower yield of a significant measure, is now our key priority. Implementation of the package is expected to proceed smoothly and we are committed to its strict enforcement.

These and other details of our economic program are set out in the attached Memorandum of Economic and Financial Policies (MEFP) and the Technical Memorandum of Understanding (TMU), which extend our commitments to end-December 2015. In the context of the successful performance of the inflation targeting policy, we have reached understandings with Fund staff to request the removal of the indicative target on base money. An updated TMU includes this change and other information updates.

A program of infrastructure investment in electricity and road projects to address the infrastructure gap is at the center of our growth and development strategy. To maintain macroeconomic stability, we will ensure that this program is consistent with debt sustainability and the absorption and implementation capacities of the economy. Execution of other important infrastructure projects is also under consideration, and we will continue to inform IMF staff on their progress to discuss them further in upcoming reviews.

We are also advancing integration efforts with other East African countries, with the ultimate objective of creating a monetary union to boost trade and improve competiveness. Significant progress has been made on enhancing public financial management and we will continue to take steps to advance further. To assist us in carrying out this ambitious reform agenda, the government of Uganda wishes to continue to benefit from technical assistance from the IMF in areas included in the program.

In light of this satisfactory performance and our continued commitment to and ownership of the program, we request completion of the third review under our PSI-supported program. We also request modification of the December 2014 quantitative assessment criterion and indicative targets in line with recent developments.

We intend to work with the IMF and other development partners on the implementation of our program, and will consult with the Fund on the adoption of any further measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation. We will provide the IMF with such information as the Fund requests in connection with our progress implementing the policies and reaching the objectives of the program. We also consent to publication of the staff report, the letter of intent, the MEFP and the TMU for the third review under the PSI.

Sincerely yours

/s/	/s/
Maria Kiwanuka	Prof. E. Tumusiime Mutebile
Minister of Finance, Planning	Governor
and Economic Development	Bank of Uganda

Attachments
Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

A. Introduction

1. This Memorandum of Economic and Financial Policies complements the previously agreed policies under the June and December 2013 and June 2014 Memoranda of Economic and Financial Policies. It presents an update on the economic performance in the second half of FY2013/14, and provides details of the policies the Government intends to implement over the period ahead to preserve fiscal sustainability and achieve Uganda's macroeconomic objectives. The memorandum proposes extension of quantitative and indicative targets, structural benchmarks, and other reform commitments to end-December 2015.

B. Recent Economic and Policy Developments

2. Growth in FY2013/14 is now estimated at 5.2 percent, somewhat lower than anticipated under the program, mainly reflecting the combination of the adverse impact of regional developments on the external sector, the slower-than-expected growth in key trading partners, and lower public sector investment. In the context of the inflation targeting framework, the Bank of Uganda's (BoU) cautious monetary policy stance kept inflation under control and well within the PSI consultation clause.

3. The current account deficit improved, with higher service receipts and lower-than-expected imports on account of delays in the implementation of the Karuma and Isimba hydroelectric projects. Together with resilient FDI inflows, reserve coverage increased to over 4½ months of imports.

4. Fiscal performance was less expansionary than expected. Notwithstanding our commitment to raise revenue in the last quarter of the fiscal year, the compliance efforts did not yield the expected revenue. There was an underperformance of Shs 83 billion for the year as a whole compared to the projections of the last PSI review. Weak VAT collections and lower corporate income tax returns by key taxpayers, including banks and telecommunication companies—partly attributed to lower economic activity—explained the shortfall. Improvements in tax compliance and enforcement also fell short of expectations. However, weaker-than-expected implementation of externally-financed projects related to project management difficulties reduced expenditures by about 1 percent of GDP, more than compensating for the revenue shortfall. The overall deficit was 4.1 percent of GDP, against an expectation of 5 percent of GDP at the time of the last PSI review.

5. Core inflation reached 2.4 percent and headline inflation 1.8 percent by end-October 2014. The monetary policy stance remained cautious despite low inflation as the inflation forecast pointed to an increase in prices on account of anticipated higher food prices, exchange rate pass through and a rebound in private sector demand. The banking sector remains well capitalized, liquid, and able to absorb eventual losses. However, the BoU had to revoke the license of one

small bank that had incurred persistent losses. Non-performing loans remain high reflecting the protracted impact of the lagged effect of the economic slowdown in FY2011/12.

C. Performance under the PSI

6. As of end-June 2014, we successfully observed the quantitative assessment criteria (QAC) on net domestic financing and net international reserves, and core inflation was well within the consultation clause. We also observed the indicative targets on base money, change in the stock of domestic arrears, and social spending. However, we missed the indicative target on tax revenue as, regrettably, the envisaged efficiency measures in the last months of the fiscal year did not produce the expected yields. Corrective action has been taken in the form of the newly approved revenue package, together with additional efficiency gains and tax policy measures.

7. Progress is being made on structural reforms. Parliament approved a strong package of revenue measures. The exemption on interest earned on agriculture-related loans was approved in its original form, but the expected yield of the discontinuation of exemptions on supply of goods and services related to hydro-power, roads and bridges was modified preventing this measure from yielding additional revenue this year. Government continued with the BoU recapitalization, recently providing Shs 250 billion of marketable securities (October 2014 benchmark). The Ministry of Finance published a report on the stock of domestic arrears of all government entities contained in the central government votes on October 24, 2014 (September structural benchmark).

D. Macroeconomic Outlook

8. Growth is expected to accelerate to 6.1 percent in FY2014/15—as foreseen in the last PSI review—supported by the scaling up of public investment in infrastructure; a recovery in private sector activity fueled by higher credit growth; increased foreign direct investment; and a rebound in agricultural production. Core inflation is expected to remain within the PSI consultation clause, despite likely upward pressure resulting from tax increases, exchange rate depreciation and potential second round effects of a rebound in food crop prices. The implementation of the two hydropower projects will result in an important fiscal expansion, but since the projects are mostly externally financed and with high import content, we do not expect crowding out effects on the private sector. The projects will also influence the balance of payments dynamics, with associated imports widening the current account deficit. We project to keep reserves at a comfortable level of 4.1 months of imports after the use of government deposits from the energy and petroleum funds to finance Uganda's share of the hydropower projects. The main risks to the outlook emanate from further spillovers from external developments and delays in implementation of the envisaged projects.

E. Economic Policies

Fiscal Policy

9. On the revenue side, we aim at increasing tax revenue by 0.5 percent of GDP, supported by the implementation of the approved revenue package and efficiency gains. On the expenditure side, we foresee a significant increase of infrastructure investment with the start of the construction of the two large hydropower plants (HPP), Karuma and Isimba. While the envisaged deficit is expected to be large, at 6.8 percent of GDP, it would reach only 3.1 percent of GDP if the projects (which have a high import content and bring their own financing) and the central bank recapitalization (which does not have an impact on aggregate demand) are excluded. The necessary domestic financing is expected to be compatible with the envisaged increase in bank credit to the private sector.

Tax revenue

10. Parliament approved the elimination of many VAT exemptions, several goods lost their zero-rate status, government procurement is now tax inclusive, and corporate income taxes are charged on initial allowances on eligible property, interest earned by banks on loans to the agricultural sector, and educational institutions. Despite general opposition, excise duties were also increased on fuels, sugar and money transfers. These measures are in force since July 1.

11. Parliament did not approve the elimination of the exemptions on agricultural inputs, due to its social sensitivity, but the expected yield of this measure was not anticipated to be large. In addition, the yield of removing the VAT exemption on goods and services provided to civil works, agriculture, education and health sectors will be lower than initially expected due to an overestimation during the budgetary process. In addition, cabinet decided to renew the tax exemption granted to the textile sector, albeit with stricter conditions and a requirement that government pay the tax on behalf of the exempt companies. To compensate for the lower yield of these measures, we will take compensatory action, including introducing an export levy on unprocessed tobacco leaf, withholding tax on re-insurance; requiring Members of Parliament to pay tax on their additional emoluments; generating additional efficiency gains from improving customs valuation controls; and increasing the tax compliance of government suppliers.

12. Successful implementation of the revenue package is a key priority for us. While tax collection during the first three months of the fiscal year fell slightly short of expectations, it turned above expectations in October. These developments are explained by the fact that in some cases, new revenues materialized with a delay, partly because the protracted parliamentary discussions and strong lobbying from stakeholders affected compliance. A slowdown of imports due to construction at the port of Mombasa contributed to reducing the income from international trade taxes. Nonetheless, we are confident that the improvement experienced in October will be maintained for the rest of the year and fully compensate for the initial delays.

13. Improvements in tax efficiency are being increasingly implemented. The action plan developed on the basis of the recommendations coming out of the VAT gap analysis includes enhanced collaboration with public agencies and the private sector to strengthen income tax management. While this effort for now covers only Kampala, due to limited funding, we have registered 8,525 taxpayers and collected Shs 1.2 billion. We are planning to step up resources to be able to register, assess, and collect revenues in collaboration with local governments in at least three municipalities by December 2014 (structural benchmark). We are strengthening compliance in international taxation and we envisage additional training for tax auditors and an IMF technical assistance mission to take place before the end of the year. In line with our commitment in the previous MEFP, we expect to conduct 6 document reviews and conclude 2 international tax audits by December 2014 and another 6 document reviews and 2 international tax audits by June 2015. Furthermore, we have established a public sector office within URA to monitor government taxes. We also plan to devote efforts to sensitize the population, strengthening the civil culture of tax compliance.

Expenditure

14. Statutory expenditure was increased during the budgetary approval process, including increased wages for Parliamentarians and an increase in resources devoted to their security. Additional funding was also provided to align the funding for the education system to the school year. In line with the new PFM bill before Parliament, we introduced a contingency provision in the budget to allow us to respond to unexpected expenditure, fixed costs overruns, and revenue shortfalls that could not be accommodated through reallocations or spending cuts. Unfortunately we had used a large part of such contingency provision to cover the new unexpected expenditures, thus reducing our buffer for the rest of the year. Nonetheless, we are committed to adhering to the approved budget and preserving the quality of expenditure in this pre-electoral year. In particular, we will take into account the savings realized until now in wages when making quarterly cash allocations as a way to ensure expenditure discipline.

15. Construction of the two large HPPs has started. On Isimba, following the conclusion of negotiations with China's Eximbank and the relocation of the population residing on the site, we envisage parliamentary approval of the loan soon and start of construction in January 2015. On Karuma, negotiations between the Government and China Eximbank are expected to be finalized before the end of 2014. The 15 percent Government contribution to both projects (Shs. 880 billion) was released to the contractors during quarter 1 of 2014/15 to ensure the continuation of works while the loan agreements are being finalized.

Financing and Arrears

16. As anticipated, we plan to finance our overall deficit by using China's Eximbank loans for the HPPs, a reduction of government savings in the oil and energy funds to provide for the domestic contribution to the projects, and domestic debt issuance up to Shs. 1.4 trillion, as we will maintain a contingency reserve of Shs. 100 billion in our fiscal accounts.

17. We have made significant progress in the reduction of domestic arrears, although we acknowledge further improvements in coordination with all government entities responsible are required. Arrears have declined by about Shs. 544 billion, and we will continue publishing reports on the stock of arrears and unpaid bills. For the first quarter of the year, the report will be published on time.

18. To strengthen institutional arrangements to improve cash management and eliminate arrears, we have established a new Directorate dedicated to cash and debt management. A new department has also been created to focus on implementation capacity and public investment management.

Monetary and Financial Policies

19. Our inflation targeting framework is working well, and our commitment to achieve the 5 percent medium-term inflation target is now well entrenched. The BoU will continue to carefully assess developments and adapt the stance to the changing circumstances with the aim of maintaining inflation within its target.

20. The monetary transmission mechanism is gradually improving as interbank market interest rates are very responsive to BoU's monetary policy moves. Interest rates on government securities have also followed the policy rate but lending rates have responded more slowly. As a result, credit to the private sector is gradually rebounding.

21. The BoU has continued with its regular announced interventions in the foreign exchange market with the objective of maintaining reserves at an adequate level, and preventing excessive exchange rate volatility. Recent interventions were aimed at replenishing reserves used to pay for the government's share of the Karuma and Isimba projects. On days of excessive volatility, BoU suspended purchases for reserve build up. The interventions have been fully sterilized. We remain committed to updating markets on our policies in this area through our existing and new communication channels.

22. On the financial sector side, we continue to monitor nonperforming loans. Lending rates remain relatively sticky downwards, in part reflecting high overhead costs and provisioning for nonperforming loans. According to the September 2014 credit survey, credit standards to enterprises are expected to stay broadly unchanged, with a bias toward easing for both enterprises and households. On supervision, the BoU had to revoke the license of a bank that incurred persistent losses and missed reporting requirements, displaying the high quality of supervision and our strong commitment to maintain financial stability.

F. Structural Reforms

23. Uganda's investment needs remain considerable. In the context of stepped up efforts towards regional integration, the coming on stream of oil and the efforts to improve the business environment, we plan to boost infrastructure investments. To that end we are exploring options

to plan the construction and financing of works to prepare for oil production (including road, water, and electricity access), the standard gauge railway, and the refinery. In doing that, we will take into account our updated debt sustainability analysis to be sure that the risk of debt distress remains low; assess the absorptive and implementation capacity of the economy; and ensure commercial viability of all projects. While future oil revenues will be an important source of repayment of the needed financing, we do not intend to use them as collateral for external borrowing. We will continuously update IMF staff of all future developments and details of the infrastructure investment plans. Upon availability of relevant feasibility studies and concrete financing plans, we intend to discuss the inclusion of these medium-term projects under the PSI program in the context of upcoming reviews. Previous to embarking in these projects we intend to develop and publish a set of public investment management guidelines to significantly improve screening, selecting and financing assessment of investment projects (new structural benchmark).

24. Progress on PFM continued since the completion of the last PSI review. We carried on with our efforts to clean up the payroll, which allowed us to save about Shs. 100 billion in the first quarter of the FY. We received an IMF technical assistance mission to continue discussions on the implementation of the second phase of the Treasury Single Account (TSA), which concluded that excellent progress has been made but additional effort is still required to get to a well structured and fully functional TSA. To this end, we now intend to strengthen the TSA design by converting to a TSA head and TSA sub-account structure, and to complete a pilot exercise aimed at including donor-funded projects in the TSA (structural benchmarks for May and July 2015).

25. The Public Finance Management Bill remains at the plenary of Parliament for consideration and approval, and it is expected to be the first item of discussions following the recent parliamentary recess. We have started to work on the regulations to operationalize the act on a range of issues with IMF technical assistance. This will allow us to meet the May 2015 deadline for completion of the regulations and the charter of fiscal responsibility (structural benchmarks). In particular, we intend to use the new budgetary calendar for the FY2015/16 budget. On identity cards, we are progressing towards our goal of issuing 3 million by July 2015 (structural benchmark).

26. We are working on enhancing coordination within the Ministry of Finance, Planning and Economic Development to improve estimates of revenue yields and ensure consistency across all entities producing arrears figures and interest projections.

27. Work is ongoing to prepare an updated National Development Plan (NDP II). Discussions with relevant stakeholders are ongoing, as the process has to be open, participatory and transparent. Our initial plan was to adopt the NDP II by end-June 2015, when the first NDP was set to expire. However, to incorporate the impact of expected rebased GDP figures, the new Public Finance Management Bill, the results of the population census, and the forthcoming Charter of Fiscal Responsibility, we have decided to extend the current NDP for another year. We have produced a note on progress up to date that explains these developments and our intention to use the extended plan as our Assessment Progress Report of the Poverty Reduction

Strategy. According to this progress report, recent developments have been positive in terms of poverty reduction and our decision to maintain macroeconomic stability, scale-up infrastructure and make growth inclusive will help further.

28. To support the legal framework of our inflation targeting regime, we remain committed to continue working on the amendments to the BoU Act, with the aim of finalizing and submitting to Parliament by April 2015 (structural benchmark). To enhance financial sector stability, a new Financial Institutions Act will be presented to Parliament in 2015/16.

29. Progress towards regional integration in the last few months include the approval of the Monetary Union Protocol by cabinet that is expected to be ratified by the parliament by the end of 2014.

G. Risks to the Program

30. The key risks to the program come from external uncertainties, including those arising from developments in neighboring countries and policies in advanced economies that could affect trade, FDI, and portfolio inflows, as well as domestic developments in a pre-electoral context.

H. Program Monitoring

31. Progress in the implementation of the policies under this program will be monitored through quantitative assessment criteria (QAC), indicative targets (ITs), and structural benchmarks (SBs) detailed in the attached Tables 1 and 2 and through semi-annual reviews. The net domestic financing quantitative assessment criterion is proposed to be modified for end–December 2014, and new quantitative assessment criteria are proposed to be established for end-June 2015, to be monitored respectively at the fourth and fifth PSI reviews. Indicative targets are proposed for March, September and December 2015. The fourth review is expected to be completed by end-June 2015 and the fifth review by end-December 2015. The attached Technical Memorandum of Understanding—which is an integral part of this memorandum—contains the needed definitions.

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

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

	June 30, 2014[2]				September 30, 2014[3] (Preliminary)				December 31, 2014[3]		March 31, 2015[3]		June 30, 2015[3]		Sept 30, 2015[4]	December 31, 2015[4]
	Program	Adjusted Target	Outturn	Result	Program	Adjusted Target	Outturn	Result	Program	Revised Program	Program	Revised Program	Program	Revised Program	Program	Program
(Billions of Ugandan shillings)																
Assessment criteria																
Ceiling on the increase in net domestic financing of the central government	1,647	1,557 [5]	1,341	Met	1,539	1,326 [5]	1,371	Not met	2,196	2,461	2,542	2,896	2,600	2,832	353	937
(Millions of US dollars)																
Ceiling on the stock of external payments arrears incurred by the public sector	0	0	0	Met	0		0	Met	0		0		0		0	0
Ceiling on the contracting or guaranteeing of new nonconcessional external debt with maturities greater than one year by the public sector [6,7]	2,200	2,200	81	Met	2,200	2,200	81	Met	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200
Ceiling on new external debt with maturity up to one year contracted or guaranteed by the public sector [6, 8]	0	0	0	Met	0		0	Met	0	0	0	0	0	0	0	0
Minimum increase in net international reserves of the Bank of Uganda (US$mn)	178	164 [5,9]	379 [10]	Met	-250	-254 [5,9]	-288	Not met	-275	-275	-175	-245	-109	-236	63	125
Share of oil revenue placed in the Petroleum Fund [11]	100		100	Met	100		100	Met	100	100	100	100	100	100	100	100
(Billions of Ugandan shillings)																
Indicative targets																
Ceiling on the increase in base money liabilities of the Bank of Uganda	570		547	Met	236		109	Met	n.a	n.a.	n.a.		n.a.	n.a.	n.a.	n.a.
Floor on tax revenue[12]	7,914		7,831	Not Met	2,078		2,035	Not Met	4,422	4,362	6,736	6,576	9,372	9,132	2,345	5028
Expenditures on poverty alleviating sectors	2,731		2,841	Met	701		782	Met	1,403	1,277	2,104	2,141	2,806	2,994	884	1,443
Ceiling on the issuance of guarantees by the Government/Bank of Uganda	0		0	Met	0		0	Met	0		0		0		0	0
Net change in the stock of domestic arrears[13]	-50		-544	Met	-20		-26	Met	-40	-70	-60	-80	-80	-80	-20	-40
Ceiling on withdrawals from energy and petroleum funds	120	26	26	Met	1,102	652	652	Met	1,102	1,230	1,102	1,230	1,102	1,230	1,230	1,230
(Annual percentage change)																
Inflation consultation clause																
Outer band (upper limit)	9.3				9.0				8.7		8.3	8.3	8.0	8.0	8.0	8.0
Inner band (upper limit)	8.3				8.0				7.7		7.3	7.3	7.0	7.0	7.0	7.0
Core inflation target [14]	6.3		5.2	Met	6.0		4.2	Met	5.7		5.3	5.3	5.0	5.0	5.0	5.0
Inner band (lower limit)	4.3				4.0				3.7		3.3	3.3	3.0	3.0	3.0	3.0
Outer band (lower limit)	3.3				3.0				2.7		2.3	2.3	2.0	2.0	2.0	2.0

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

[2] Proposed targets are measured as the change from June 2013, except as marked.

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

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

[5] The adjusted target is calculated applying the budget support excluding HIPC assistance of Ush 86 billion in June and Ush 7 billion in September 2014 in line with the text of the TMU for the Second Review. The numbers published in Schedule A to the TMU for the Second Review incorrectly included HIPC assistance.

[6] Continuous assessment criterion.

[7] Cumulative change from June 28, 2013. To be used exclusively for infrastructure investment projects. A loan from the Islamic Development Bank was contracted in December 2013 to finance a development project. Another loan mentioned at the time of the Second Review was revealed to be concessional.

[8] Excluding normal import-related credits.

[9] The adjusted target is calculated including the Ush and the USD denominated deposits of the GoU in the Energy Fund, in line with Schedule D of the TMU, Second Review.

[10] As stated in the TMU, the NIR outturn is assessed using program exchange rates.

[11] To ensure full and transparent transfer of oil revenues to the fiscal accounts.

[12] The floors on tax revenue for the "Program" column for December 2014 to June 2015 have been corrected, as inadvertently the numbers presented at the time of the second PSI review (December Shs. 4,625 billion; March Shs. 7,038 billion; June Shs. 9,777 billion) refer to Total revenue rather than Tax revenue.

[13] As stated in the TMU, for quarters other than the one ending June 30, the net change in the stock of unpaid bills will be used as the indicative target.

[14] Annual percentage change, twelve-month period average core inflation. Calculated as stipulated in the TMU.

Table 2. Structural Benchmarks			
Policy Measure	**Macroeconomic Rationale**	**Date**	**Status**
Ministry of Finance to submit to Parliament amendments to the Bank of Uganda Act including a provision for capital adequacy of BoU as an adequate percent of monetary liabilities, as well as other provisions to support implementation of inflation targeting in line with international best practices.	To enable monetary policy independence and credibility of the central bank.	April 2015	
Government to continue with annual recapitalizations of the Bank of Uganda with marketable securities to bring capital to the statutory level until amendments to the Bank of Uganda Act come into force, on the basis of the BoU's commitment to implement its business plan to contain operational and administrative costs.	To enhance central bank efficiency. To enhance central bank discipline and monetary policy independence.	October 2014 October 2015	Met
Ministry of Finance to publish quarterly reports signed by the PS/ST on the stock of unpaid bills of all government entities contained in the central government votes.	To facilitate control and reduction of unpaid bills.	November 15, 2014 for the quarter ending September 30, 2014. February 15, 2015 for the quarter ending December 31, 2014. May 15, 2015 for the quarter ending March 31, 2015.	
Ministry of Finance to publish a report signed by the PS/ST on the stock of domestic arrears of all government entities contained in the central government votes.	To facilitate control and reduction of expenditure arrears.	September 30, 2014 for the quarter ending June 30, 2014.	Met with delay (Report published on October 24, 2014)
Government to have issued a minimum of 3 million ID cards under the new national identification system.	To support efforts to strengthen revenue collection, promote the unique identification of financial sector clients, and combat money laundering and the financing of terrorism.	July 2015	

Table 2. Structural Benchmarks (Concluded)			
Policy Measure	**Macroeconomic Rationale**	**Date**	**Status**
Government to eliminate exemptions on supply of specialized vehicles, plant and machinery, feasibility studies, engineering designs, consultancy services and civil works related to hydro-electric power, roads and bridges.	To increase revenue and tax administration efficiency.	July 2014	Met
Government to eliminate exemption from tax of interest earned on loans granted for the purpose of agriculture including farming, forestry, fish farming, bee keeping, animal husbandry or similar operations.	To increase revenue and tax administration efficiency.	July 2014	Met
URA to register, assess, and collect revenue using the trading license regime in at least three municipalities.	To enhance revenue collections.	December 2014	
Ministry of Finance to complete the second phase of the TSA implementation and strengthen its design by converting to a TSA head and TSA sub-account structure. This would eliminate movements of cash by giving votes appropriate level of spending authority within cash limits consistent with the macro-framework.	Complete the process of improving cash management and controls.	May 2015	
Ministry of Finance to finalize regulations for implementation of the PFM bill.	Ensure efficient PFM implementation and oil revenue management by providing guidelines, clarifying and making specific those aspects that are general in the law.	May 2015	
Ministry of Finance to finalize the charter of fiscal responsibility.	To improve fiscal and macroeconomic management.	May 2015	
Development and publication of the Public Investment Management Guidelines and Procedures.	To strengthen the capacity of MDAs in the preparation of feasibility studies, project preparation, analysis and appraisal, and financing assessments.	June 2015	
Ministry of Finance to begin the third phase of TSA implementation by conducting a pilot exercise aimed at including donor-supported projects in the TSA.	Provide a key milestone for full TSA implementation.	July 2015	

Attachment II. Technical Memorandum of Understanding

A. Introduction

1. This memorandum defines the quarterly quantitative assessment criteria (QAC) and indicative targets (ITs) described in the Memorandum of Economic and Financial Policies (MEFP) for the economic program supported by the IMF Policy Support Instrument (PSI) over the period of December 31, 2014—December 31, 2015, and sets forth the reporting requirements under the instrument. The stock of all foreign assets and liabilities will be converted into U.S. dollars at each test date using the cross exchange rates referred to in the table below for the various currencies and then converted into Uganda shillings using the program U.S. dollar-Uganda shilling exchange rate for end-March 2014, unless otherwise indicated in the text.

Program Exchange Rates (end-March 2014)	
US Dollar (US$)	1.0
British Pound/US$	0.6
Japanese Yen/US$	102.9
SDR/US$	0.6
Kenyan Shilling/US$	86.3
Tanzanian Shilling/US$	1630.7
Euro/US$	0.7
Ugandan Shillings/US$	2549.5

B. Consultation Mechanism on Inflation (QAC)

2. The quarterly consultation bands for the twelve-month average rate of consumer price inflation (as measured by the core consumer price index (CCPI) published by the Uganda Bureau of Statistics (UBOS)) are specified in Text Table 1. Projected CCPI inflation for end-December 2014 and end-June 2015 will be subject to the consultation mechanism, while those for end-March, end-September and end-December 2015 are indicative targets.

Text Table 1. Inflation Targets					
	Dec. 2014	Mar. 2015	Jun. 2015	Sep. 2015	Dec. 2015
Outer band (upper limit)	8.7	8.3	8.0	8.0	8.0
Inner band (upper limit)	7.7	7.3	7.0	7.0	7.0
Core inflation target	5.7	5.3	5.0	5.0	5.0
Inner band (lower limit)	3.7	3.3	3.0	3.0	3.0
Outer band (lower limit)	2.7	2.3	2.0	2.0	2.0

3. Should the observed average CCPI inflation for the test date linked to a PSI program review (i.e., end-December 2014 for the fourth review and end-June 2015 for the fifth review) fall

outside the outer band as specified in the above table, the authorities will complete a consultation with the Executive Board of the Fund on their proposed policy response before requesting completion of the review under the program. The authorities will not be able to request completing a review under the PSI-supported program if the average CCPI inflation has moved outside of the outer band as of the test date linked to such review, until the consultation with the Executive Board has taken place. In line with the accountability principles, the BoU will report to the public the reasons for any breach of the outer bands, and its policy response. In addition, the BoU will conduct discussions with the Fund staff when the observed average CCPI inflation falls outside the inner band as specified for the end of each quarter in Text Table 1.

C. Ceiling on the Cumulative Increase in Net Domestic Financing of the Central Government[1] (QAC)

4. The cumulative increase in net domestic financing of the central government (NDF) is defined from below the line on a cash basis as the sum of:

a. *the change in net claims on the central government by the banking system:* Net claims on the central government by the banking system is defined as the difference between the outstanding amount of bank credits to the central government and the central government's deposits with deposit corporations, excluding deposits in administered accounts and project accounts with the banking system, including the central bank. Credits comprise bank loans and advances to the government and holdings of government securities and promissory notes. NDF by deposit corporations will be calculated based on data from balance sheets of the monetary authority and deposit corporations as per the deposit corporations' survey.

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

All changes will be calculated as the difference between end-of-period stocks, net of any valuation changes resulting from currency movements.

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

5. Net international reserves (NIR) of the Bank of Uganda (BoU) are defined for program-monitoring purposes as reserve assets of the BoU net of short-term external liabilities of the BoU.

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

Reserve assets are defined as external assets readily available to, and controlled by, the BoU and exclude pledged or otherwise encumbered external assets, including, but not limited to, assets used as collateral or guarantees for third-party liabilities. Short-term external liabilities are defined as liabilities to nonresidents, of original maturities less than one year, contracted by the BoU and include outstanding IMF purchases and loans.

6. For program-monitoring purposes, reserve assets and short-term liabilities at the end of each test period will be calculated in U.S. dollars by converting the stock from their original currency denomination at program exchange rates (as specified in paragraph 1). The NIR limits are the cumulative changes of the NIR stock from July 1 of respective fiscal year to the specified dates. The NIR floor for December 2014 and June 2015 will be quantitative assessment criteria under the PSI-supported program; the floor for March, September and December 2015 will be indicative targets.

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

7. The indicative target on the floor on poverty alleviating expenditures includes domestic expenditures inclusive of wages and salaries in the Health, Education, Water and Environment and Agriculture sectors, as defined by the Government of Uganda's (GOU) functional budget classification, excluding those which are externally financed. Compliance with the indicative floor for poverty alleviating expenditures will be verified on the basis of releases.

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

8. The indicative target on issuance of guarantees by the GoU or the BoU aims to prevent accumulation of contingent liabilities by the GoU (including entities such as ministries, agencies and authorities). Included against the ceiling are any direct, contingent liabilities of the GoU (including entities that are part of the GoU such as ministries, agencies and authorities) issued after June 28, 2014, and including any guarantees issued prior to this date but which are extended after June 28, 2014. This excludes guarantee programs which have explicit budget appropriations.

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

9. The purpose of this quantitative 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 PFM bill; in the meantime, government has established a petroleum revenue account in the BoU. 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 PFM Bill is enacted).

H. Tax Revenue (IT)

10. A floor applies on tax revenue of central government measured cumulatively from the beginning of the fiscal year. For program monitoring purposes, tax revenue is defined as the sum of direct domestic taxes (PAYE, corporate tax, presumptive tax, other direct taxes, withholding tax, rental income tax, tax on bank interest, casino tax and unallocated receipts), excise duty and value-added taxes net of refunds and taxes on international trade minus temporary road licenses, and fees to hides and skins, as defined by the GoU's revenue classification.

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

11. A ceiling applies to net accumulation of domestic arrears of the central government as an indicative target.[2] The ceiling for each test date is measured cumulatively from July 1 of respective fiscal year.

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

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

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

14. The indicative target on the ceiling on withdrawals from the GoU deposits from the Petroleum Fund and the Energy Fund aims at channeling these resources to key infrastructure projects while ensuring coordination on accompanying impact on liquidity. A ceiling applies on withdrawals from the GoU deposits from the Petroleum Fund and the Energy Fund measured cumulatively from the beginning of the fiscal year. Withdrawals will be restricted to meet the following uses (i) spending on Karuma and Isimba hydro-power projects and the associated industrial substations, specifically related to the loan agreement between the GoU and China Eximbank (the GoU's share adds up to US$424 million covering 15 percent of total costs of projects, loan insurance, and management fees); (ii) spending on land acquisition for Karuma and Isimba HPPs (Ush120 billion), and (iii) a maximum of the domestic currency equivalent of US$64 million, as stated in paragraph 19 below.

[2] A negative target thus represents a floor on net repayment.

K. Adjusters

Adjustor related to budget support

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

16. The Uganda shilling equivalent of projected budget support (grants and loans) excluding HIPC Initiative and MDRI assistance in the form of grants on a cumulative basis from July 1 of the relevant fiscal year is presented under Schedule A. The ceilings on the cumulative increase in NDF 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, excluding HIPC Initiative and MDRI assistance, exceeds (falls short of) the projected amounts.

Schedule A: Budget Support[1]
(Ush billions)

	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15
Cumulative from July 1 of respective fiscal year	50	62	62	28	83

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

Adjustors related to the financing of the Hydropower Plants

Background and Energy and Petroleum Fund stocks

17. The GoU is expected to cofinance the Karuma and Isimba hydropower projects and the associated industrial substations, in accordance to loan agreements about to be concluded with China's Eximbank. The GoU's share is expected to cover (i) 15 percent of the total project costs, loan insurance, and management fees (US$424 million); and (ii) land acquisition for Karuma and Isimba HPPs at a total cost of Ush 120 billion. These funds are expected to come from withdrawals of deposits in the energy and petroleum funds.

18. By the end of the first quarter 2014, the GoU had already spent US$338 million, coming from the Energy Fund and temporarily the Uganda Consolidated Fund —as bridge financing while the budget was approved and thus the Petroleum Fund could be used—with the stocks as of October 16, 2014 described below. The foreign currency-denominated deposits of the Petroleum Fund do not constitute part of the BoU's international reserves and as such are recorded under other foreign assets of the BoU. Any further foreign currency denominated inflows to the Fund will continue to be recorded outside of the reserves and under other foreign assets of the BoU.

Stock of the Oil and Energy Fund at October 16, 2014
(Ush billions and USD millions)

	Ush	USD	
Energy Fund	92	0	(BoU reserves)
Petroleum Fund	1612	0	(BoU other assets)

Adjustor on Expenditures on HPP

19. The ceiling on the cumulative increase in NDF and the ceiling on the cumulative withdrawals from the GoU deposits from the Petroleum Fund and the Energy Fund will be adjusted downward (upwards) by the amount by which the domestic currency equivalent of the aforementioned spending (i) and (ii) financed by withdrawals from the Petroleum Fund and the Energy Fund (using the market exchange rate) falls short of (exceeds) the projected amounts as set out in Schedule B. Any upward adjustment to meet higher-than-expected share will be capped at US$64 million. Spending on these projects financed by external borrowing are not included in this adjuster.

Schedule B: Expenditures on hydropower projects
(Ush billions)

	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15
Cumulative from July 1 of respective fiscal year					
Land acquisition for Karuma and Isimba HPPs	100	100	100	0	0
Government share associated with the China Eximbank loan	1,130	1,130	1,130	0	0

Adjustor on Inflows into the Petroleum Fund

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

Schedule C: Inflows into Petroleum Fund
(Ush billions)

	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15
Cumulative from November 1, 2013	0	0	0	0	0

Adjustor on Foreign Currency Spending for HPPs

21. The floor on the change in NIR will be adjusted upward (downward) by the amount by which the GoU's spending in foreign currency to cofinance the hydropower projects, in line with point (i) above in paragraph 17 (converted at the market exchange rate) falls short of (exceeds) the projected amounts set out in Schedule D. Any downward adjustment will be capped at US$64 million. The GoU will first withdraw the foreign currency denominated portion of its deposits, including any new foreign currency inflows to the energy and petroleum funds.

Schedule D: GoU's foreign-currency spending to cofinance the hydropower projects
(US$ millions)

	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15
Cumulative from October 1, 2014	86	86	86	0	0

Adjustor related to the Bank of Uganda recapitalization

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

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

	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15
Cumulative from July 1 of respective fiscal year	250	250	250	0	200

L. Ceiling on the Contracting or Guaranteeing of New Non-concessional External Debt by the Public Sector, and Ceiling on the Stock of External Payments Arrears Incurred by the Public Sector[3]

23. 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

[3] 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.

assessment criterion are normal import-related credits and non-resident holdings of government securities and government promissory notes.

24. The program includes a ceiling on new non-concessional borrowing with maturities greater than one year contracted or guaranteed by the public sector, measured cumulatively from June 28, 2013.[4] Non-concessional borrowing is defined as loans with a grant element of less than 35 percent. The discount rate used for this purpose is 5 percent. The ceiling on non-concessional 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 non-concessional 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 non-concessional external borrowing. Excluded from these limits are also non-concessional borrowing within the limits specified in Table 1 of the MEFP. The ceiling also excludes non-concessional 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.

25. 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

[4] 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.

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 are 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.

26. 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 2014. 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.

M. Monitoring and Reporting Requirements

27. The GoU will submit information to IMF staff with the frequency and submission time lag as indicated in Table 1. The quality and timeliness of the data submission will be tracked and reported by IMF staff. The information should be mailed electronically to afruga@imf.org.

Attachment 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 market.	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 depository corporations' survey.	Monthly	4 weeks
	Daily balances of net foreign assets, net domestic assets, and base money of the BoU.	Monthly	4 weeks
	Details on the government position at the central bank including deposits broken down by i) net public debt, ii) government project accounts, iii) Petroleum Fund (specifying the currency), iv) Energy Fund, v) government ministries accounts, and the remainder in vi) other deposits. In addition, liabilities broken down by i) appropriation account (UCF), ii) other drawdown accounts iii) government securities accounts and the remainder in iv) other liabilities.	Monthly	4 weeks
	Monthly foreign exchange cash flow table of BoU.	Quarterly	4 weeks
	Statement of (i) cash balances held in project accounts at commercial banks; (ii) total value (measured at issue price) of outstanding government securities from the Central Depository System (CDS); and (iii) the stock of government securities (measured at issue price) held by commercial banks from the CDS.	Quarterly	6 weeks
	Summary of (i) monthly commodity and direction of trade statistics; (ii) disbursements, principal and interest, flows of debt rescheduling and debt cancellation, arrears, and committed undisbursed balances—by creditor category; and (iii) composition of nominal HIPC Initiative assistance.	Quarterly	6 weeks
	Summary of stock of external debt, external arrears, and committed undisbursed loan balances by creditor.	Quarterly	6 weeks
	Standard off-site bank supervision indicators for deposit money banks.	Quarterly	4 weeks

Attachment II. Table 1. Summary of Reporting Requirements			
Reporting institution	**Report/Table**	**Submission Frequency**	**Submission Lag**
	Summary table of preliminary program performance comparing actual outcome with adjusted program targets for (i) net claims on central government by the banking system; (ii) new non-concessional external borrowing; and (iii) net international reserves.	Quarterly	6 weeks
II. Ministry of Finance	Summary of central government accounts. Revenues shall be recorded on a cash basis. Expenditures shall be recorded when checks are issued, except for domestic and external debt-service payments[5], cash transfers to districts, and externally funded development expenditures. Expenditures on domestic interest will be recorded on an accrual basis and external debt service will be recorded on a commitment basis (i.e., when payment is due).	Monthly	4 weeks
	Summary of the stock of unpaid bills by government entities contained in the central government votes as reported by the Accountant General and signed by the PS/ST.	Quarterly	6 weeks
	Summary of the stock of arrears by government entities contained in the central government votes as reported by the Accountant General and signed by the PS/ST.	Annual	3 months
	Summary of contingent liabilities of the central government and the BoU. For the purpose of the program, contingent liabilities include all borrowings by statutory bodies, government guarantees, claims against the government in court cases that are pending, or court awards that the government has appealed.	Quarterly	6 weeks
	Detailed monthly central government account of disbursed budget support and project grants and loans (less change in the stock of project accounts held at the BoU and commercial banks), HIPC support, and external debt service due and paid.	Quarterly	4 weeks
	Detailed central government account of disbursed donor project support grants and loans.	Monthly	6 weeks

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

Attachment II. Table 1. Summary of Reporting Requirements			
Reporting institution	**Report/Table**	**Submission Frequency**	**Submission Lag**
	Statement on new external loans contracted or guaranteed by the central government and the BoU during the period according to loan agreements.	Quarterly	6 weeks
	Updated national accounts statistics (real and nominal) according to UBOS and medium-term projections.	Quarterly	12 weeks

INTERNATIONAL MONETARY FUND

UGANDA

THIRD REVIEW UNDER THE POLICY SUPPORT INSTRUMENT—INFORMATIONAL ANNEX

November 18, 2014

Prepared By

The African Department
(In consultation with other departments)

CONTENTS

FUND RELATIONS

Membership Status: Joined: September 27, 1963. Article VIII

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
SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	173.06	100.00
Holdings	48.55	28.05
Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
ECF Arrangements	1.20	0.66

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.

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

	Forthcoming				
	2014	2015	2016	2016	2017
Principal		1.00	0.20		
Charges/Interest	0.01	0.05	0.05	0.05	0.05
Total	0.01	1.05	0.25	0.05	0.05

[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.

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 can not 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.

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.

Implementation of Post-Catastrophe Debt Relief (PCDR): Not Applicable

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).

Safeguards Assessments:

Under the Fund's safeguards policy, assessments with respect to the PSI are voluntary. An update assessment of the Bank of Uganda (BOU) was completed on April 10, 2007 and concluded that the BOU had strengthened its safeguards framework since the 2003 assessment. The main developments included implementation of international financial reporting standards, publication of financial statements, establishment of an audit committee, and strengthening of the internal audit function. Staff made recommendations to address remaining vulnerabilities in the legal and internal control areas.

Exchange Rate Arrangement:

The official exchange rate is determined on the interbank market for foreign exchange. Uganda's de jure exchange rate arrangement is free floating, and its de facto is floating. As of end-September, 2014 the official exchange rate was USh 2,651.61 per U.S. dollar. The exchange system is free of restrictions on the making of payments and transfers for current international transactions.

Article IV Consultation:

The Executive Board concluded the last Article IV consultation on June 28, 2013. The next Article IV consultation will be held in accordance with the decision on consultation cycles adopted September 28, 2010, as amended.

Technical Assistance:

In the second half of 2014, Uganda has continued to receive extensive technical assistance from both IMF and East AFRITAC (regional technical assistance center).[1] FAD provided TA missions on PFM Bill drafting regulations, followed by East AFRITAC mission focusing on completing the Treasury Single Account. Missions on mining and oil resource management and international taxation are planned for this fiscal year.

MCM and East AFRITAC have been providing a series of missions focusing on financial stability since the beginning of 2014, covering a wide range of areas, including insurance company supervision, mobile payment regulation, payment systems, and oversight policy. A joint MCM/LEG follow-up mission on amendments to the BoU Act is planned for this fiscal year.

East AFRITAC sent a mission for harmonizing monetary data in a currency union. Backstopped by STA, technical assistance on CPI rebasing was also provided, as well as missions to assist in rebasing the national accounts. Missions on revenue administration, public financial management, financial sector regulation and supervision, monetary policy operations and economic and financial statistics are planned for this fiscal year.

Resident Representative:

The Fund has maintained a resident representative in Uganda since July 1982. Currently, the Senior Resident Representative, Ms. Ana Lucía Coronel, is also Mission Chief for Uganda.

[1] For a description of technical assistance provided prior to June 2013, see the staff report for Uganda: 2013 Article IV Consultation and Sixth Review Under the Policy Support Instrument (IMF Country Report No. 13/215). Refer to the staff report for Uganda First Review Under the Policy Support Instrument (IMF Country Report No. 13/375) for the details on technical assistance for the second half of 2013, and to the staff report for Uganda Second Review Under the Policy Support Instrument (IMF Country Report No. 14/195) for the details on technical assistance for the first half of 2014.

JOINT WORLD BANK-FUND WORK PROGRAM

(June 2014–June 2015)

Title	Products	Provisional timing of missions (if relevant)	Expected delivery date
1. World Bank Work Program	The current IDA portfolio consists of 12 active operations with net commitment of US$1.79billion, and 5 regional projects with net commitment of US$134 million. About 60 percent of the portfolio is financing transport and energy infrastructure investments. Other key sectors include agriculture, water, urban development, education, health, and private sector competitiveness. Projects approved in FY2013/14 include the Albertine Region Sustainable Development Project, Second Kampala Infrastructure and Institutional Development Project, the North-Eastern Corridor Road Asset, and the Regional Pastoral Livelihoods Resilience project. In addition the Bank is managing other trust funded projects such as the US$ 100 million fund for teacher and school effectiveness (under Global Partnership for Education facility grant), and other smaller grants. Even though the Bank suspended PRSCs in 2013, it has remained open to negotiating other modalities and approaches to delivering budget support, including through the development policy loan (DPL) operation.		
	The Public Investment Management project (with support from DFID trust fund) aims to streamline analysis and appraisal of projects, as well as start on the process of building capacity in this respect		Project expected to be delivered by February 2015.

Title	Products	Provisional timing of missions (if relevant)	Expected delivery date
	Economic Update series (FY2014/15) Edition 5 - Special focus – urbanization Edition 4 - Special focus – (fiscal management)		 December 2014 May 2015
	Country Economic Memorandum (FY2013/14) focusing on Uganda's sources of growth accounting for the linkages of the new natural resources economy.	Management approval of report December 2014	June 2015
2. Fund Work Program	Second review of the PSI	May 2014	June 2014
	Third review of the PSI	October 2014	December 2014
	Fourth review of the PSI	May 2015	June 2015
	TA priorities: • PFM Bill draft regulations • TSA and cash management; • Extractive industries and general tax policy; • International taxation • Monetary policy and transition to inflation targeting; review of the BoU Act; BoU recapitalization; foreign exchange intervention in the context of inflation targeting; refining macroeconomic forecasting model. • Enhancing macroeconomic statistics, including national accounts, BoP data, and GFS.	 September/ October 2014 TBD TBD February 2015	 September/ October 2014 TBD TBD TBD
3. Joint Work Program	• Joint DSA update	May 2015	June 2015

STATISTICAL ISSUES

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 (TA) from the East African Technical Assistance Center (East AFRITAC) on the compilation of annual and quarterly national accounts. In late 2011 the authorities started to disseminate quarterly GDP estimates at 2002 constant prices by economic activity. With assistance from East AFRITAC and an external consultant, the Uganda Bureau of Statistics (UBOS) developed supply and use tables (SUT) that include preliminary product balances for 155 activities by 161 products. An East AFRITAC mission in May 2014 is assisting in finalizing the SUT and compiling the rebased GDP estimates. The rebased GDP estimates (FY2009/10) are expected to be released by the end of 2014. **Labor market indicators** such as employment 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. The current **consumer price index** (CPI) series released in January 2010 are expected to be replaced in June 2014 by the new CPI series that use the expenditure weights from the *2009/2010 Uganda National Household Survey*. Its coverage includes eight urban areas, and the index methodology uses, at the elementary level, a geometric average, and at the higher-level, a modified Laspeyres-type formula to facilitate incorporation of replacement items and better imputations. An East AFRITAC mission will review the new CPI during June 2014 prior to its release. UBOS compiles and disseminates a Producer Price Index (PPI) for manufacturing (separately for imports and domestic output) and for hotels. East AFRITAC has been providing TA to rebase and expand the manufacturing PPI to include the output of the mining and quarrying, electricity and water industries. An East AFRITAC mission in July 2014 will assist in finalizing the PPI for release and commence development of export and import price indices.
Government Finance Statistics: The Ministry of Finance, Planning and Economic Development (MoFPED) compiles fiscal statistics following the Government Finance Statistics Manual 2001 (GFSM 2001), but for budgetary central government and local governments only, with balance sheet data restricted to the budgetary central government. MoFPED has recently been given official responsibility for compiling and disseminating these statistics and East AFRITAC will be providing assistance to UBOS over FY2015 in expanding coverage and improving the quality of these statistics.
Monetary, Financial and External Sector Statistics (MFS): TA in FY2014 will aim at improving the institutional coverage and classification of other depository corporations (ODCs) and initiation of the collection and compilation of data for other financial corporations, mainly insurance companies and pension funds. This would build on previous missions financed by DFID on the standardized report forms (SRFs). Uganda began publishing SRF-based monetary data from 2002 in *IFS* beginning in early 2009. The Bank of Uganda, with the assistance of East AFRITAC missions in December 2011 and February 2013, has improved the quality of external sector statistics and implemented *Balance of Payments and International Investment Position Manual (BPM6)* standards.

INTERNATIONAL MONETARY FUND
COMMUNICATIONS DEPARTMENT

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International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Third PSI Review for Uganda

The Executive Board of the International Monetary Fund today completed the third review of Uganda's economic performance under the program supported by the Policy Support Instrument (PSI).[1] The Board's decision was taken on a lapse of time basis.[2]

The PSI for Uganda was approved by the Executive Board on June 28, 2013 (see Press Release No: 13/239).

Real Gross Domestic Product (GDP) growth was lower than expected at the time of the second PSI review in fiscal year (FY) 2013/14, reflecting under-execution of externally-financed public investment and adverse impact on exports of slower growth in main trading partners. Inflation dropped to 1.8 percent in October from 5.0 percent in June 2014 owing to a sharp decline in food prices and slower economic activity, and the international reserve coverage increased to a high level of 4¾ months of imports. Growth is projected to increase in FY2014/15, supported by scaled-up public investment and a recovery in private demand as households and businesses start accessing bank credit.

Performance under the PSI-supported program remains satisfactory. In particular, the end-June targets for inflation and international reserves were met, the ceiling on government's net domestic financing was observed, and the stock of government arrears was significantly reduced. However, the indicative target on tax revenue was missed reflecting lower growth and shortfalls in efficiency gains.

Uganda's infrastructure investment needs remain considerable. The authorities plan to boost these investments amid stepped up efforts toward regional integration, the coming on stream of oil production, and actions to improve the business environment. The authorities have

[1] The PSI is an instrument of the IMF designed for countries that do not need balance of payments financial support. The PSI helps countries design effective economic programs that, once approved by the IMF's Executive Board, signal to donors, multilateral development banks, and markets the Fund's endorsement of a member's policies (see http://www.imf.org/external/np/exr/facts/psi.htm). Details on Uganda's current PSI are available at www.imf.org/uganda.
[2] The Executive Board takes decisions under its lapse of time procedure when it is agreed by the Board that a proposal can be considered without convening formal discussions.

committed to base the revamped infrastructure investment program on a well-planned rollout strategy, which will include project selection on the basis of strong feasibility studies; and sequencing that takes into account the impact on debt sustainability and the absorption and implementation capacities of the economy. The plan to upgrade the capacity to appraise, analyze and implement investment projects is welcomed.

On the fiscal front, the overall deficit excluding the recapitalization of Bank of Uganda (BoU) increased from 3.4 to 4.1 percent of GDP in FY2013/14. Challenges in tax compliance resulted in lower-than-expected revenue. However, the recent elimination of many tax exemptions, if accompanied by strict enforcement by the Uganda Revenue Authority and enhanced compliance from taxpayers, would result in a welcome enhancement of tax revenues. Strict adherence to the approved budget and improvements in policy coordination would complement these efforts.

With regard to monetary policy, the BoU's prudent stance has brought inflation to a four-year low, setting the conditions for some additional monetary easing provided that the inflation expectations are anchored and that fiscal risks are contained. Strong banking supervision and actions to remove banks' structural rigidities and encourage financial deepening is expected to continue.

Efforts aimed at achieving successful East African Community economic integration, transparent and efficient management of the upcoming oil proceeds, appropriate implementation of the upcoming infrastructure projects, and further gains in public financial management are set to support the authorities' medium-term objective of attaining inclusive growth and poverty reduction.