© 2013 International Monetary Fund

July 2013
IMF Country Report No. 13/215

Uganda: 2013 Article IV Consultation and Sixth Review Under the Policy Support Instrument, Request for a Three-Year Policy Support Instrument and Cancellation of Current Policy Support Instrument—Staff Report;Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for Uganda.

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2013 Article IV consultation with Uganda and Sixth Review Under the Policy Support Instrument, Request for a Three-Year Policy Support Instrument and Cancellation of Current Policy Support Instrument, the following documents have been released and are included in this package:

- The staff report for the combined 2013 Article IV consultation and Sixth Review Under the Policy Support Instrument, Request for a Three-Year Policy Support Instrument and Cancellation of Current Policy Support Instrument, prepared by a staff team of the IMF, following discussions that ended on May 14, 2013, 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 June 17, 2013. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A Public Information Notice (PIN) and Press Release, summarizing the views of the Executive Board as expressed during its June 28, 2013, discussion of the staff report on issues related to the Article IV consultation and the IMF arrangement, respectively.

- A statement by the Executive Director for Uganda.

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

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

*Also included in Staff Report

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

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org Internet: http://www.imf.org

Price: $18.00 a copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

UGANDA

June 17, 2013

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION, SIXTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT, REQUEST FOR A THREE-YEAR POLICY SUPPORT INSTRUMENT AND CANCELLATION OF CURRENT POLICY SUPPORT INSTRUMENT

KEY ISSUES

Inflation has come down to close to the target level and growth is picking up. With stable prices and a stronger external position, the economic rebound—mainly driven by trade and investment—was faster than expected. Policies appropriately supported the stability and growth objectives. Debt remains sustainable.

High shilling interest rates attracted foreign exchange inflows and skewed domestic lending toward foreign currency. Inflows were well managed and led to a fast reserve accumulation, creating a useful policy buffer. Increased foreign currency lending poses risks that call for stronger bank supervision and regulation enforcement.

Program performance was satisfactory. All end-December 2012 quantitative assessment criteria were met, as were most indicative targets. Achievement of structural benchmarks was mixed, with progress on publishing crucial data, but delays on avoidance of domestic arrears and transparency over fiscal operations.

Progress on providing fiduciary assurances to donors after the fraud scandal has not yet led to full budget support resumption. Donors acknowledged significant progress on repaying misappropriated funds and tightening spending controls, but partial progress on sanctioning involved officials and strengthening governance. Only minimal budget support is projected for next fiscal year.

A successor PSI will support important institutional reforms. These include modernizing the inflation targeting framework, enhancing revenue collection and expenditure management, developing the financial system, and improving the business climate. The program inclusion of an inflation consultation clause signals central bank commitment to price stability.

Risks to the program stem from external and domestic shocks. A key risk arises from potential delays in implementing important projects and fighting corruption.

Staff supports the authorities' requests to complete the sixth PSI review and approve a successor arrangement. This involves cancellation of the current PSI immediately upon conclusion of the sixth review.

Approved By
Roger Nord and Elliott Harris

IMF team: A. L. Coronel (head, senior resident representative), C. Mira, G. Oestreicher (all AFR), P. Wingender (FAD), and Y. Bal-Gündüz (SPR). T. Yamuremye (OED) participated in the discussions.

Discussions: Held in Kampala during April 29–May 14 2013. The mission met with the President, senior government officials and economic authorities, as well as representatives of parliament, the private sector, NGOs, civil society, development partners, and the media.

CONTENTS

CONTEXT 4

RECENT DEVELOPMENTS AND PROGRAM PERFORMANCE 5
A. Growth is Recovering from a Short Slowdown 5
B. The Policy Stance has Adapted to the Evolving Conditions 7
C. Progress in Structural Reforms was Mixed 11
D. Program Performance Under the Sixth Review of the PSI was Satisfactory 12

ECONOMIC OUTLOOK AND RISKS 13

POLICY DISCUSSIONS 15
A. Fiscal Policy: Gains in Efficiency and Transparency 15
B. Monetary Policy: Modernizing the Inflation Tageting Framework 17
C. The Financial Sector: Sound but Still Shallow 19
D. Achieving Broad-Based and Inclusive Growth: Economic Diversification and Efficient and Transparent Use of Oil Wealth 21

THE NEW PSI 23

STAFF APPRAISAL 23

BOXES
1. Response to 2010 Article IV Consultation's Key Recommendations 5
2. Progress Under the PFM Reform Commitments 12
3. External Stability Assessment 14
4. Enhancing PFM 17
5. Refining the Monetary Policy Framework 19
6. Vision 2040 21
7. Competitiveness 22

FIGURES

1. Developments in the Real Sector 6
2. External Developments 7
3. Fiscal Developments 8
4. Bank of Uganda Monetary Operations in the Foreign Exchange and Money Markets 10

TABLES

1. Selected Economic and Financial Indicators, FY2009/10–2017/18 26
2a. Fiscal Operations of the Central Government, FY2009/10–2017/18 (Billions of Uganda Shillings) 27
2b. Fiscal Operations of the Central Government, FY2009/10–2017/18 (Percent of GDP) 28
2c. Quarterly Fiscal Operations of the Central Government, 2012/13–2013/14 29
3. Monetary Accounts, FY2009/10–2017/18 30
4. Balance of Payments, FY2009/10–2017/18 31
5. Banking Sector Indicators, March 2010–December 2012 32
6. Quantitative Assessment Criteria and Indicative Targets Outturn for December 31, 2012 and March 31, 2013 33
7. Structural Benchmarks Outturn for the Sixth PSI Review 34

ANNEXES

I. Joint Bank-Fund Staff Debt Sustainability Analysis Update 2013 38
II. Risk Assesment Matrix and Vulnerability to Extenal Shocks 48
III. Strengthening Revenues in Uganda: Challenging but Necessary 50
IV. Inclusive Growth in Uganda: Achievements and Challenges 55
V. Oil Revenues in Uganda: From Resource Wealth to Growth 59

APPENDICES

I. Letter of Intent 60
Attachments
1. Memorandum of Economic and Financial Policies 62
2. Technical Memorandum of Understanding 74

CONTEXT

1. **Despite challenging conditions, macroeconomic performance under the three-year Policy Support Instrument (PSI) was satisfactory.** While the objective of moving growth to potential was interrupted by a severe inflationary episode, output is now recovering from a historical low; inflation is close to its 5 percent target level; and international reserves—at times lower than expected—are growing rapidly. Volatility in growth, inflation, and exchange rates—caused by external shocks and policy slippages—was costly, but the authorities' policy response was generally appropriate. Monetary policy re-established price stability, some tax exemptions were abolished, investment spending increased, financial soundness indicators remained robust, and exchange rate flexibility provided overall policy support. Box 1 presents a summary of Uganda's policy response to key Article IV recommendations.

2. **Progress on structural reforms was also important, albeit slower than anticipated.** Significant milestones were achieved during the program period with the abolition of electricity subsidies and some improvements in tax administration and public financial management. However, benchmarks related to tax expenditures, arrears control, introduction of national identity cards, and budget credibility were missed. More recently, after a fraud scandal that led to donor withdrawal of budget aid, the authorities moved fast in improving payment systems and strengthening spending controls. However, plans for resumption of budget support remain unclear.

3. **Oil exploitation, economic diversification, and prospects for improved governance underpin a favorable medium-term outlook.** Maintaining macroeconomic stability and strengthening infrastructure and private investment to promote economic diversification are medium-term priorities. Oil production, expected to start in 2018, has significant potential, but poses resource wealth management challenges. Insufficient implementation capacity, governance, and policy coordination could threaten growth prospects.

4. **The authorities have requested a new three-year PSI to back their reform agenda.** The new PSI will supersede the current arrangement, which needs to be cancelled immediately upon the completion of the sixth review. The new arrangement will support reforms to the monetary policy framework, tax revenue mobilization, public financial management, and financial sector development. Importantly, the PSI will also back Uganda's efforts to improve the business environment, including by preparing the economy better for oil production. Financing of the program is set to rely less than in the past on budget support and more on improved revenue collections, domestic debt, and higher non-concessional external borrowing.

5. **The political economy is expected to support program objectives.** Uganda is experiencing a lively political debate with a more assertive legislature and a more vocal civil society. This debate, increasingly focused on the need to strengthen governance and reduce dependence on donor funds, would likely result in popular support for the reforms backed by the program. Risks emanate from high political level decisions that could jeopardize the quality of spending, delay key measures, or weaken reforms.

Box 1. Uganda: Response to 2010 Article IV Consultation's Key Recommendations

Maintaining macroeconomic stability. Following a severe inflationary episode in 2011–12, the authorities tightened fiscal policy, regained control of inflation, and rebuilt international reserves.

Improving revenue mobilization. Some progress was made, but the revenue-to-GDP ratio remains low by regional standards even though tax rates are consistent with the EAC average. Tax administration gains were hindered by weaknesses in tax policy and by deficiencies in the status of taxpayer accounts and in taxpayer audit and enforcement capacity.

Strengthening public finance management (PFM). Despite improvements, investment spending is still characterized by under-execution, poor planning, and delays in procurement processes. Reliance on supplementary budgets has shifted spending away from social and infrastructure investment.

Moving to inflation targeting. Many of the key elements of a full-fledged inflation targeting framework are now in place, and there is a clear plan to advance on the remaining institutional and operational reforms.

Implementing pension reform. A reform was passed in mid-2011 creating an independent regulatory authority.

Managing oil revenues carefully. Initial oil proceeds from capital gains generated by company transfers have been kept in a special fund and earmarked for future energy investments. However, full transparency in oil operations has not been fully endorsed.

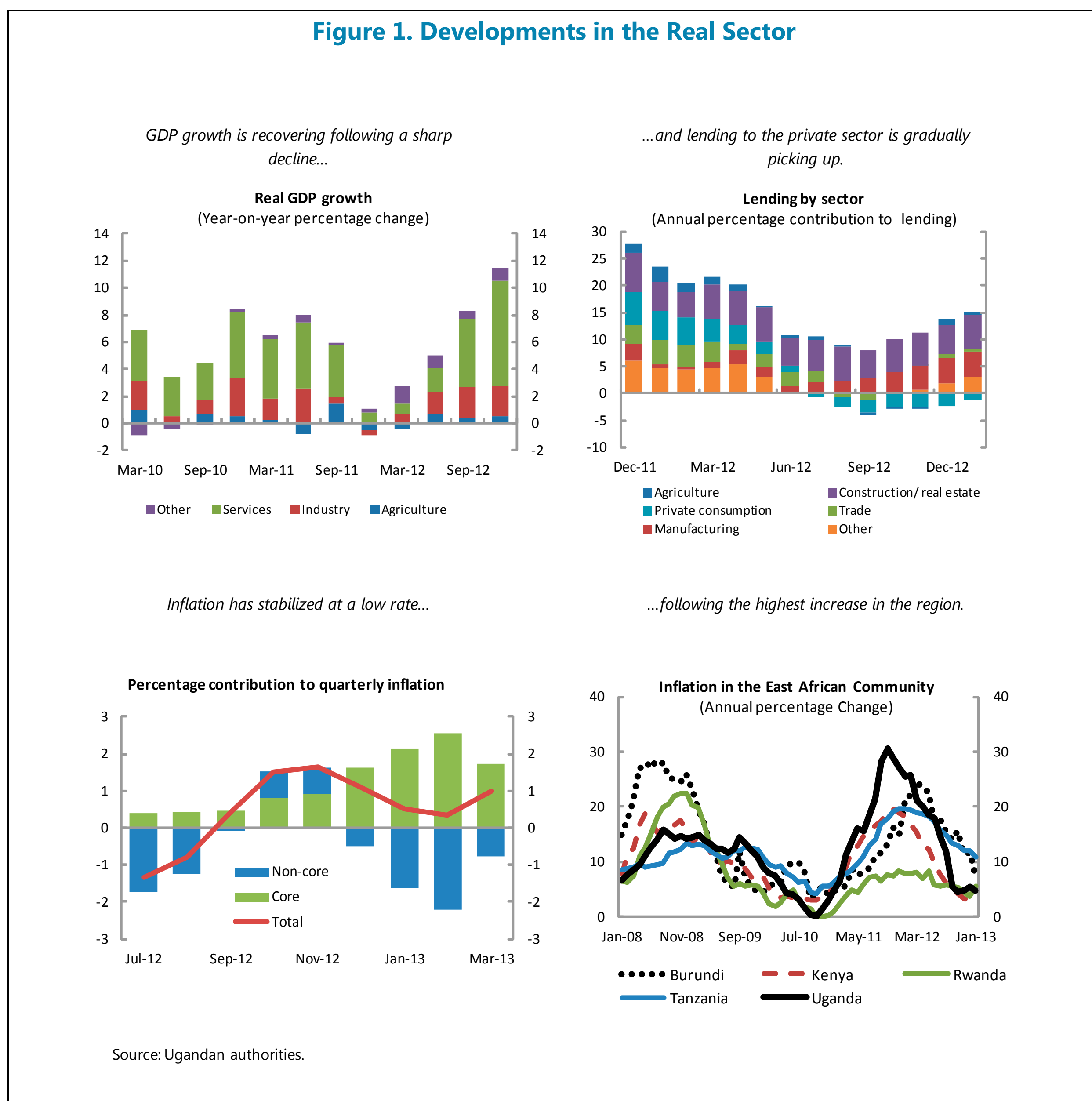
RECENT DEVELOPMENTS AND PROGRAM PERFORMANCE

A. Growth is Recovering from a Short Slowdown

6. **Real GDP growth is picking up from its lowest level in more than a decade (Figure 1).** Driven mainly by investment and trade, growth has recovered to about 5 percent—a stronger-than-expected rebound from the low 3½ percent expansion registered last year. Fast implementation of road construction, the start of operations of the Bujagali hydropower plant, and a good harvest boosted aggregate demand. A pick up in private sector credit, skewed mainly towards foreign currency lending to large firms, contributed to the recovery. Importantly, the recent agreement on broad modalities of oil production and the peaceful elections in Kenya improved market confidence.

7. **Inflation has been falling sharply since end-2011.** A fast disinflationary process brought down annual core inflation from a peak of over 30 percent in October 2011 to about 5½ percent in May 2013, close to the 5 percent target. Declining food prices largely contained headline inflation, while evidence from Bank of Uganda (BoU) surveys and private sector forecasts indicates reduced inflationary expectations.

Figure 1. Developments in the Real Sector

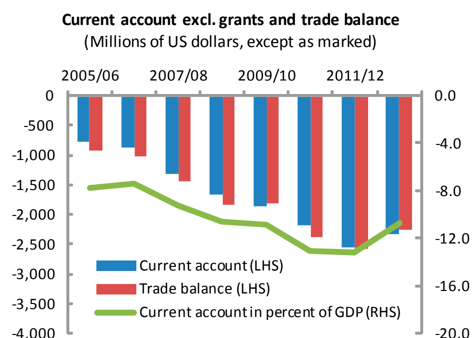


Source: Ugandan authorities.

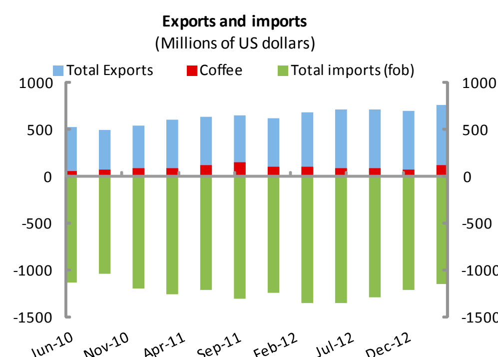
8. **The international reserve position remains strong (Figure 2).** The current account deficit (including grants) is projected to narrow to 10½ percent of GDP in FY12/13 on account of strong non-coffee exports and a deceleration of imports. The weakening in imports is deemed temporary, reflecting disruptions in transport routes from Kenya at the pre-electoral time and clearance delays from disputes over transit goods fees and other non-tariff barriers. Public sector loans, use of commercial bank deposits abroad, and other foreign exchange inflows are expected to finance the current account deficit and allow for an accumulation of international reserves of US$400 million.

Figure 2. External Developments

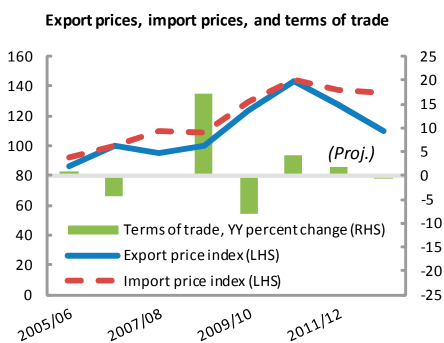
The current account deficit is projected to improve…



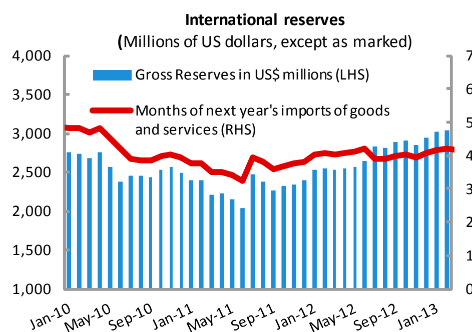
…due to strong non-coffee exports and a reduction of imports.



The terms of trade have been relatively stable over the last two years...



…and reserves have increased considerably.



Source: Ugandan authorities and IMF staff calculations.

B. The Policy Stance has Adapted to the Evolving Conditions

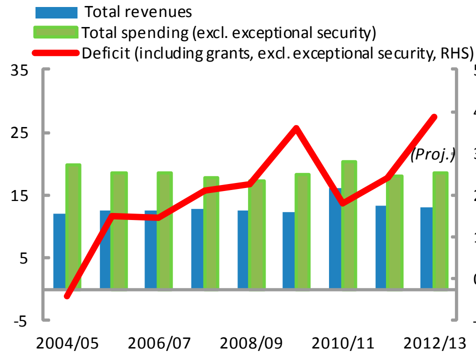
9. **Fiscal policy is set to ease slightly this fiscal year (Figure 3).** Excluding one-off factors, the overall deficit at end-year would be 3 percent of GDP, ¼ percentage point higher than both the projected level and the outturn of last year. Key features of fiscal performance were:

- An increase in tax revenue in line with expectations—with over-performance of direct taxes compensating for shortfalls in VAT collected on imports and petroleum duties.
- A delay in investment in the large hydroelectric project Karuma because of difficulties with the procurement process, but higher-than-anticipated investment in road construction.
- A shift in the composition of spending in favor of current outlays following the approval of a supplementary budget.
- An unplanned, but needed, recapitalization of the BoU expected before the end of this fiscal year.

Figure 3. Fiscal Developments

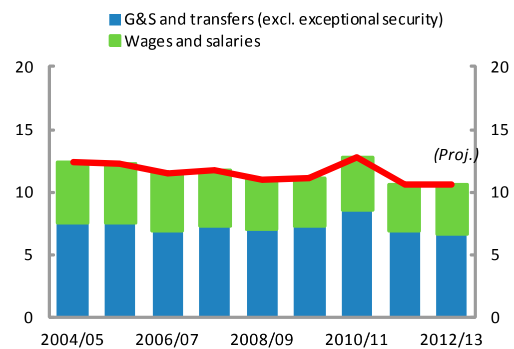
The fiscal stance is projected to loosen…

Central government fiscal accounts
(Percent of GDP)



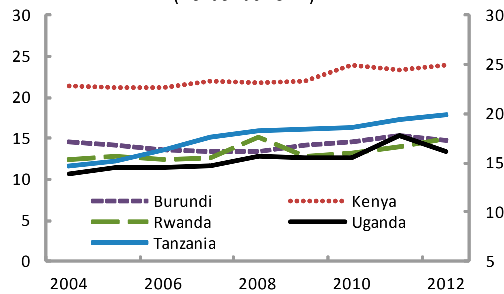
…with the composition of current expenditure remaining relatively stable.

Current expenditure and composition
(Percent of GDP)



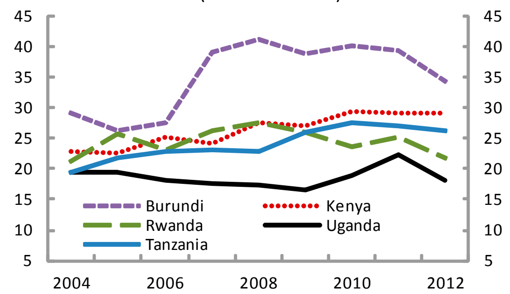
Tax revenue remains low by regional standards…

Government revenue, excluding grants
(Percent of GDP)



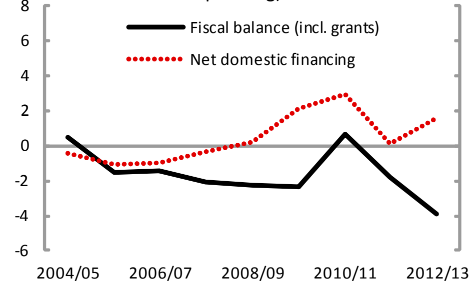
…as does its share of government spending.

Government spending
(Percent of GDP)



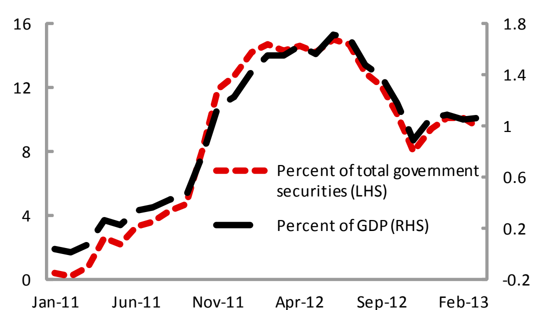
Net domestic financing is increasing …

Fiscal balance and domestic financing
(Percent of GDP, excluding exceptional spending)



…with the share held by non-residents declining from its peak in 2012.

Share of non-residents' holding of government securities



Source: Ugandan authorities.

Uganda: Fiscal Operations of the Central Government, FY2011/12–2012/13[1]
(Percent of GDP)

	2011/12		2012/13			
	Outturn	Outturn excluding one-off factors [2]	5th review	5th review excluding one-off factors [2]	6th review	6th review excluding one-off factors [2]
Total revenue and grants	15.6	14.8	16.4	15.1	14.7	14.7
Revenue	13.3	12.5	14.5	13.2	13.0	13.0
Of which: Tax revenue	12.0	12.0	12.6	12.6	12.5	12.5
Of which: Oil revenue	0.8	0.0	1.4	0.0	0.0	0.0
Expenditures and net lending	18.6	17.7	19.9	17.8	18.6	17.8
Current expenditures	11.2	10.2	10.3	10.2	10.5	10.4
Of which: Exceptional security	0.6	0.0	0.0	0.0	0.0	0.0
Of which: Power sector subsidies	0.4	0.0	0.1	0.0	0.1	0.0
Development expenditures	6.9	6.9	9.4	7.5	7.3	7.3
Government of Uganda investment	3.5	3.5	5.7	3.8	3.7	3.7
Of which: Karuma	0.0	0.0	1.9	0.0	0.0	0.0
Net lending and investment	-0.1	-0.1	0.0	0.0	0.7	0.0
Of which: BoU recapitalization	0.0	0.0	0.0	0.0	0.7	0.0
Overall balance	-3.0	-2.8	-3.4	-2.8	-3.9	-3.0

Sources: Ugandan authorities and IMF staff estimates and projections.
[1] Fiscal year runs from July 1 to June 30.
[2] One-off factors include oil-related revenue, power sector subsidies, BoU recapitalization, and exceptional security and Karuma expenditure.

10. **Monetary policy remained focused on achieving the inflation target while coping with large foreign exchange inflows.** The BoU further refined its inflation targeting lite (ITL) framework by developing inflation forecasting capabilities and improving understanding of transmission lags and pass-through effects. Supported by this framework, monetary policy was sharply eased once inflation was under control, with cuts in the policy rate from 23 percent in January 2012 to 12 percent in December. Since then, the BoU maintained a neutral policy stance before reducing the rate by an additional 1 percentage point in June 2013.

11. **High demand for domestic currency from foreign exchange inflows complicated somewhat monetary management in December-February (Figure 4).** These inflows—some possibly diverted from Kenya by election-related uncertainties—were deemed temporary, and the BoU intervened in the market to prevent excessive exchange rate appreciation. Consistent with the ITL framework, the BoU kept the interbank rate within its policy bands. Since March, once the inflows eased somewhat, the BoU stopped intervening, but residual inflows continued to exert some upward pressure on the shilling.

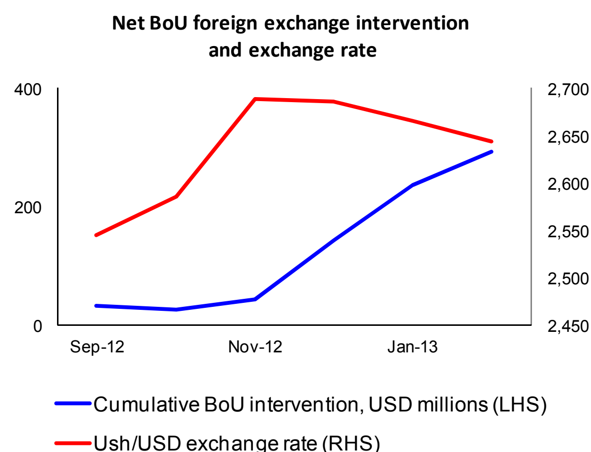
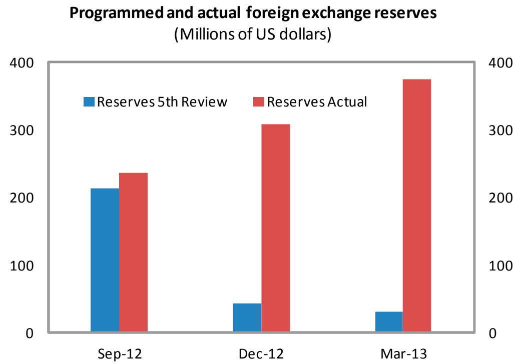
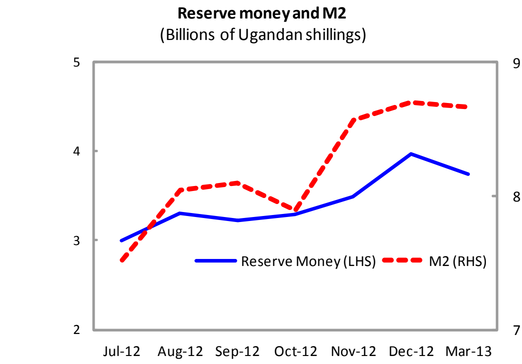


Figure 4. Bank of Uganda Monetary Operations in the Foreign Exchange and Money Markets

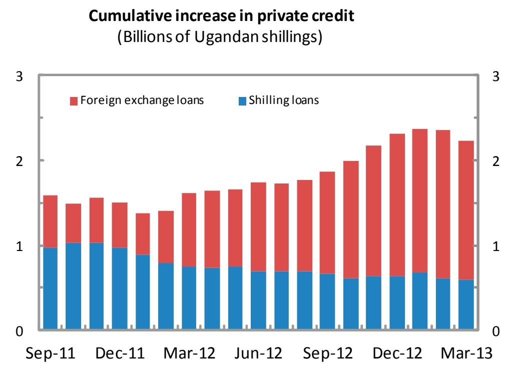
Intervention in the foreign exchange market led to significantly higher reserve accumulation than anticipated ...



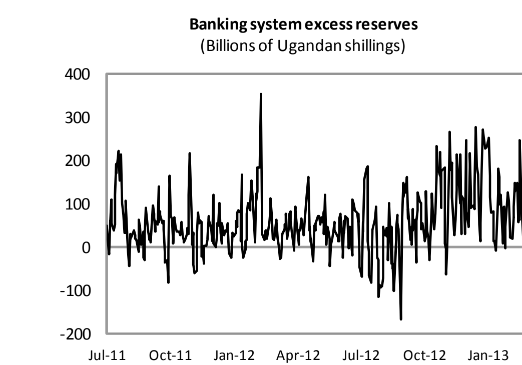
... and to a large increase in reserve money and the domestic money supply.



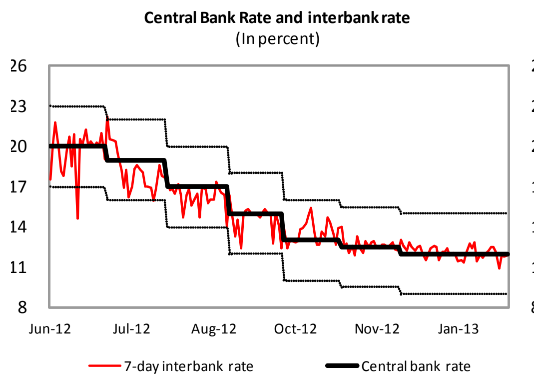
Commercial banks proved reluctant to use the liquidity to expand shilling loans ...



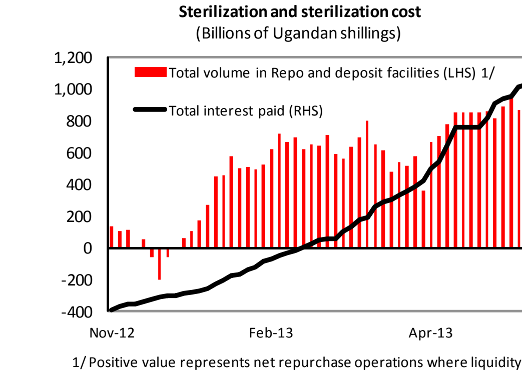
... but the growth of commercial banks' excess reserves was nonetheless contained through BoU's repurchase arrangements in the interbank market.



The repurchase operations effectively sterilized the impact of the interventions on the interbank rate and held it to targeted levels ...



... but also resulted in the BoU holding very large obligations at a rapidly rising cost.



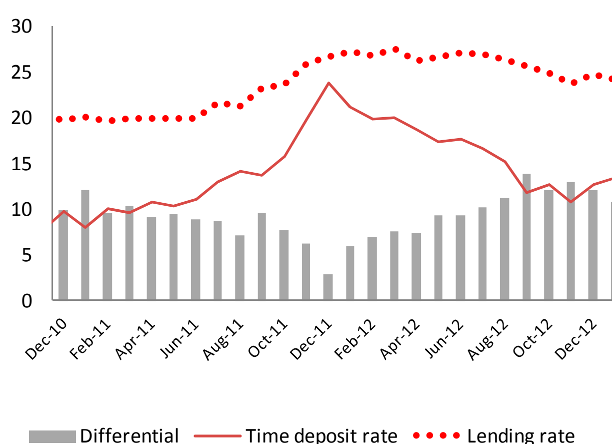
1/ Positive value represents net repurchase operations where liquidity is absorbed from the interbank market.

Source: Bank of Uganda.

12. **The sterilization operations illustrated the need to improve institutional arrangements for liquidity management and monetary and fiscal policy coordination.** Following a decision by the Ministry of Finance (MoF) to stop providing treasury bills for monetary sterilization, the BoU's availability of policy instruments was curtailed. As a result, the central bank had to rely on very short-term repurchase agreements (repos), while bearing the cost of sterilization on its own balance sheet. Although a 30–60 day deposit facility was introduced in March, the maturity profile of sterilization securities remains short, creating uncertainty about the BoU's ability to sustain large-scale liquidity operations.

13. **Lending rates have been slow to fall and banks are granting loans only to their most creditworthy clients, slowing the recovery phase of the cycle.** Despite some decline, lending rates are exhibiting downward rigidity, mainly due to high fixed costs, heightened risk aversion, difficulties in assessing creditworthiness in the wake of the economic slowdown, information asymmetries that limit competition, and profit considerations. Since rates have been shown in the recent past to move much more quickly upward, the authorities are confident that this rigidity does not impact the effectiveness of their monetary policy response during times of price pressure—but do recognize a clear growth cost during the easing cycle. A large differential between domestic and foreign currency rates and insufficient collateral has skewed lending sharply toward foreign currency to large corporations and upper-income individuals. This segment now accounts for nearly all of the increase in private sector credit growth. As a result, some banks have breached the 80 percent limit on the loan-to-deposit ratio in foreign currency. Nonetheless banks' open foreign currency positions remain well within prudential ceilings, and banks report full compliance with regulations limiting foreign currency lending to foreign currency income earners.

Lending and deposit rates
(Percent)



14. **The banking sector remains solvent, liquid, and profitable although nonperforming loans have been increasing and provisioning declining.** Financial deepening and inclusion are low by regional standards, but rapidly growing mobile banking activity is contributing to an increase in financial access. The BoU has made progress in moving towards risk-based financial supervision.

C. Progress in Structural Reforms was Mixed

15. **Recent important steps have been taken to advance structural reforms.** In the area of regional integration, the customs union is in place—although affected by lingering non-tariff barriers—and some progress towards harmonization of policies has been made. While improvements in transparency and PFM were less ambitious than anticipated, following the freeze of

donors' budget aid in November the government took action to strengthen spending controls, and prepared amendments to the Public Finance Management Bill (PFMB) to pursue best practices. Progress in most areas is deemed satisfactory by donors, though it has been slower in the area of administrative sanctions to officials who engaged in financial impropriety (Box 2).

Box 2. Uganda: Progress Under the PFM Reform Commitments

Significant progress was achieved on the implementation of actions contained in the High Level Action Matrix agreed with development partners in response to weaknesses in public financial systems:

- Investigations and prosecutions of indicted public officials, private persons, and firms for fraud have been carried out.
- Misappropriated funds have been repaid to donors.
- Weaknesses in the Integrated Financial Management System (IFMS) have been addressed, including by recruiting a consultant to help improve the security of the system.
- Amendments to the PFMB have been discussed with parliament and are ready for official submission.
- The recruitment, payroll, and pension modules of the integrated payroll and pension system are in the process of becoming fully operational.

Some progress has been made in taking administrative action against responsible officials. The Inspectorate of Government has not been fully constituted.

16. **The authorities have advanced arrangements for an initial recapitalization of the BoU.** The BoU's capital has deteriorated sharply over recent years, affected by continuous operating losses, which poses risks to its credibility as an inflation targeting central bank. The first stage of recapitalization is ready to proceed after a recent agreement that allows the government to provide BoU with enough marketable securities to raise its capital levels to the statutory limit. This arrangement will allow the BoU to use its new securities for monetary purposes, addressing a key institutional shortcoming, as in the past, monetary and fiscal instruments were not distinguishable.

D. Program Performance under the Sixth Review of the PSI was Satisfactory

17. **All end-December 2012 quantitative assessment criteria (QACs) were met.** International reserves surpassed the target with a large margin (½ percent of GDP). The ceiling on net banking credit to the government was also observed, and the BoU held net domestic assets (NDA) well below the program ceiling. The indicative target on base money was missed, but did not pose risks to the attainment of the inflation target. No new non-concessional external debt was contracted. All indicative targets for end-March, including the indicative target on base money, were met.

18. **Progress on implementing the structural benchmarks for the sixth review was uneven.** Production and dissemination of a monthly index of economic activity and publication of tax beneficiaries and relevant economic data proceeded as anticipated. While government has not sent

to cabinet either a concept note reflecting the decision to introduce a treasury single account (TSA) or a new tax procedures code—both structural benchmarks for early 2013—considerable progress has been made, and completion is expected by end-June. However, benchmarks related to the avoidance of domestic arrears, production of a status report on planned public private partnership (PPP) programs, and transparency over the treatment of unspent funds were missed. The first two missed benchmarks will be maintained under the new PSI. However, the requirement to publish the unspent balances on all government accounts will be allowed to lapse, as this issue is expected to be addressed once the new PFMB is enacted. At the same time, the planned introduction of a TSA would remove the need to gather individual account information.

ECONOMIC OUTLOOK AND RISKS

19. **The output momentum sustains a favorable macroeconomic outlook.** Growth is projected to reach 5¼ percent this fiscal year and increase to 6 percent next fiscal year. Fiscal and monetary policies are expected to support the launch of infrastructure projects and a boost in private sector activity. Average core inflation is projected to decline to 6¼ percent by the end of the next fiscal year, held back by base effects, but the downward path toward the 5 percent medium–term target has already started. Some loss of international reserves is programmed in the short term, but reserves are still projected at 4 months of imports, a comfortable level. The real effective exchange rate is in equilibrium (Box 3) and debt remains at low risk of distress (Annex I: Debt sustainability analysis update).

20. **Over the medium term, the main priority will be to achieve broad-based growth and improve social conditions for all Ugandans.** With inflation in the mid-single digits, output should gradually approach its estimated potential of 7 percent. The required investment for oil production is expected to be a major growth driver, along with productivity gains in the agricultural sector and increased trade with neighboring countries in the context of EAC regional integration. The current account deficit is expected to widen temporarily during the development phase of projects in the electricity, oil, and road sectors, but FDI would finance much of the corresponding gap. As these projects come on stream, production-related imports would decline, and additional export revenue would be generated from industries benefiting from better infrastructure. As a result, the current account deficit is expected to improve gradually but significantly, beginning in 2016/17. Donor support is likely to be oriented more to project than to budget financing, with the existing space for domestic and non-concessional debt supplementing higher financing needs arising from the scaling up of public investment.

21. **Risks to the outlook arise externally from a challenging global environment and domestically from political, governance and capacity constraints**. Adverse spillovers from a decline in external demand, a surge in oil prices, or a disruption of aid flows would derail growth and stability plans. Domestic risks center on governance, capacity constraints and policy coordination, and their impact on effective policy making (Annex II: Uganda: Risk assessment matrix and vulnerability to external shocks).

Box 3. Uganda: External Stability Assessment

The underlying external current account deficit is very close to the estimated norm. Although the current account deficit is projected to remain at 10-14 percent of GDP over the medium-term, it is significantly driven by temporary FDI-related imports. If these are stripped out, the underlying deficit would decline to about 7 percent of GDP in FY2017/18, a level not significantly different from the estimated current account norm of 6¼ percent of GDP.

Uganda: Estimate of the Current Account Norm

	Variables	Coefficients 1/	Impact
Fiscal balance (rel. to trading partners), % of GDP	-3.36	0.19	-0.64
Old age dependency (2009), %	-0.85	-0.12	0.10
Population growth rate (rel. to trading partners)	2.39	-1.03	-2.46
Oil balance, % of GDP	-4.36	0.17	-0.74
Per capita growth (rel. to trading partners)	1.03	-0.16	-0.16
Relative income, %	2.99	0.02	0.06
Lagged CAB, % of GDP, (excluding FDI related imports)	-6.30	0.37	-2.33
Estimate of the Current Account Norm (% of GDP)			**-6.17**

1/ IMF Occasional Paper 261, hybrid pooled estimation.

The real effective exchange rate (REER) is broadly in line with its long-run equilibrium. Based on CGER methodologies, the shilling appears to be slightly overvalued. However, according to the macroeconomic balance approach, the required depreciation of the REER is estimated at 3½ percent, well within the estimation error.[1] The external sustainability approach, which takes into account the current account balance that would stabilize the net foreign asset position, suggests a similar result.

Uganda: Methodologies to Assess Real Exchange Rate Misalignment 1/

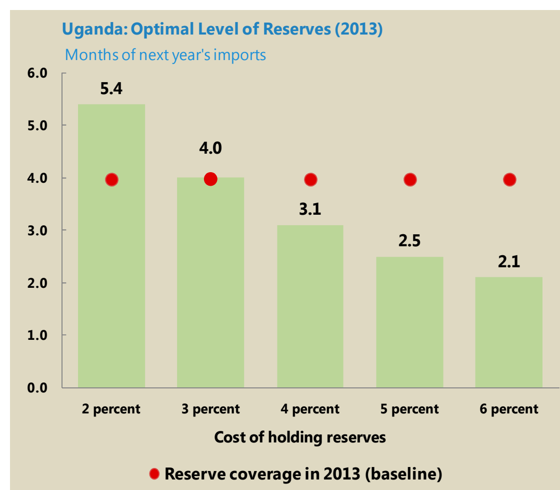
	Underlying Current Account Balance	Current Account Norm	Estimated over(+)/ under(-) valuation (in percentage)
Macroeconomic Balance Approach 2/	-7.0	-6.2	3.6
External Sustainability Approach 2/	-7.0	-5.9	4.4

Source: WEO and IMF staff estimates.

1/ Based on CGER methodologies (SM/06/283).

2/ The macroeconomic balance approach and the external sustainability approach define misalignment as the exchange rate adjustment needed to eliminate the gap between an estimated "current account norm" and the "underlying" current account balance based on 2017/18 WEO projections.

The international reserve level is broadly adequate. A cost-benefit approach to the optimal level of reserves in LICs[2], suggests that at 4 months of imports, projected reserves are slightly higher than the optimal level, estimated at 3–4 months of imports, assuming an opportunity cost of holding reserves in the range of 3–4 percent.[3] Furthermore, at 64 percent, the reserve-to–broad money ratio, which captures potential safeguards for capital flight, also appears adequate in light of the flexible exchange rate regime in place. These estimates should be considered as the lower bound, given the model's assumption of risk-neutrality. Other considerations to accumulate reserves beyond self-insurance against external shocks may be justified, such as the need to deal with volatile foreign exchange capital flows and the management of prospective oil revenues.



[1] The elasticity of the current account balance with respect to the REER depreciation is estimated at 0.22, drawing on work by Stephen Tokarick (2010) IMF Working Paper WP/10/180.

[2] See the IMF Working Paper *Optimal Precautionary Reserves for Low-Income Countries: A Cost-Benefit Analysis* (WP/11/249) and IMF Board Paper *Assessing Reserve Adequacy* (PIN No.11/47).

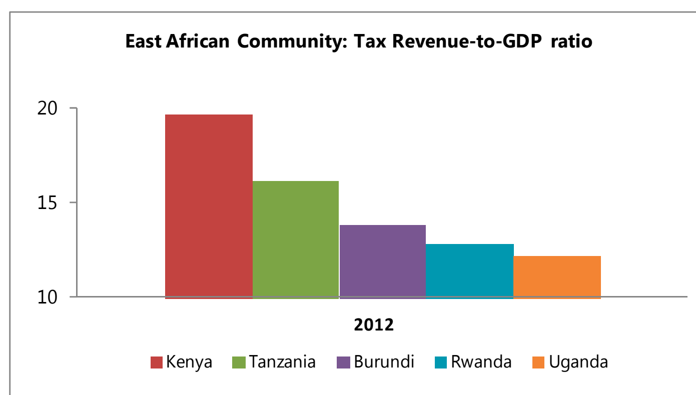
[3] Cost of reserves is approximated by the difference in the return on public investment and the real return obtained in relatively safer and more liquid foreign assets (Caselli and Feryer, 2007).

POLICY DISCUSSIONS

A. Fiscal Policy: Gains in Efficiency and Transparency

22. **The fiscal stance will be relaxed in FY2013/14 to support a gradual recovery of growth to potential.** The budget will allocate significant resources to development spending on key infrastructure projects including in the roads, energy, and agriculture sectors. The non-oil primary deficit is expected to increase by 1 percent of GDP to about 3¼ percent compared to FY2012/13.[1] Without budget support loans, the government will count on improved revenue collections and turn to domestically issued securities and non-concessional external borrowing to provide the financing necessary to support their ambitious fiscal program.

23. **Despite improvements in tax administration, tax policy reform has not proceeded at the same pace and tax revenues have remained stubbornly low.** Staff noted that Uganda lags behind other EAC countries in terms of the tax-to-GDP-ratio and does not appear to be catching up to the region's stronger performers. The authorities argued that many of the structural features of a small landlocked country with large agricultural and informal sectors have made it harder to close the gap with neighboring countries. However, a cross-country analysis shows that the tax gap cannot be fully explained by these features (Annex III: Strengthening revenue in Uganda: challenging but necessary).



24. **It is therefore critical to firm up the tax base as soon as possible.** The authorities intend to promote a tax reform agenda to raise the revenue yield over time and reduce reliance on donor support and high-cost domestic borrowing. With oil production only a few years away, this is the time to prepare the non-oil sector to support the economy's needs and boost revenue performance to help shield public finances from volatile oil revenues. To this end, staff argued that a fundamental reform of the VAT to reduce the many exemptions accumulated over the years would be the ideal way to proceed. As a first step, the authorities plan to conduct and publish a VAT gap analysis early in the next fiscal year. Subsequently, they intend to prepare an action plan to guide the sequence of actions to make the VAT more efficient.

25. **Meanwhile revenue measures and improvement in tax administration are expected to add about ½ percent of GDP in tax revenue in the next fiscal year.** These measures will include,

[1] Staff recommended adopting the non-oil primary balance as a fiscal anchor in preparation for the start of oil production.

among others, the elimination of VAT exemptions on hotel accommodation, water for domestic consumption, and packing material. Excises will be increased on fuel, kerosene and cigarettes, and a mobile money levy will be introduced, but at a low rate to avoid impacting the use of this new payment option. Tax administration measures will focus on audit and enforcement functions and will prioritize the hiring and training of qualified staff in the revenue administration, in particular in the large taxpayer unit. Various non-tax and one-off revenue measures will also contribute to revenue growth, including higher registration fees for motor vehicles and motorcycles, and a large receipt of oil-related revenue delayed from FY 2012/13.

26. **On the expenditure side, discussions centered on the importance of improving budget credibility.** To avoid the risk of running into arrears or resort to another supplementary budget, staff recommended realism in budgetary allocations. The authorities explained the parliamentary preference for compression of current spending, but agreed to make the budget more realistic and credible. This would involve: (1) aligning development spending plans with implementation capacity; (2) keeping salaries constant in real terms; (3) allocating sufficient non-wage recurrent outlays to support maintenance of public projects and offices; and (4) including an additional allocation in the budget to absorb deviations from the proposed spending profile.

27. **Success in scaling up spending to address infrastructure deficiencies will strongly depend on improvements in implementation capacity and availability of financing.** The envisaged non-concessional borrowing limit of US$1.5 billion to finance key infrastructure projects—for which feasibility studies are already completed—is compatible with debt sustainability and the absorptive capacity of the economy.[2] The authorities acknowledged that suboptimal project and cash planning, as highlighted by Uganda's poor performance on the Index of Public Investment Efficiency (PIMI), have often delayed project implementation. They therefore intend to revise the public investment plan to include only projects for which cost-benefit analysis and feasibility studies have been conducted and financing has been secured. To leverage its limited resources, the government will also rely on PPPs, and on contractor-facilitated financing—a system that integrates supplier credits into the tendering process. In line with international standards, the government will publish the details of gross cost of the projects, financing terms, and contingent liabilities to ensure full transparency in the use of these schemes.

Index of Public Investment Efficiency (PIMI)[1]

	Appraisal	Selection	Managing	Evaluation	Overall
Uganda	0.8	2.8	1.5	0.7	1.4
EAC Average	1.2	1.8	2.1	0.9	1.5
SSA Average	1.4	1.8	1.8	1.2	1.5

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

[2] The authorities plan to finance the Isimba hydro power project, the Kampala-Mpigi highway, and the Kampala-Jinja highway project with non-concessional loans during the period covered by the new PSI.

28. **Envisaged PFM reforms are set to address the problems of persistent under budgeting, arrears accumulation, and failure to sanction financial irregularities.** Minimal linkages between budget preparation, execution, and oversight result in poor use of funds and lead to cash rationing and unexpected use of deposits in the BoU, which complicates monetary management. The authorities intend to deal with these weaknesses as soon as parliament approves the PFMB (Box 4). The introduction of the TSA arrangement expected for early 2014 is a key milestone within this new framework as it will allow complete and timely information on government cash resources, improve appropriation and operational control during budget execution, enable efficient cash management, and facilitate bank reconciliation. In addition to technical and legal reforms, efforts to tighten administrative standards are needed to ensure that all transactions are conducted within the government accounting systems and that all spending remains within budgetary allocations.

Box 4. Uganda: Enhancing PFM

The PFMB currently before parliament aims to address the lack of credibility, integrity and predictability of the budget. To this end, the PFMB will:

- Introduce a charter of fiscal responsibility setting out measurable fiscal policy objectives for the short and medium term.
- Base commitments on budget appropriations and cash flows on procurement, work, and recruitment plans approved by parliament.
- Bring forward the budget calendar to avoid parliamentary approval of the budget several months into the fiscal year.
- Make the annual budget framework paper and the budget more consistent with the medium-term expenditure framework and the national development plan to better reflect the medium-term fiscal objectives of the government.
- Create an operational fund for contingencies (at 3½ percent of the previous annual budget) to address unforeseen expenditures and disasters. This will protect the budget from cuts to finance supplementary pressures.
- Strengthen the links between budget preparation, execution, and oversight by allowing parliament to review budget submissions together with audited performance for the previous year.
- Provide for the implementation of a TSA to improve existing banking and cash management arrangements.

B. Monetary Policy: Modernizing the Inflation Targeting Framework

29. **Inflation has been successfully reduced and current policies are appropriate to contain core inflation close to the BoU's medium term target of 5 percent.** Nonetheless, risks to price stability remain as the strength of demand pressure is hard to assess given recent volatility in the cycle, and foreign exchange flows appear more persistent than earlier anticipated. Moreover, the stock of liquidity sterilized by the BoU through short-term repurchase agreements and its new deposit facility remains large—in the order of 2 percent of GDP—implying the potential for volatility in the interbank and foreign exchange markets. The space for easing policy further could be

constrained by an expected increase in bank credit once the Land Registry, closed in December for computerization, begins issuing titles for use as collateral for non-corporate shilling-denominated loans. Against this background, staff suggested maintaining a broadly neutral policy stance at this juncture, and urged the authorities to stand ready to adjust the central bank rate should indications of inflationary pressures re-emerge.

30. **Successful use of the ITL framework in monetary management presents a case for moving to inflation as the nominal anchor in the new PSI.** The BoU requested inclusion of an inflation consultation clause in the new program as its monetary policy decisions are not based on the evolution of monetary aggregates, such as net domestic assets, as assumed in the current PSI. Staff supported this request, recognizing that in fact the central bank policy rate has become the operational target to influence short-term rates, and through this channel lending rates, aggregate demand, and inflation.

31. **The authorities intend to improve their inflation targeting regime during the course of the successor PSI arrangement.** This would require setting inflation control as the primary policy objective, even if this involves, at times, that growth would have to dip below potential. The current framework supports forward-looking policies, with the use of inflation forecasts as a feedback variable, and management of expectations through communication with the public. Over the course of the new program, the BoU would like to refine the ITL framework in a number of areas. A key action would be to strengthen the BoU's independence and policy autonomy—now hampered by capital deficiency, lingering fiscal dominance, and insufficient legal protection. Other improvements include enhancing the communications strategy to properly guide public perceptions, refining policy instruments, and improving coordination with the MoF, including by addressing the issue of government borrowing (Box 5). Technical assistance from the IMF will support these efforts.

32. **Commitment to exchange rate flexibility sustains the inflation targeting framework.** While the BoU's interventions in the foreign exchange market to deal with large foreign exchange inflows were well calibrated and successful in halting nominal appreciation, public understanding of the central bank's policy intentions was not necessarily clear. Staff considered that a more rules-based intervention policy, including by announcing the volume of expected daily intervention, would be helpful in improving market participants' understanding of BoU's objectives, and would contribute to a well-functioning market with efficient price formation. The authorities were concerned, however, that this might limit their flexibility to respond rapidly to events in a shallow and unpredictable market. However, with potential demand pressures and reserves already at a comfortable level, there was broad agreement that intervention should be used only to maintain reserve cover and to smooth excessive volatility.

Box 5. Uganda: Refining the Monetary Policy Framework

Underpinned by a flexible exchange rate, the BoU announces an inflation target, issues monthly statements on monetary policy developments, communicates the policy stance through its central bank rate, and carries out market-based liquidity operations aimed at keeping the interbank rate within a predefined band around the policy rate. However, a number of improvements to the administrative, operational and legal frameworks are needed to complete the transition to full-fledged inflation targeting:

Ensuring policy independence. The recent agreement to recapitalize the BoU is a major milestone, but follow-up legal arrangements are needed to bring the BoU's capital in line with its liabilities, guarantee independence of policy instruments, end central bank financing of the budget, and, in general, avoid any threat of fiscal dominance.

Enhancing communications. Greater specification of the inflation target and the length of the policy horizon would solidify the public understanding that low inflation is a credible objective and help anchor inflationary expectations.

Refining the interbank market architecture. Introducing a deposit facility to create an interest rate floor and establishing an intervention timetable would ensure that banks are not left with daily surplus or deficits positions, reduce interest rate volatility, and promote a stable transmission channel.

Increasing transparency in the foreign exchange market. Clearer procedures for BoU's foreign exchange transactions would give greater predictability and transparency to BoU intervention. To the extent possible, a more rules-based approach to intervention should be adopted and clearly explained.

Improving modeling and inflation forecasting capacity. A more comprehensive BoU's understanding of the transmission mechanism and refinement of the methodology for gauging inflationary expectations would better inform short-term policy decisions.

Strengthening fiscal and monetary policy coordination for operations and liquidity management. Closer cooperation between the BoU and the MoF—coinciding with capacity improvements for public debt management—would enable development of longer-term liquidity instruments, improved liquidity forecast quality, and thereby support inflation control.

Promoting operating efficiencies. To gain credibility, BoU's non-monetary policy related costs need to be streamlined over time, while continuously improving the quality of technical staff.

C. The Financial Sector: Sound but Still Shallow

33. **Despite persistently high capital and profit levels in the banking sector, there is a need to remain vigilant to potential risks.** Nascent recovery notwithstanding, the damage inflicted by the economic downturn on corporate and households was severe, and may not yet have had its full impact on the quality of banks' portfolios. Though reduced somewhat from their peak, nonperforming loans as a share of total lending still stood at 4¼ percent in December—twice the amount a year ago. Moreover, with nearly all new credit over the past year extended in foreign currency, indirect credit risk will likely increase in the months ahead. Strengthened supervisory

efforts and reduced tolerance for regulatory infraction are called for during this uncertain period. The authorities were in broad agreement with staff's recommendation to prepare contingency plans to deal with excessive foreign inflows through macroprudential means should this prove necessary. Moreover, existing measures to limit foreign currency lending to borrowers with foreign currency income should be maintained and strictly implemented; loan-to-deposit ratios and liquidity requirements should be consistently enforced; and efforts should be made to improve assessment of credit and currency risk, and upgrade consolidated supervision to better detect cross-border and systemic risk. Enacting and implementing the anti-money laundering act and establishing an operational financial intelligence unit would prevent the misuse of the financial sector to launder the proceeds of fraud.

34. **Low levels of financial deepening and inclusion limit the financial system's contribution to economic development.** Financial depth and access of the population to related services is among the lowest in the EAC, while high intermediation spreads show insufficient efficiency gains from bank competition. The authorities are taking steps to address these issues by reducing information asymmetries—through improvements in the credit bureau and greater provision of financial services data—strengthening risk management, and taking action to improve financial literacy, consumer protection, and financial innovation. In this latter regard, they are improving regulation of the growing mobile money industry—which has dramatically increased to reach over 11 million accounts with a total transaction value exceeding 20 percent of GDP—and developing regulations for the introduction of agency banking. Staff recommended expanding the financial system outside banks to widen the client base and developing capital markets. A change in banks' business models would be required to increase services to SMEs as the availability of financing and leasing facilities beyond the large corporate sector and select clients remains limited.

Financial System in EAC Countries

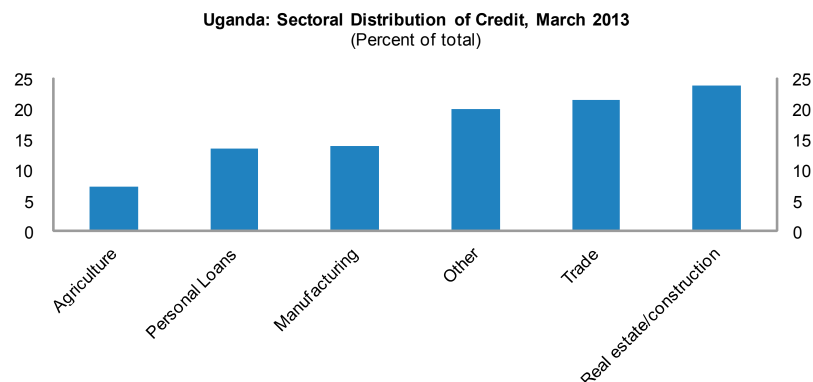
	Depth[1]	Access[2]	Efficiency[1]	Stability[2]
	Private Credit to GDP (%)	Accounts per 1000 Adults, Commercial Banks	Net Interest Margin (%)	Z-score, Weighted Average, Commercial Banks[3]
Burundi	15.3	25.7	7.9	19.6
Kenya	34.4	523.9	8.6	15
Rwanda	13.1	215.4	8.9	7.5
Tanzania	19	126.6**	8.3	9.1
Uganda	13.9	167.9**	10.5	18.8

Source: World Bank Global Financial Development Database and IMF Staff estimates

[1] Average 2009-12.

[2] Average 2009-11.

[3] The z-score is a distance-to-default measure, i.e. it measures the number of standard deviations a return realization has to fall in order to deplete equity. Thus, the higher a z-score, the low er the probability of default/insolvency, ** 2008-2010 averages



Uganda: Sectoral Distribution of Credit, March 2013
(Percent of total)

35. **The authorities are moving forward with a three-pillar approach to pension sector reform.** A technical memorandum has been submitted to cabinet outlining ways and means of improving the financial viability of the public pension scheme, including by transforming it into a contributory scheme with a separate management agency. In addition, liberalization of the sector is proceeding with the aim of allowing all licensed retirement benefit schemes to compete for mandatory pension contributions. Finally, the regulatory framework is being upgraded, including through the establishment of a specific pension regulatory agency.

D. Achieving Broad-Based and Inclusive Growth: Economic Diversification and Efficient and Transparent Use of the Oil Wealth

36. **A recently adopted long term development plan will underpin the authorities' policy framework over the next few years.** The Vision 2040 plan envisages the achievement of middle income status within 30 years, through high annual rates of growth that would allow per capita income to increase from the current US$506 to US$9500 and the share of population living below the poverty line to decline to 5 percent (Box 6).

Box 6. Uganda: Vision 2040

The vision. The 2040 national vision lays out the country's long-term aspirations to move from an agrarian based economy to a modern and prosperous economic system within 30 years. Elaborated through a participative approach over several years, the plan aims at exploiting Uganda's currently underutilized opportunities. The private sector is expected to be the engine of growth, with the government ensuring a supportive policy framework with tailored structural reforms and sectoral policies.

The resources. Uganda's assets include an abundant labor force, a wide range of minerals, commercially viable oil and gas deposits, and abundant fresh water resources. Moreover, the scope for value addition in agriculture, nature-based tourism, knowledge and information technology, and geographical location create significant opportunities for regional and international trade.

The strategy. To better exploit these opportunities, a strong boost in investment is needed, mainly in transport infrastructure (rail, road, water and air); energy (mainly electricity); manufacturing production; science, engineering and innovation; and urban development. The transformation from subsistence farming to commercial agriculture and agro-processing is a key priority. All of this would require continued investment in education and efforts to increase access to finance.

Implementation challenges. The vision will be implemented through six five-year development plans, sector master plans, and annual budgets. To ensure consistency with annual budgets, a mid-term review is being carried out in coordination with a multi-stakeholder technical committee.

37. **The fast-growing population requires accelerated job creation and rising living standards.** Sound policies and reforms have supported poverty reduction efforts, but there is a higher role for fiscal policy and planning in safeguarding the most vulnerable groups (Annex IV: Inclusive growth in Uganda: achievements and challenges). Staff called for a gradual establishment of a well-tailored social safety net to help vulnerable groups share prosperity, including through school meals, public transportation subsidies, and the use of cash transfers—which could be channeled through the mobile money network. The authorities see provision of infrastructure and

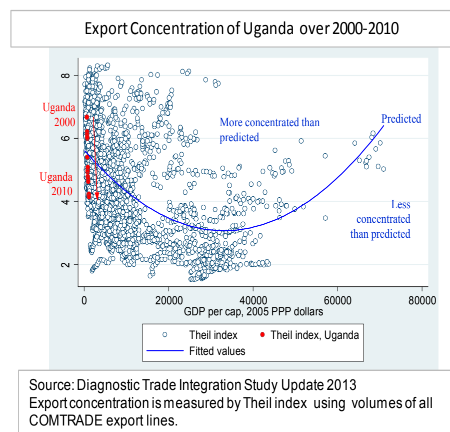
basic services as the best means of sharing wealth. Targeted support through cash transfers would, in their view, be expensive, hard to implement in rural areas where most of the potential beneficiaries are, and would require governance schemes not currently in place. However, a pilot cash transfer scheme is underway to support poor families and the elderly.

38. **Improving the business environment will be key to supporting economic diversification.** Uganda still ranks low in doing business and governance indicators, which constrain competitiveness despite good export performance (Box 7). Strengthening the rule of law and controlling corruption, together with the planned infrastructure upgrades, are important preconditions to attracting investment and promoting growth.

Box 7. Uganda: Competitiveness

Addressing key infrastructure bottlenecks, improving the business environment, and strengthening regional integration are key priorities for further competitiveness gains.

Uganda's export performance has been strong. During the last decade, exports of goods and services increased from 10 to 23 percent of GDP. Export growth has been mainly volume-based, translating into substantial export diversification. The degree of export concentration is lower than predicted by the GDP per capita level. Uganda has a comparative advantage in the region in agricultural crops, services, and resource-based value-added activities.



Source: Diagnostic Trade Integration Study Update 2013
Export concentration is measured by Theil index using volumes of all COMTRADE export lines.

Strengthening the business environment is crucial. Uganda currently ranks 120th out of 185 countries in the World Bank's cost of doing business index, with space for improvements in trading across borders, protecting investors, starting business, getting electricity, and registering property. Addressing acute infrastructure bottlenecks in power and transportation, deepening financial markets, and investing in human capital would boost competitiveness.

	Doing business index	Protection of property rights		Financial market development		Primary education		Higher education and training		Infrastructure		Quality of infrastructure: Roads		Railroads		Air transport		Electricity and telephony	
	Ranking	Score	Ranking	Score	Ranking	Score	Ranking	Score	Ranking	Score	Ranking	Score	Ranking	Score	Ranking	Score	Ranking	Score	Ranking
Uganda	**120**	**4.07**	**80**	**4.14**	**62**	**4.58**	**92**	**2.86**	**127**	**2.27**	**133**	**2.91**	**110**	**1.44**	**111**	**3.78**	**107**	**1.80**	**133**
Kenya	121	3.57	110	4.74	24	4.25	114	3.59	100	3.09	103	3.93	72	2.50	72	4.78	65	2.73	111
Tanzania	134	3.61	106	3.87	85	4.86	77	2.71	132	2.27	132	3.22	94	2.26	82	3.49	117	1.77	134
Rwanda	52	5.20	34	4.44	49	5.39	45	3.21	117	3.22	96	4.96	40	…	…	4.26	84	2.71	112
Burundi	159	2.45	141	2.31	144	3.87	122	1.98	143	1.87	141	2.70	121	…	…	2.80	139	1.44	139
Median (all countries)	**93**	**4.18**	**73**	**4.04**	**73**	**4.91**	**73**	**4.18**	**73**	**3.91**	**73**	**3.93**	**73**	**2.66**	**63**	**4.47**	**73**	**4.24**	**73**

Source: World Economic Forum and the World Bank.

39. **Over the medium term, the policy framework will have to prepare for the start of oil production.** Staff recommended pursuing oil policies that preserve macroeconomic stability and increase productivity and competitiveness. Based on simulations from a fiscal analysis of resource industries (FARI) model, staff illustrated the expected benefits and costs of oil production, taking into account the authorities' recent decision to set up a small-capacity refinery and to export crude

through a pipeline. Discussions also covered fiscal rules that could be employed to govern savings and expenditure. The authorities indicated that investment in infrastructure will be the primary use of future oil revenues and that savings in the envisaged oil fund would provide a safeguard to future generations (Annex V: Oil revenues in Uganda: from resource wealth to growth).

THE NEW PSI

40. **The authorities' policy commitments under the proposed PSI are detailed in their Letter of Intent and Memorandum of Economic and Financial Policies (MEFP).** It is proposed that the new PSI program period begins on June 28, 2013, and that quantitative assessment criteria (QACs) be established for end-June and end-December 2013 for monitoring program performance (MEFP Table 1). Innovations in program design include an inflation consultation clause in lieu of the former QAC on net domestic assets of the BoU in order to reflect the current monetary policy framework. The new PSI will set a path for core inflation to converge to the 5 percent medium-term target—a breach of the 2 percent inner band around the target would trigger consultation with staff, while a breach of the 3 percent outer band would trigger a consultation with the IMF Executive Board. Other innovations include an increase in the ceiling on contracting non-concessional debt to US$1.5 billion to accommodate additional infrastructure investment; the addition of an indicative target on government revenues; and replacement of the QAC on net claims on the central government with the banking system (NCG) with a QAC on net domestic financing (NDF).[3] Structural benchmarks for the first year of the new PSI are intended to facilitate inflation targeting implementation, improve revenue collection, and advance PFM reforms (MEFP Table 2). Details concerning the monitoring of the QACs and reporting requirements under the program are outlined in the Technical Memorandum of Understanding (Attachment II).

STAFF APPRAISAL

41. **Recent policies have been effective in fighting inflation and reviving economic activity.** Despite significant foreign exchange inflows, the authorities were successful in bringing inflation down to the mid-single digit target level. A welcome accumulation of international reserves accompanied the disinflationary process, creating a useful buffer in the context of decreasing donor support. These developments and recent indications of growth recovery—mainly driven by a rebound in trade and investment—support a favorable outlook. Observation of all quantitative targets and some structural benchmarks set for the sixth PSI review allow for the completion of the program review.

[3] This change has no material impact and is intended to simplify program conditionality and increase transparency. The NCG target in the current PSI contains an adjustor for nonbank financing, effectively transforming it into a ceiling on NDF.

42. **The new PSI will usefully support the authorities' ambitious reform agenda.** The strong package of planned reforms to improve institutional frameworks, develop the financial sector, and set up an environment favorable to private investment—including in the nascent oil industry—underpins the authorities' achievement of their medium-term growth objectives. The PSI will back these reforms while continuing to support sound policy making, foster inter-institutional coordination, signal Uganda's economic achievements, and leverage external financing for infrastructure investment—an area that has attracted renewed attention.

43. **In the short term, growth and stability will be underpinned by supportive fiscal and monetary policies.** The budget will focus on increasing tax collections and allocating significant resources to development spending to promote growth and employment. The central bank's policies will remain vigilant to potential demand pressures that could have a toll on inflation. Bank supervision will aim at addressing bank risks posed by the sharp increase in foreign currency lending. Closer policy coordination and a clearer distinction between monetary and fiscal policy instruments will result in a consistent policy mix.

44. **The decision to improve the inflation targeting framework reflects the authorities' commitment to keep inflation low and stable.** Successful use of the central bank rate as the monetary policy signaling device helped the BoU gain credibility. The introduction of a consultation clause and the envisaged institutional and operational reforms to strengthen independence, accountability, and technical capacity of the BoU are expected to strongly contribute to the objective of moving inflation to the medium-term 5 percent target. Continued exchange rate flexibility will support these efforts.

45. **The planned progress in strengthening fiscal institutions is welcome.** While plans for resumption of donor budget support remain unclear, the authorities are rightly counting on improved revenue collections and use of the existing borrowing space to finance public sector operations. The government is strongly encouraged to continue to improve tax collection and tighten spending controls. Commitments to undertake a study to assess the cost of VAT exemptions with a view of reducing them, move all transactions to the official systems, and introduce a TSA are welcome steps to enhance public financial management. Importantly, they will also help address society demands for better governance.

46. **In the longer term, the start of oil production and prospects for regional integration provide additional growth and poverty reduction opportunities.** A business-friendly environment—based on governance, institutional and financial sector improvements—should promote the envisaged diversification of the economy and add to the gains of planned job-creating infrastructure investments. These reforms would also maximize the benefits of EAC integration and prepare the economy better for oil production to ensure that the resource wealth benefits the population as a whole. In the process, enhancement of safety nets to protect the most vulnerable segments is strongly recommended.

47. **The outlook is positive but not without risk.** Uganda is vulnerable to a deterioration of economic conditions in trading partners and to a rise in import prices, particularly of oil. Domestic risks center on capacity constraints and policy coordination weaknesses and their impact on efficient policy making. Uganda continues to have a low risk of debt distress as confirmed by the updated debt sustainability analysis.

48. **The mission recommends completion of the sixth review and Executive Board approval of a successor PSI.** This involves cancellation of the current PSI immediately upon conclusion of the sixth review. It is proposed that the next Article IV consultation be held in accordance with the decision on consultation cycles adopted September 28, 2010, as amended.

Table 1. Uganda: Selected Economic and Financial Indicators, FY2009/10–2017/18[1]

	2009/10	2010/11	2011/12	2012/13		2013/14		2014/15	2015/16	2016/17	2017/18
			Proj.	5th Rev	Proj.	5th Rev	Proj.	Proj.	Proj.	Proj.	Proj.
GDP and prices (percent change)											
Real GDP	5.8	6.7	3.4	4.3	5.3	5.4	6.0	7.0	7.0	7.0	7.0
GDP Deflator	9.6	5.0	23.2	6.9	7.3	6.7	5.8	4.4	4.4	4.8	5.1
CPI (end of period)	4.2	15.7	18.0	4.8	5.7	6.7	5.7	4.5	5.7	5.3	4.5
CPI (average)	9.4	6.5	23.5	6.2	6.0	6.7	6.2	5.0	5.1	5.1	4.9
Core inflation (average)	7.8	6.3	24.6	6.3	6.8	4.6	6.3	5.0	5.0	5.0	5.0
Core inflation (end of period)	4.6	12.1	19.6	5.9	6.7	4.6	5.2	4.9	4.9	5.0	5.0
External sector (percent change)											
Terms of trade (based on all exports, deterioration -)	-8.1	4.3	1.8	-2.1	-0.5	-3.9	-1.7	-2.4	-2.0	-0.6	-0.5
Real effective exchange rate (depreciation –)	4.8	-0.9	...	...	...	...	...	...	...	...	...
Money and credit (percent change)											
Broad money (M2)	30.3	23.9	-4.3	15.6	20.2	15.9	15.4	15.8	15.8	15.8	15.8
Private sector credit	25.3	44.4	11.1	13.1	14.5	23.6	15.1	15.6	15.4	15.3	15.1
Savings and investment gap (excluding grants, percent of GDP)	-10.8	-13.0	-13.1	-11.8	-10.7	-15.0	-12.6	-14.4	-14.6	-13.8	-13.4
Domestic investment	23.5	25.0	24.7	20.2	26.1	21.9	27.9	28.6	28.6	28.5	29.2
Public	5.6	5.9	5.8	7.6	5.8	7.5	8.1	8.4	8.6	8.3	8.8
Private	17.9	19.1	18.9	12.7	20.2	14.4	19.8	20.1	20.0	20.2	20.4
External sector (percent of GDP)											
Current account balance (including grants)	-9.5	-11.7	-12.0	-11.3	-10.4	-14.3	-12.2	-14.1	-14.3	-13.5	-13.2
Current account balance (excluding grants)	-10.8	-13.0	-13.1	-11.8	-10.7	-15.0	-12.6	-14.4	-14.6	-13.8	-13.4
Net donor inflows	4.1	3.0	3.4	2.6	3.6	3.0	2.2	1.9	1.6	1.6	1.4
Public external debt (including IMF)	13.6	17.3	16.3	23.0	17.0	27.8	20.3	22.7	24.1	25.3	26.4
External debt-service ratio[2]	1.8	1.4	1.4	1.7	1.6	1.8	1.8	1.9	1.9	1.8	2.0
Government budget and debt (percent of GDP)											
Revenue	12.2	16.2	13.3	14.5	13.0	13.7	15.0	14.5	14.9	15.2	15.3
Grants	2.5	2.3	2.3	1.9	1.7	1.8	1.5	1.3	1.0	0.9	0.8
Total expenditure and net lending	19.6	22.8	18.6	19.9	18.6	20.3	20.2	21.2	21.7	21.3	22.0
Overall balance (including grants)	-4.9	-4.3	-3.0	-3.4	-3.9	-4.8	-3.6	-5.4	-5.7	-5.1	-5.8
Overall balance (excluding grants)	-7.3	-6.6	-5.3	-4.6	-5.6	-6.1	-5.2	-6.7	-6.8	-6.1	-6.5
Memorandum items:											
Nominal GDP (Ush billions)	34,909	39,081	49,794	55,499	56,287	62,402	63,122	70,512	78,802	88,370	99,384
Nominal GDP (US$ millions)	17,206	16,820	19,472	...	...	...	...	...	...	...	...
Average exchange rate (Ush/US$)	2,029	2,323	2,557	...	...	...	...	...	...	...	...
End of period exchange rate (Ush/US$)	2,283	2,623	2,472	...	...	...	...	...	...	...	...
Gross foreign exchange reserves (US$ millions)	2,385	2,044	2,644	2,714	3,044	2,894	3,264	3,514	3,764	3,965	4,351
(months of next year's imports of goods and services)	4.2	3.2	4.2	3.7	4.2	3.6	4.1	4.1	4.1	4.0	4.0
Social and poverty indicators	(Population: 34.5 million in 2011; GDP per capita of US$487 in 2011; Population below poverty line 24.5 percent)										

Sources: Ugandan authorities and IMF staff estimates and projections.

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

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

Table 2a. Uganda: Fiscal Operations of the Central Government, FY2009/10–2017/18[1]
(Billions of Ugandan Shillings)

	2009/10	2010/11	2011/12	2012/13		2013/14		2014/15	2015/16	2016/17	2017/18
			Est.	5th Rev	Proj.	5th Rev	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	5,136	7,208	7,772	9,124	8,300	9,625	10,472	11,117	12,570	14,274	16,095
Revenue	4,273	6,318	6,635	8,069	7,338	8,526	9,495	10,194	11,769	13,450	15,251
Tax	4,067	4,958	5,983	6,971	7,015	8,123	8,272	9,636	11,115	12,728	14,431
International trade taxes	352	455	503	568	596	658	705	863	1,004	1,160	1,332
Income taxes	1,361	1,750	2,112	2,515	2,647	2,929	3,049	3,493	3,980	4,544	5,165
Excises	1,025	1,186	1,446	1,532	1,435	1,750	1,689	1,982	2,278	2,564	2,865
Value-added tax	1,329	1,567	1,921	2,355	2,337	2,786	2,829	3,299	3,853	4,459	5,069
Nontax	206	252	260	338	323	403	480	557	654	723	820
Oil revenue	0	1,108	392	760	0	0	743	0	0	0	
Grants	863	891	1,137	1,055	962	1,099	977	923	800	824	844
Budget support [2]	467	515	581	273	186	418	208	233	206	212	214
Project grants	396	375	556	782	776	681	769	690	594	612	630
Expenditures and net lending	6,836	8,900	9,281	11,020	10,479	12,649	12,762	14,922	17,093	18,812	21,879
Current expenditures	4,308	5,963	5,585	5,714	5,935	6,754	6,323	7,411	8,585	9,585	10,927
Wages and salaries	1,308	1,664	1,832	2,141	2,175	2,653	2,312	2,679	3,191	3,579	4,075
Interest payments	386	424	603	922	891	1,034	975	1,206	1,375	1,455	1,684
Other current	2,614	3,875	3,150	2,651	2,870	3,066	3,036	3,526	4,019	4,551	5,168
o/w Exceptional security	437	979	300	0	0	0	0	0	0	0	0
o/w Power sector subsidies	193	194	187	68	68	0	0	0	0	0	0
Development expenditures	2,312	2,774	3,458	5,203	4,096	5,794	6,287	7,362	8,358	9,077	10,802
Externally-financed projects	889	1,042	1,701	2,034	2,010	2,345	2,227	2,730	2,885	2,601	3,025
o/w Entebbe highway, road equipment	0	0	0	237	0	251	110	184	450	463	477
Government of Uganda investment	1,423	1,732	1,756	3,169	2,086	3,449	4,060	4,632	5,474	6,476	7,777
o/w Karuma	0	0	0	1,052	0	896	1,078	1,102	1,135	1,170	1,205
o/w Oil refinery	0	0	0	15	0	0	0	0	570	1,761	605
Net lending and investment [3]	-37	-30	-39	0	409	-34	0	0	0	0	0
Other spending	253	194	278	103	39	135	152	150	150	150	150
Clearance of domestic arrears	84	194	278	35	39	50	50	0	0	0	0
o/w Power sector arrears	0	0	208	0	0	0	0	0	0	0	0
Other	169	0	0	68	0	50	102	150	150	150	150
Overall balance	-1,699	-1,692	-1,509	-1,895	-2,179	-3,024	-2,290	-3,805	-4,523	-4,538	-5,784
Non-oil primary balance	-1,314	-2,377	-1,299	-1,733	-1,289	-1,990	-2,058	-2,600	-3,148	-3,083	-4,100
Financing	1,532	1,673	1,200	1,895	2,179	3,025	2,290	3,805	4,523	4,538	5,784
External financing (net)	784	546	1,172	1,020	1,311	1,617	1,209	1,743	1,998	2,767	3,197
Disbursement	919	707	1,372	1,275	1,517	1,918	1,458	2,040	2,291	3,081	3,604
Budget support	236	229	124	22	283	254	0	0	0	0	0
Concessional project loans	683	478	1,056	856	1,234	1,101	921	1,047	1,104	1,213	1,337
Non-concessional borrowing	0	0	192	397	0	563	537	993	1,187	1,868	2,267
Amortization (–)	-110	-152	-191	-218	-196	-273	-224	-283	-287	-318	-410
Exceptional financing	-26	-8	-10	-37	-10	-28	-25	-14	-6	3	3
Domestic financing (net)	749	1,127	29	875	868	1,407	1,080	2,062	2,525	1,771	2,587
Bank financing	811	432	-1,234	547	689	615	455	1,210	1,864	653	351
Bank of Uganda	473	93	-1,161	32	300	615	48	798	822	-242	-62
o/w Petroleum revenues		-1,108	-392		0		-743	0	0	0	0
o/w Petroleum fund withdrawals	0	0	0	696	0	896	271	1,102	1,135	80	0
o/w Energy fund withdrawals	0	0	122	357	0	0	806	0	0	0	0
o/w Bank of Uganda repayments	0	0	0	-265	-130	-282	-295	-304	-313	-323	-62
o/w Securities [3]	0	0	0	0	410	0	0	0	0	0	0
Commercial banks	338	339	-73	515	389	0	407	412	1,042	896	413
Nonbank financing	-62	694	1,262	328	179	793	625	852	661	1,118	2,236
Errors and omissions/financing gap (- is gap, + is surplus)	-167	-19	-309	0	0	0	0	0	0	0	0
Memorandum Items:											
Petroleum revenues (Ush billions)											
Inflows (including interest)	0	1,108	405	889	16	80	764	18	8	0	0
Valuation adjustment	0	52	20	10	77	32	81	52	21	0	0
Withdrawals	0	0	0	982	0	837	271	1,102	1,135	80	0
Stock at end period	0	1,128	1,553	1,547	1,646	821	2,219	1,187	80	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.

[3] Includes 410 billion shillings for recapitalization of Bank of Uganda in 2012/13.

Table 2b. Uganda: Fiscal Operations of the Central Government, FY2009/10–2017/18[1]
(Percent of GDP)

	2009/10	2010/11	2011/12	2012/13		2013/14		2014/15	2015/16	2016/17	2017/18
			Est.	5th Rev	Proj.	5th Rev	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	14.7	18.4	15.6	16.4	14.7	15.4	16.6	15.8	16.0	16.2	16.2
Revenue	12.2	16.2	13.3	14.5	13.0	13.7	15.0	14.5	14.9	15.2	15.3
Tax	11.7	12.7	12.0	12.6	12.5	13.0	13.1	13.7	14.1	14.4	14.5
International trade taxes	1.0	1.2	1.0	1.0	1.1	1.1	1.1	1.2	1.3	1.3	1.3
Income taxes	3.9	4.5	4.2	4.5	4.7	4.7	4.8	5.0	5.1	5.1	5.2
Excises	2.9	3.0	2.9	2.8	2.5	2.8	2.7	2.8	2.9	2.9	2.9
Value-added tax	3.8	4.0	3.9	4.2	4.2	4.5	4.5	4.7	4.9	5.0	5.1
Nontax	0.6	0.6	0.5	0.6	0.6	0.6	0.8	0.8	0.8	0.8	0.8
Oil revenue	0.0	2.8	0.8	1.4	0.0	0.0	1.2	0.0	0.0	0.0	0.0
Grants	2.5	2.3	2.3	1.9	1.7	1.8	1.5	1.3	1.0	0.9	0.8
Budget support[2]	1.3	1.3	1.2	0.5	0.3	0.7	0.3	0.3	0.3	0.2	0.2
Project grants	1.1	1.0	1.1	1.4	1.4	1.1	1.2	1.0	0.8	0.7	0.6
Expenditures and net lending	19.6	22.8	18.6	19.9	18.6	20.3	20.2	21.2	21.7	21.3	22.0
Current expenditures	12.3	15.3	11.2	10.3	10.5	10.8	10.0	10.5	10.9	10.8	11.0
Wages and salaries	3.7	4.3	3.7	3.9	3.9	4.3	3.7	3.8	4.0	4.0	4.1
Interest payments	1.1	1.1	1.2	1.7	1.6	1.7	1.5	1.7	1.7	1.6	1.7
Other current	7.5	9.9	6.3	4.8	5.1	4.9	4.8	5.0	5.1	5.1	5.2
Of which: Exceptional security	1.3	2.5	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: Power sector subsidies	0.6	0.5	0.4	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Development expenditures	6.6	7.1	6.9	9.4	7.3	9.3	10.0	10.4	10.6	10.3	10.9
Externally-financed projects	2.5	2.7	3.4	3.7	3.6	3.8	3.5	3.9	3.7	2.9	3.0
Of which: Entebbe highway, road equipment	0.0	0.0	0.0	0.4	0.0	0.4	0.2	0.3	0.6	0.5	0.5
Government of Uganda investment	4.1	4.4	3.5	5.7	3.7	5.5	6.4	6.6	6.9	7.3	7.8
Of which: Karuma	0.0	0.0	0.0	1.9	0.0	1.4	1.7	1.6	1.4	1.3	1.2
Of which: Oil refinery	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.7	2.0	0.6
Net lending and investment[3]	-0.1	-0.1	-0.1	0.0	0.7	-0.1	0.0	0.0	0.0	0.0	0.0
Other spending	0.7	0.5	0.6	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Clearance of domestic arrears	0.2	0.5	0.6	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Of which: Power sector arrears	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.5	0.0	0.0	0.1	0.0	0.1	0.2	0.2	0.2	0.2	0.2
Overall balance	-4.9	-4.3	-3.0	-3.4	-3.9	-4.8	-3.6	-5.4	-5.7	-5.1	-5.8
Non-oil primary balance	-3.8	-6.1	-2.6	-3.1	-2.3	-3.2	-3.3	-3.7	-4.0	-3.5	-4.1
Financing	4.4	4.3	2.4	3.4	3.9	4.8	3.6	5.4	5.7	5.1	5.8
External financing (net)	2.2	1.4	2.4	1.8	2.3	2.6	1.9	2.5	2.5	3.1	3.2
Disbursement	2.6	1.8	2.8	2.3	2.7	3.1	2.3	2.9	2.9	3.5	3.6
Budget support	0.7	0.6	0.2	0.0	0.5	0.4	0.0	0.0	0.0	0.0	0.0
Concessional project loans	2.0	1.2	2.1	1.5	2.2	1.8	1.5	1.5	1.4	1.4	1.3
Non-concessional borrowing	0.0	0.0	0.4	0.7	0.0	0.9	0.9	1.4	1.5	2.1	2.3
Amortization (–)	-0.3	-0.4	-0.4	-0.4	-0.3	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
Exceptional financing	-0.1	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing (net)	2.1	2.9	0.1	1.6	1.5	2.3	1.7	2.9	3.2	2.0	2.6
Bank financing	2.3	1.1	-2.5	1.0	1.2	1.0	0.7	1.7	2.4	0.7	0.4
Bank of Uganda	1.4	0.2	-2.3	0.1	0.5	1.0	0.1	1.1	1.0	-0.3	-0.1
Of which: Petroleum revenues		-2.8	-0.8		0.0		-1.2	0.0	0.0	0.0	0.0
Of which: Petroleum fund withdrawals	0.0	0.0	0.0	1.3	0.0	1.4	0.4	1.6	1.4	0.1	0.0
Of which:Energy fund withdrawals	0.0	0.0	0.2	0.6	0.0	0.0	1.3	0.0	0.0	0.0	0.0
Of which: Bank of Uganda repayments	0.0	0.0	0.0	-0.5	-0.2	-0.5	-0.5	-0.4	-0.4	-0.4	-0.1
Of which: Securities[3]		0.0	0.0	0.0	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	1.0	0.9	-0.1	0.9	0.7	0.0	0.6	0.6	1.3	1.0	0.4
Nonbank financing	-0.2	1.8	2.5	0.6	0.3	1.3	1.0	1.2	0.8	1.3	2.3
Errors and omissions/financing gap (- is gap, + is surplus)	-0.5	0.0	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items:											
Petroleum revenues (Ush billions)											
Inflows (including interest)	0.0	2.8	0.8	1.6	0.0	0.1	1.2	0.0	0.0	0.0	0.0
Valuation adjustment	0.0	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Withdrawals	0.0	0.0	0.0	1.8	0.0	1.3	0.4	1.6	1.4	0.1	0.0
Stock at end period	0.0	2.9	3.1	2.8	2.9	1.3	3.5	1.7	0.1	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.

[3] Includes 0.7 percent of GDP for recapitalization of Bank of Uganda in 2012/13.

Table 2c: Uganda: Quarterly Fiscal Operations of the Central Government, 2012/13–2013/14[1]
(Billions of Ugandan Shillings)

	2012/13					2013/14				
	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual
			Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	1,761	2,403	1,958	2,178	8,300	2,151	3,360	2,344	2,616	10,472
Revenue	1,600	1,869	1,796	2,073	7,338	1,924	3,077	2,067	2,426	9,495
Tax	1,514	1,785	1,730	1,986	7,015	1,813	2,211	1,954	2,295	8,272
International trade taxes	133	151	150	162	596	167	171	167	200	705
Income taxes	502	736	560	849	2,647	606	836	644	962	3,049
Excises	338	351	390	356	1,435	398	416	462	414	1,689
Value-added tax	541	547	630	619	2,337	642	788	680	719	2,829
Nontax	86	83	67	87	323	111	124	113	131	480
Oil revenue	0	0	0	0	0	0	743	0	0	743
Grants	161	535	161	105	962	227	283	277	190	977
Budget support [2]	73	50	35	28	186	50	29	51	78	208
Project grants	88	485	126	77	776	177	254	226	112	769
Expenditures and net lending	2,316	2,792	2,412	2,959	10,479	2,597	3,133	2,991	4,040	12,762
Current expenditures	1,412	1,431	1,442	1,650	5,935	1,497	1,560	1,601	1,665	6,323
Wages and salaries	517	538	543	577	2,175	570	575	580	586	2,312
Interest payments	221	225	229	215	891	243	235	250	247	975
Other current	674	667	670	859	2,870	684	749	770	832	3,036
Development expenditures	885	1,343	968	900	4,096	1,074	1,529	1,350	2,334	6,287
Externally-financed projects	439	731	465	375	2,010	422	770	570	465	2,227
Government of Uganda investment	446	613	503	525	2,086	653	758	779	1,869	4,060
Net lending and investment [3]	0	-1	0	410	409	0	0	0	0	0
Other spending	18	18	2	0	39	25	45	41	41	152
Overall balance	-555	-388	-454	-781	-2,179	-445	227	-647	-1,424	-2,290
Non-oil primary balance	-334	-163	-226	-567	-1,289	-203	-281	-397	-1,177	-2,058
Financing	212	522	372	1,073	2,179	445	-227	647	1,424	2,290
External financing (net)	153	175	329	654	1,311	188	452	280	289	1,209
Disbursement	195	243	380	699	1,517	245	517	344	352	1,458
o/w Budget support	22	0	0	260	283	0	0	0	0	0
Amortization (–)	-38	-68	-46	-44	-196	-51	-65	-58	-50	-224
Exceptional financing	-5	0	-5	-1	-10	-6	0	-6	-13	-25
Domestic financing (net)	59	347	43	419	868	257	-679	367	1,135	1,080
Bank financing	207	363	-290	409	689	82	-786	149	1,010	455
Bank of Uganda [3]	-194	302	-204	395	300	3	-888	2	930	48
Commercial banks	401	60	-86	14	389	79	102	147	80	407
Nonbank financing	-148	-15	333	10	179	175	108	218	125	625
Errors and omissions/financing gap (- is gap, + is surplus)	-343	134	-82	292	0	0	0	0	0	0

Source: 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] Includes 410 billion shillings for recapitalization of Bank of Uganda in 2012/13.

Table 3. Uganda: Monetary Accounts, FY2009/10–FY2017/18[1]
(Billions of Ugandan Shillings unless otherwise indicated)

	2009/10	2010/11	2011/12	2012/13		2013/14		2014/15	2015/16	2016/17	2017/18
				5th Rev	Proj.	5th Rev	Proj.	Proj.	Proj.	Proj.	Proj.
						Monetary survey					
Net foreign assets	6,384	7,444	8,754	9,597	9,719	9,105	10,434	10,335	9,724	10,319	11,985
Bank of Uganda	5,741	6,874	7,466	8,564	9,099	8,590	9,642	9,526	9,392	10,188	11,671
Commercial banks	643	570	1,288	1,034	621	515	791	809	332	132	313
Net domestic assets	1,909	2,993	2,456	2,954	2,651	5,082	3,932	6,319	9,571	11,870	13,534
Claims on public sector (net)[2]	284	703	-532	11	187	626	642	1,853	3,717	4,370	4,721
Claims on central government (net)[3]	231	663	-571	-24	118	591	573	1,783	3,647	4,301	4,652
Claims on the private sector	4,510	6,513	7,239	8,190	8,287	10,122	9,539	11,027	12,723	14,673	16,895
Other items (net)	-2,885	-4,222	-4,250	-5,248	-5,823	-5,667	-6,250	-6,561	-6,869	-7,173	-8,083
Money and quasi-money (M3)	8,293	10,438	11,211	12,551	12,371	14,187	14,366	16,654	19,295	22,190	25,518
Broad money (M2)	6,412	7,946	7,603	8,786	9,139	10,183	10,543	12,206	14,128	16,363	18,947
Foreign exchange deposits	1,881	2,492	3,608	3,765	3,232	4,003	3,823	4,448	5,167	5,826	6,571
						Bank of Uganda					
Net foreign assets	5,741	6,874	7,466	8,564	9,099	8,590	9,642	9,526	9,392	10,188	11,671
Net domestic assets	-3,307	-3,906	-4,453	-4,923	-5,350	-4,155	-5,296	-4,494	-3,572	-3,504	-3,997
Claims on public sector (net)[2]	-1,672	-1,578	-2,740	-2,708	-2,440	-2,093	-2,393	-1,594	-772	-1,015	-1,076
Claims on central government (net)[3]	-1,672	-1,579	-2,740	-2,708	-2,441	-2,094	-2,393	-1,595	-773	-1,015	-1,077
Claims on commercial banks	-51	128	71	417	-345	978	-64	227	613	1,205	1,081
Other items (net)[4]	-1,584	-2,456	-1,785	-2,632	-2,565	-3,041	-2,839	-3,127	-3,412	-3,694	-4,002
Base money	2,434	2,968	3,013	3,641	3,749	4,434	4,347	5,031	5,821	6,684	7,675
Currency in circulation	1,739	2,190	2,204	2,432	2,585	2,819	2,982	3,336	3,848	4,457	5,161
Commercial bank deposits	695	778	808	1,208	1,164	1,615	1,365	1,695	1,972	2,227	2,514
						Commercial banks					
Net foreign assets	643	570	1,288	1,034	621	515	791	809	332	132	313
Net domestic assets	6,207	7,968	7,970	9,382	9,503	11,197	10,982	12,966	15,645	18,214	20,754
o/w Claims on central government (net)	1,903	2,242	2,169	2,684	2,558	2,684	2,966	3,378	4,420	5,316	5,728
o/w Claims on private sector	4,485	6,476	7,177	8,127	8,225	10,060	9,477	10,965	12,661	14,611	16,833
Deposit liabilities to the non-bank public	6,850	8,538	9,258	10,416	10,124	11,712	11,773	13,775	15,977	18,346	21,067
Shilling deposits	4,968	6,046	5,651	6,651	6,892	7,709	7,950	9,326	10,809	12,520	14,497
Foreign exchange accounts	1,881	2,492	3,608	3,765	3,232	4,003	3,823	4,448	5,167	5,826	6,571
Memorandum items:											
(Annual percentage change)											
Base money	24.8	21.9	1.5	20.8	24.4	21.8	15.9	15.8	15.7	14.8	14.8
M3	31.7	25.9	7.4	12.0	10.3	13.0	16.1	15.9	15.9	15.0	15.0
Credit to the private sector	25.3	44.4	11.1	13.1	14.5	23.6	15.1	15.6	15.4	15.3	15.1
Memorandum items:											
Base money-to-GDP ratio (percent)	7.0	7.6	6.1	6.6	6.7	7.1	6.9	7.1	7.4	7.6	7.7
M3-to-GDP ratio (percent)	23.8	26.7	22.5	22.6	22.0	22.7	22.8	23.6	24.5	25.1	25.7
Base money multiplier (M2/base money)	2.6	2.7	2.5	2.4	2.4	2.3	2.4	2.4	2.4	2.4	2.5
Credit to the private sector (percent of GDP)	12.9	16.7	14.5	14.8	14.7	16.2	15.1	15.6	16.1	16.6	17.0
Gross reserves of BOU (US$ millions)	2,385	2,044	2,644	2,714	3,044	2,894	3,264	3,514	3,764	3,965	4,351.1
Velocity (M3)	4.2	3.7	4.4	4.4	4.5	4.4	4.4	4.2	4.1	4.0	3.9
Exchange rate (Ush/US$, eop)	2,283	2,623	2,472	…	…	…	…	…	…	…	…

Sources: Uganda authorities and IMF staff estimates and projections.

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

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

[3] Including valuation effects and the Bank of Uganda's claims on the private sector. In 2012/13 includes Ush 410 billion for recapitalization of the Bank of Uganda.

[4] In FY 2012/13 includes Ush 410 billion for recapitalization of the Bank of Uganda .

Table 4. Uganda: Balance of Payments, FY2009/10–2017/18[1]
(Millions of US Dollars unless otherwise indicated)

	2009/10	2010/11	2011/12	2012/13		2013/14		2014/15	2015/16	2016/17	2017/18
				5th Rev	Proj.	5th Rev	Proj.	Proj.	Proj.	Proj.	Proj.
Current account	-1,630	-1,963	-2,334	-2,380	-2,250	-3,165	-2,874	-3,599	-3,965	-4,078	-4,328
Trade balance	-1,800	-2,373	-2,581	-2,687	-2,250	-3,104	-2,861	-3,145	-3,387	-3,494	-3,611
Exports, f.o.b.	2,317	2,298	2,660	2,809	2,910	2,934	3,059	3,277	3,516	3,753	4,213
Of which: coffee	262	371	449	422	436	408	435	418	392	387	395
Imports, f.o.b.	-4,117	-4,671	-5,241	-5,496	-5,160	-6,038	-5,920	-6,422	-6,902	-7,247	-7,823
Of which: oil	-501	-679	-947	-872	-998	-924	-1,066	-1,151	-1,241	-1,335	-1,433
Of which: government, infrastructure related	-176	-173	-304	-240	-264	-646	-658	-727	-787	-821	-714
Services (net)	-416	-684	-484	-546	-336	-688	-612	-784	-947	-983	-1,098
Income (net)	-335	-336	-475	-406	-530	-456	-584	-643	-640	-676	-790
Of which: interest on public debt	-29	-36	-35	-44	-37	-54	-61	-66	-74	-75	-71
Transfers	920	1,430	1,206	1,260	866	1,083	1,182	973	1,009	1,075	1,171
Private transfers	687	756	811	883	794	934	826	888	936	1,003	1,100
Of which: workers' remittances (inflows)	777	751	754	893	774	938	819	876	938	1,004	1,103
Official transfers	234	675	396	377	72	148	356	84	72	72	71
Of which: budget support (including HIPC)	234	225	224	98	72	148	77	84	72	72	71
capital gains tax	0	449	171	279	0	0	279	0	0	0	0
Capital and financial account	1,762	1,099	2,688	2,463	2,664	3,355	3,104	3,854	4,217	4,278	4,713
Capital account	197	160	194	295	298	242	286	249	209	209	209
Of which: project grants	197	160	194	295	298	242	286	249	209	209	209
Financial account	1,565	939	2,494	2,169	2,366	3,113	2,818	3,604	4,009	4,070	4,504
Foreign direct and portfolio investment	656	1,579	1,393	1,310	1,416	1,393	1,576	1,850	2,655	2,655	2,841
Other investment	909	249	719	859	950	1,721	1,242	1,651	1,717	1,414	1,663
Of which:											
Public sector (net)	528	-211	749	232	508	1,044	802	1,035	881	942	1,057
SDR allocation	224	0	0	0	0	0	0	0	0	0	0
Build-up (-)/drawdown (+) of petroleum fund	0	-449	278	-159	0	460	342	400	178	0	0
Loan disbursements	371	304	546	472	582	681	543	738	804	1,050	1,192
Project support (loans)	263	206	396	322	473	391	343	379	387	413	442
Budget support (loans)	107	98	45	0	109	90	0	0	0	0	0
Non-concessional borrowing	0	0	105	150	0	200	200	359	416	637	750
Amortization due	-67	-66	-75	-81	-74	-97	-83	-102	-101	-108	-136
Commercial banks (net)	33	50	-251	113	249	194	-55	2	170	69	-57
Other private (net)	347	410	603	514	193	483	495	614	666	403	664
Errors and omissions	80	285	393	0	0	0	0	0	0	0	0
Overall balance	212	-579	746	84	414	190	230	255	252	200	385
Financing	-212	579	-746	-84	-414	-190	-230	-255	-252	-200	-385
Of which:											
Central bank net reserves (increase = –)	-199	583	-743	-70	-400	-180	-220	-250	-250	-201	-386
Of which: SDR allocation	-224	0	0	0	0	0	0	0	0	0	0
Use of Fund credit	-1	-2	-2	-2	-2	-2	-2	-1	0	0	0
Memorandum items:											
Gross offical reserves	2,385	2,044	2,644	2,714	3,044	2,894	3,264	3,514	3,764	3,965	4,351
Months of imports of goods and services	4.2	3.2	4.2	3.7	4.2	3.6	4.1	4.1	4.1	4.0	4.0
Net donor support	694	584	746	585	836	716	557	538	491	512	516
Of which: Budget support (loans and grants)	341	324	270	98	181	238	77	84	72	72	71
Project support (loans and grants)	461	366	590	616	771	633	629	628	596	622	651
Current account balance (percent of GDP)	-9.5	-11.7	-12.0	-11.3	-10.4	-14.3	-12.2	-14.1	-14.3	-13.5	-13.2
Current account balance (excluding grants)	-10.8	-13.0	-13.1	-11.8	-10.7	-15.0	-12.6	-14.4	-14.6	-13.8	-13.4
Trade balance (percent of GDP)	-10.5	-14.1	-13.3	-12.8	-10.4	-14.0	-12.2	-12.3	-12.2	-11.6	-11.0
Exports (percent of GDP)	13.5	13.7	13.7	13.4	13.4	13.2	13.0	12.9	12.7	12.5	12.8
Imports (percent of GDP)	23.9	27.8	26.9	26.2	23.8	27.3	25.2	25.2	25.0	24.1	23.8

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–December 2012
(In percent)

	2010				2011				2012			
	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
Capital adequacy												
Regulatory capital to risk-weighted assets	22.7	21.7	21.2	20.2	21.2	19.3	18.3	20.3	21.8	20.7	20.9	21.9
Regulatory tier 1 capital to risk-weighted assets	19.9	19.2	18.8	17.5	18.9	17.3	16.2	17.9	19.0	18.3	18.5	18.8
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
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
Provisions to NPLs	93.2	97.1	102.9	112.8	101.4	128.8	113.8	97.1	77.7	75.6	72.7	...
Earning assets to total assets	82.4	74.9	76.7	77.1	73.6	74.8	74.3	74.0	74.7	72.0	71.9	71.3
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
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
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
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
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
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
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
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
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
Total loans to total deposits[1/]	71.4	66.2	67.2	71.4	72.9	76.3	81.3	83.6	81.8	77.9	77.1	79.9
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
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
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

Source: Bank of Uganda.

[1/] Excluding to central government.

Table 6. Uganda: Quantitative Assessment Criteria and Indicative Targets Outturn for December 31, 2012 and March 31, 2013[1]

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

	December 31, 2012				March 31, 2013 [2]			
	Program	Adjusted target	Outturn	Result	Program	Adjusted target	Outturn	Result
				(Billions of Ugandan shillings)				
Assessment criteria								
Ceiling on the increase in net domestic assets of the Bank of Uganda	470	497	75	Met	887	677	-635	Met
Ceiling on the increase in net claims on the central government by the banking system	543	873	537	Met	640	362	242	Met
				(Millions of US dollars)				
Ceiling on the stock of external payments arrears incurred by the public sector [3]	0	0	0	Met	0	0	0	Met
Ceiling on the contracting or guaranteeing of new nonconcessional external debt with maturities greater than one year by the public sector [3, 4]	1,000	1,000	455	Met	1,000	1,000	455	Met
Ceiling on new external debt with maturity up to one year contracted or guaranteed by the public sector [3, 5]	0	0	0	Met	0	0	0	Met
Minimum increase in net international reserves of the Bank of Uganda (US$mn)	42	31	308	Met	30	111	355	Met
Share of oil revenue placed in the Petroleum Fund	100	100	100	Met	100	100	100	Met
				(Billions of Ugandan shillings)				
Indicative target								
Ceiling on the increase in base money liabilities of the Bank of Uganda	535	535	643	Not met	559	559	473	Met
Minimum expenditures under the Poverty Action Fund	1,092	1,092	1,754	Met	1,690	1,690	2,633	Met
Ceiling on the issuance of guarantees by the Government/Bank of Uganda	0	0	0	Met	0	0	0	Met
Memo items				(Annual percentage change)				
Upper band	9.2	9.2	…	…	9.2	9.2	…	…
Twelve-month consumer price inflation (percent)[6]	6.2	6.2	5.3	Met	6.2	6.2	4	Met
Lower band	3.2	3.2	…	…	3.2	3.2	…	…

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

Table 7. Uganda: Structural Benchmarks Outturn for the Sixth PSI Review

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

6. Government to maintain transparency over the treatment of unspent budgetary funds at the end of the fiscal year by (i) publishing the balances as at December 31 and March 31 on all government accounts in the BoU and commercial banks, and (ii) in order to spend any balances held over from the previous year beyond end June, parliamentary approval as well as supporting work and procurement plans will be required.	To enhance budgetary discipline and promote fiscal transparency.	December 31, 2012 data to be published by January 31, 2013, and March 31, 2013date to be published by April 30, 2013. Continuous	Not met
7. Government will include in the Budget Framework Paper a status report of all ongoing PPP programs, including individual estimates of each project's contingent liability.	To enhance fiscal transparency.	March 31, 2013	Not met.
8. Government will submit to cabinet a concept note, reflecting the decision to introduce a TSA.	To strengthen public financial management.	March 31, 2013	Not met. *Expected to be met by June 2013*
9. Government will submit to Cabinet a new tax procedure code.	To improve domestic revenue mobilization.	April 1, 2013	Not met. *Expected to be met by June 2013*

Annex I. Joint Bank-Fund Staff Debt Sustainability Analysis Update 2013

This debt sustainability analysis (DSA) updates the joint IMF/IDA DSA from May 18, 2012, reflecting the most recent macroeconomic developments and borrowing needs.[1] The results indicate that Uganda remains at a low risk of debt distress.

Main changes in assumptions. Compared to the previous joint IMF/IDA DSA, conducted in the context of the fourth review under the PSI,[2] key changes are:

- **External borrowing.** The total amount of new borrowing by 2021 is somewhat lower and more back-loaded.
- **Primary deficit.** Reflecting the planned scaling up of infrastructure investment, the average primary deficit is expected to be 0.9 percent of GDP higher over the medium-term.
- **Domestic borrowing.** Higher investment and the recapitalization of the BoU are expected to raise domestic debt by about 4¼ percent of GDP by 2018 .
- **Profile of concessional borrowing**. External financing from multilaterals, projected to remain at about 1½ percent of GDP throughout the projection period, will be granted on a fully concessional basis until Uganda attains blend status in 2025 and as a blend of 50 percent concessional and 50 percent non-concessional resources afterwards. Therefore, the share of non-concessional borrowing is projected to rise over the projection period.
- **New oil scenario.** The oil scenario has been revised in line with the assumptions discussed below and in Box 1.
- **Discount rate.** A reduction from 4 percent to 3 percent leads to a decline in the grant element of new borrowing and an increase in the net present value of debt.

The DSA incorporates the higher non-concessional borrowing ceiling of US$1.5 billion proposed in the new PSI arrangement. While the authorities will continue to rely primarily on highly concessional resources to finance their investment needs, they are planning to scale up the use of non-concessional resources to address the acute infrastructure gap by developing three critical projects. To this end, feasibility studies have already been completed for the Isimba hydro power project (US$575 million), the Kampala-Mpigi highway (US$402 million), and the Kampala-Jinja highway (US$519 million). These loans are expected to be contracted in FY 2013/14 and disbursed over five years. Although the DSA assumes conservative terms for this new borrowing, the authorities plan to seek loans carrying at least 20 percent grant element. These infrastructure projects will support the

---

[1] In line with the 2010 Staff Guidance Note, a full joint LIC DSAs is expected to be prepared once every three years for PRGT-eligible IDA-only countries. In between, short annual updates are expected to be 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).

[2] IMF Country Report No. 12/135 (May 2012).

projected potential growth of 7 percent, conservatively assuming no change in the growth path compared to the previous DSA.

Improvements in implementation capacity and availability of financing will be critical for the planned scaling up of infrastructure spending. The authorities acknowledged weaknesses in implementation capacity, as highlighted by Uganda's poor performance on the Index of Public Investment Efficiency (PIMI). In order to streamline and improve project identification, selection and execution, the authorities intend to complete the review of the Public Investment Program (PIP) by end May 2014. The PIP will include only projects for which cost-benefit analysis and feasibility studies have been conducted and sources of financing have been secured. To this end, the authorities will strengthen their capacity to carry out cost-benefit analysis and prepare feasibility studies. Moreover, quarterly project portfolio reviews will be conducted to ensure efficient implementation of projects.

Both baseline public and external DSA suggest that public sector debt is sustainable.

External debt. The present value (PV) of the external debt-to-GDP is expected to increase from 11¼ percent to 20½ percent by 2033. The public and publicly guaranteed external debt position remains sustainable in the face of all standardized shocks (Figure 1a, Tables 1b and 2a). All stress tests show a low risk of debt distress with the debt-to-GDP, debt-to-exports, debt-to-revenue, debt service-to-exports, and debt service-to-revenue indicators remaining below their indicative threshold values throughout the projection period.

Public sector debt. The PV of public sector debt-to-GDP ratio is projected to increase moderately from 24 percent in 2012 to 33½ percent by 2033, mainly driven by infrastructure-related borrowing. Of all alternative scenarios and bound tests, fixing the primary deficit at the level of 2013 would have the most adverse effect on the debt dynamics. The historical scenario, fixing GDP growth and the primary balance at historical averages, and the scenario incorporating a permanently lower GDP growth would increase the debt burden to about 50 percent of GDP by 2033.

With the onset of oil production the debt outlook is projected to improve significantly (Box 1). The oil sector scenario is based on preliminary assumptions just intended to illustrate the impact of oil revenues on the DSA. With an investment/saving strategy yet to be developed, expenditures are kept unchanged with respect to the baseline. The scenario suggests that external financing needs for oil sector development would lead to a marginal temporary increase in debt, with the risk rating remaining low. Not surprisingly, when oil revenues come on stream, the DSA is projected to improve significantly with external debt expected to be fully repaid by 2024, which would create further useful borrowing space to frontload growth-enhancing infrastructure projects.

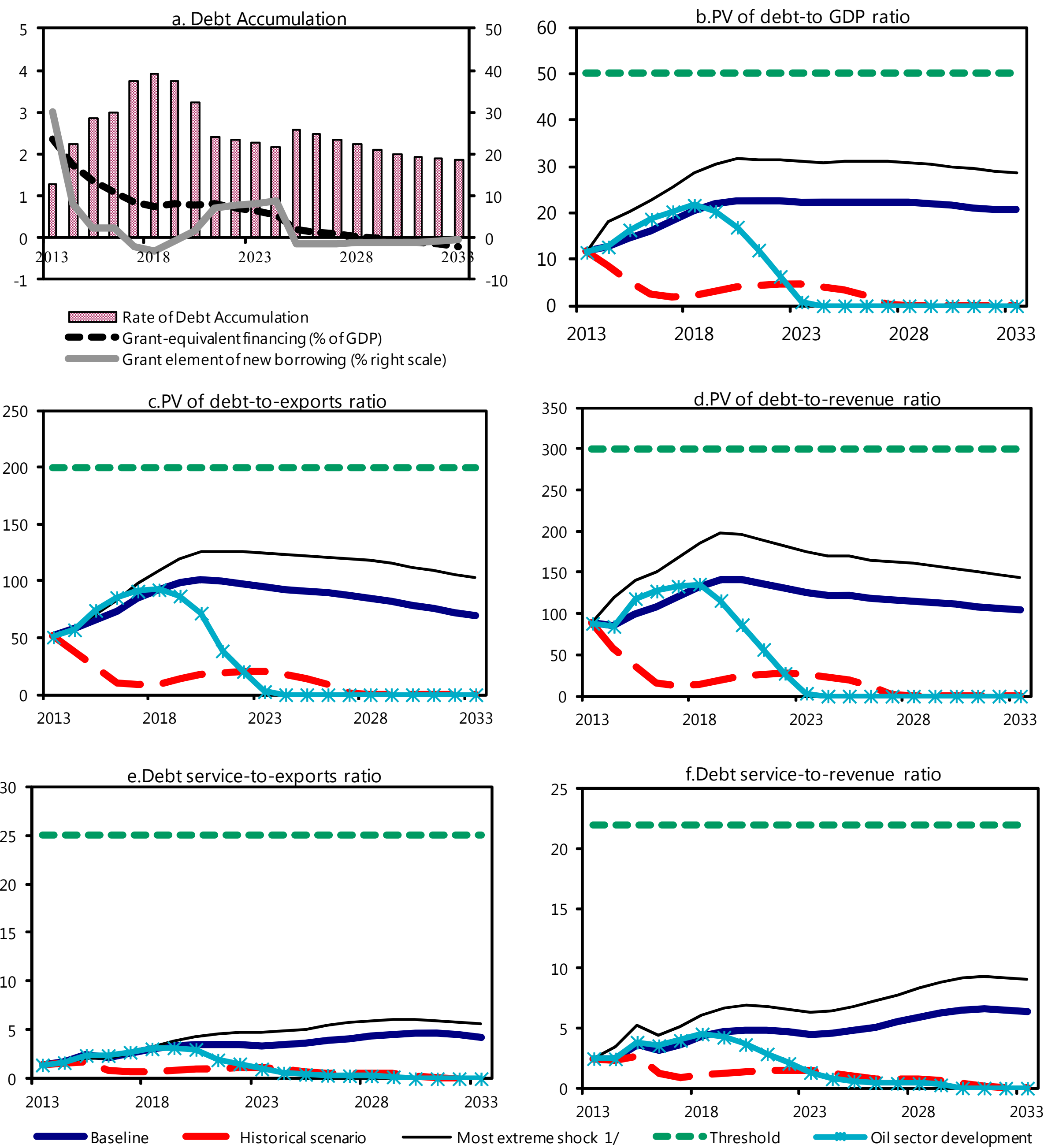
Box 1. Assumptions for the oil sector debt scenario

Cost and financing of the envisaged pipeline and small refinery. Construction is planned to start in FY2015/16. Total capital expenditure is estimated at $15-$20 billion, and would be financed primarily through FDI. The government will need to increase external borrowing only marginally to meet the expected equity commitments in both projects.

Real GDP growth would pick up during the investment phase and the onset of full production. Based on the investment and production profile, real GDP growth over 2016–2023 is expected to be 2–4 percent higher than under the baseline scenario.

With the start of full scale oil production and exports in 2018, government revenue is projected to increase sharply. Oil reserves are anticipated to last for about 30 years. Oil production is expected to account for close to 15 percent of Uganda's GDP during the peak extraction period, while oil revenues would contribute over 50 percent of total government revenues. For the exercise, oil export prices are conservately assumed to be constant in real terms at 80 dollars per barrel. Domestically-refined oil is priced at import-parity minus a 20 percent discount.

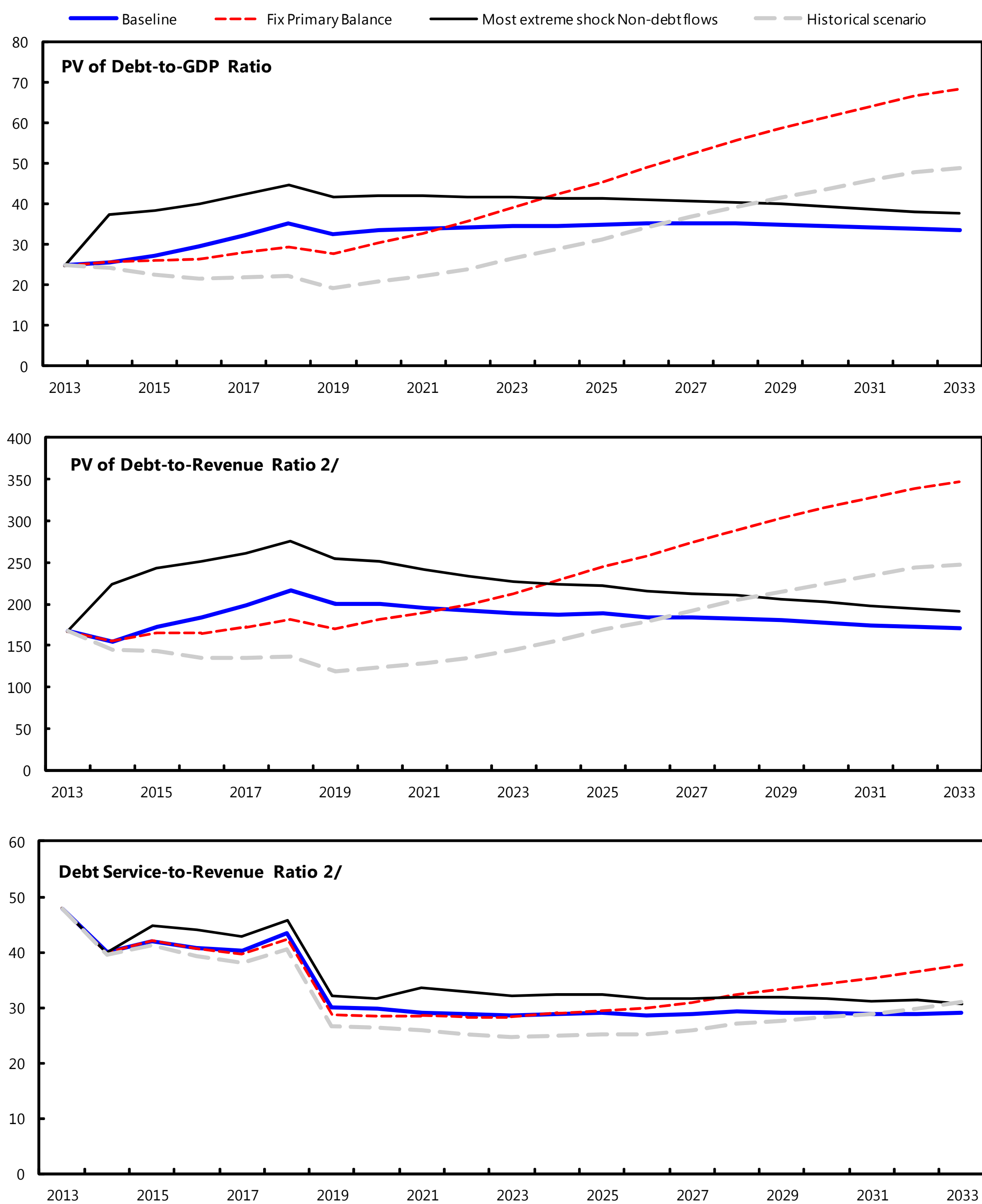
Figure 1a. Uganda: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2013-20331/



Sources: Ugandan authorities and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2023. 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 1b. Uganda: Indicators of Public Debt Under Alternative Scenarios, 2013–20331/



Sources: Ugandan authorities and staff estimates and projections.

[1/] The most extreme stress test is the test that yields the highest ratio in 2023.

[2/] Revenues are defined inclusive of grants.

Table 1a.Uganda: Public Sector Debt Sustainability Framework, Baseline Scenario, 2010–2033
(In percent of GDP, unless otherwise indicated)

	Actual			Average 5/	Standard Deviation 5/	Estimate	Projections								
	2010	2011	2012			2013	2014	2015	2016	2017	2018	2013-18 Average	2023	2033	2019-33 Average
Public sector debt 1/	24.6	32.9	28.7			29.4	30.0	31.3	33.1	35.3	38.0		36.7	35.0	
Of which :foreign-currency denominated	15.3	19.5	15.8			16.5	17.2	18.6	19.9	21.6	23.3		24.8	22.0	
Change in public sector debt	2.3	8.4	-4.2			0.7	0.5	1.4	1.7	2.2	2.7		0.3	-0.2	
Identified debt-creating flows	3.1	3.8	-4.9			1.5	0.9	2.7	2.9	2.1	2.5		-2.2	-2.2	
Primary deficit	3.8	3.3	1.8	1.0	1.7	2.3	2.1	3.7	4.0	3.4	3.9	3.2	-0.4	-0.9	-0.6
Revenue and grants	14.7	18.4	15.6			14.7	16.6	15.8	16.0	16.2	16.2		18.3	19.7	
of which: grants	2.5	2.3	2.3			1.7	1.5	1.3	1.0	0.9	0.8		0.4	-0.2	
Primary (noninterest) expenditure	18.5	21.7	17.4			17.1	18.7	19.4	19.9	19.5	20.1		17.9	18.8	
Automatic debt dynamics	-0.7	0.5	-6.8			-0.9	-1.3	-0.9	-1.0	-1.3	-1.4		-1.9	-1.3	
Contribution from interest rate/growth differential	-0.9	-1.0	-2.5			-1.1	-1.1	-1.0	-1.1	-1.3	-1.4		-1.4	-1.2	
of which: contribution from average real interest rate	0.4	0.6	-1.5			0.4	0.5	0.9	0.9	0.9	0.9		0.9	1.1	
of which: contribution from real GDP growth	-1.2	-1.5	-1.1			-1.5	-1.7	-2.0	-2.0	-2.2	-2.3		-2.4	-2.3	
Contribution from real exchange rate depreciation	0.2	1.5	-4.2			0.2	-0.1	0.1	0.1	0.0	0.0		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			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	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	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	-0.8	4.6	0.7			-0.7	-0.3	-1.4	-1.2	0.1	0.3		2.5	2.0	
Other Sustainability Indicators															
PV of public sector debt	...	...	24.1			24.6	25.5	27.2	29.3	32.0	35.1		34.4	33.5	
Of which : foreign-currency denominated	...	...	11.2			11.7	12.8	14.5	16.1	18.3	20.4		22.4	20.6	
Of which : external	...	...	11.2			11.7	12.8	14.5	16.1	18.3	20.4		22.4	20.6	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	11.6	13.2	10.9			11.7	10.8	12.8	13.5	13.2	14.5		9.1	9.8	
PV of public sector debt-to-revenue and grants ratio (in percent)	…	…	154.5			167.0	153.9	172.7	183.7	197.8	216.8		187.8	170.2	
PV of public sector debt-to-revenue ratio (in percent)	…	…	180.9			188.9	169.7	188.3	196.2	209.9	228.8		192.4	168.7	
Of which : external 3/	…	…	83.7			89.5	85.1	100.1	108.0	120.2	132.7		125.3	103.7	
Debt service-to-revenue and grants ratio (in percent) 4/	29.1	36.3	43.2			47.9	39.9	41.9	40.8	40.3	43.3		28.5	29.1	
Debt service-to-revenue ratio (in percent) 4/	35.0	41.4	50.6			54.2	44.0	45.7	43.6	42.8	45.7		29.2	28.8	
Primary deficit that stabilizes the debt-to-GDP ratio	1.4	-5.1	6.1			1.6	1.6	2.3	2.2	1.1	1.1		-0.6	-0.7	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	5.8	6.7	3.4	7.1	2.0	5.3	6.0	7.0	7.0	7.0	7.0	6.5	7.0	7.0	7.0
Average nominal interest rate on forex debt (in percent)	1.2	1.2	1.3	1.1	0.3	0.9	1.1	1.8	1.8	2.1	2.4	1.7	2.9	3.4	3.1
Average real interest rate on domestic debt (in percent)	3.1	5.5	-10.9	4.1	8.3	4.5	5.3	8.0	8.1	6.8	6.7	6.6	6.8	7.2	6.4
Real exchange rate depreciation (in percent, + indicates depreciation)	1.4	10.1	-22.4	-2.3	13.2	1.1	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	9.6	5.0	23.2	8.9	7.2	7.3	5.8	4.4	4.4	4.8	5.1	5.3	6.9	5.9	6.7
Growth of real primary spending (deflated by GDP deflator, in percent)	0.2	0.3	-0.2	0.1	0.1	0.0	0.2	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1
Grant element of new external borrowing (in percent)	...	...	...	…	…	30.2	8.0	2.5	2.4	-2.0	-3.1	6.4	8.2	-0.5	...

Sources: Ugandan authorities and IMF staff estimates and projections.
1/ Public sector includes general 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 1b. Uganda: External Debt Sustainability Framework, Baseline Scenario, 2010-20331/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Projections									
	2010	2011	2012			2013	2014	2015	2016	2017	2018	2013-2018 Average	2023	2033	2019-2033 Average
External debt (nominal) 1/	**24.9**	**30.4**	**26.2**			**26.7**	**27.3**	**28.5**	**29.3**	**30.6**	**31.8**		**33.7**	**32.0**	
o/w public and publicly guaranteed (PPG)	15.3	19.5	15.8			16.5	17.2	18.6	19.9	21.6	23.3		24.8	22.0	
Change in external debt	3.6	5.5	-4.2			0.4	0.7	1.2	0.8	1.3	1.2		-0.1	-0.1	
Identified net debt-creating flows	3.5	8.0	0.1			2.3	4.1	4.9	4.8	3.3	2.9		1.4	8.5	
Non-interest current account deficit	**9.3**	**11.4**	**11.5**	**6.2**	**3.9**	**10.0**	**11.9**	**13.6**	**13.9**	**13.0**	**12.5**		**8.9**	**15.3**	11.0
Deficit in balance of goods and services	12.9	18.2	15.7			11.9	14.8	15.4	15.7	14.9	14.3		12.5	18.3	
Exports	20.5	22.4	23.3			22.7	22.2	22.0	21.8	21.6	22.0		23.5	29.8	
Imports	33.4	40.6	39.1			34.6	37.0	37.4	37.5	36.5	36.3		36.0	48.1	
Net current transfers (negative = inflow)	-5.3	-8.5	-6.2	-8.0	1.3	-4.0	-5.0	-3.8	-3.6	-3.6	-3.6		-2.8	-2.1	-2.5
o/w official	-1.4	-4.0	-2.0			-0.3	-1.5	-0.3	-0.3	-0.2	-0.2		-0.2	0.2	
Other current account flows (negative = net inflow)	1.8	1.7	1.9			2.1	2.1	2.0	1.9	1.7	1.8		-0.8	-0.9	
Net FDI (negative = inflow)	**-4.0**	**-4.3**	**-7.8**	**-4.7**	**1.5**	**-6.8**	**-6.7**	**-7.5**	**-7.7**	**-8.3**	**-8.3**		**-6.1**	**-5.6**	-6.0
Endogenous debt dynamics 2/	**-1.8**	**0.9**	**-3.6**			**-0.9**	**-1.1**	**-1.3**	**-1.4**	**-1.3**	**-1.3**		**-1.3**	**-1.2**	
Contribution from nominal interest rate	0.2	0.3	0.5			0.3	0.4	0.5	0.4	0.6	0.6		0.8	0.9	
Contribution from real GDP growth	-1.1	-1.7	-0.9			-1.3	-1.5	-1.8	-1.8	-1.9	-2.0		-2.1	-2.0	
Contribution from price and exchange rate changes	-0.9	2.3	-3.2			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**0.1**	**-2.5**	**-4.3**			**-1.9**	**-3.4**	**-3.7**	**-4.0**	**-2.0**	**-1.6**		**-1.5**	**-8.7**	
o/w exceptional financing	0.1	0.0	0.0			0.1	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	21.6			21.9	22.9	24.4	25.5	27.3	28.9		31.4	30.5	
In percent of exports	...	...	92.7			96.2	103.0	110.9	116.8	125.9	131.6		133.5	102.4	
PV of PPG external debt	**...**	**...**	**11.2**			**11.7**	**12.8**	**14.5**	**16.1**	**18.3**	**20.4**		**22.4**	**20.6**	
In percent of exports	**...**	**...**	**47.9**			**51.3**	**57.7**	**65.7**	**73.8**	**84.5**	**92.7**		**95.2**	**69.1**	
In percent of government revenues	**...**	**...**	**83.7**			**89.5**	**85.1**	**100.1**	**108.0**	**120.2**	**132.7**		**125.3**	**103.7**	
Debt service-to-exports ratio (in percent)	**4.9**	**4.5**	**6.6**			**5.1**	**5.3**	**5.9**	**6.6**	**7.3**	**7.6**		**7.7**	**8.4**	
PPG debt service-to-exports ratio (in percent)	**2.5**	**2.5**	**2.2**			**1.4**	**1.7**	**2.4**	**2.1**	**2.5**	**3.0**		**3.4**	**4.3**	
PPG debt service-to-revenue ratio (in percent)	**4.3**	**3.5**	**3.9**			**2.5**	**2.4**	**3.7**	**3.1**	**3.6**	**4.3**		**4.4**	**6.4**	
Total gross financing need (Billions of U.S. dollars)	1.1	1.4	1.0			1.0	1.5	1.9	2.1	1.9	1.9		2.5	19.1	
Non-interest current account deficit that stabilizes debt ratio	5.7	5.8	15.7			9.6	11.2	12.4	13.2	11.7	11.3		9.0	15.5	
Key macroeconomic assumptions															
Real GDP growth (in percent)	5.8	6.7	3.4	7.1	2.0	5.3	6.0	7.0	7.0	7.0	7.0	6.5	7.0	7.0	7.0
GDP deflator in US dollar terms (change in percent)	4.2	-8.3	11.9	4.9	7.3	5.7	2.3	1.4	1.4	1.8	2.0	2.4	3.8	2.8	3.7
Effective interest rate (percent) 5/	1.1	1.3	2.0	2.0	0.9	1.4	1.5	1.9	1.5	2.1	2.3	1.8	2.7	3.0	2.8
Growth of exports of G&S (US dollar terms, in percent)	13.7	6.7	20.4	21.2	10.4	8.5	5.9	7.5	7.7	7.9	10.7	8.0	13.0	14.0	13.2
Growth of imports of G&S (US dollar terms, in percent)	6.6	18.8	11.4	17.8	11.7	-1.2	15.7	9.8	8.7	6.0	8.5	7.9	12.5	15.1	13.1
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	30.2	8.0	2.5	2.4	-2.0	-3.1	6.4	8.2	-0.5	1.5
Government revenues (excluding grants, in percent of GDP)	12.2	16.2	13.3			13.0	15.0	14.5	14.9	15.2	15.3		17.9	19.9	18.3
Aid flows (in Billions of US dollars) 7/	0.8	0.7	0.8			0.8	0.6	0.6	0.6	0.6	0.6		0.9	0.9	
o/w Grants	0.4	0.4	0.4			0.4	0.4	0.3	0.3	0.3	0.3		0.2	-0.3	
o/w Concessional loans	0.4	0.3	0.3			0.4	0.3	0.3	0.3	0.3	0.3		0.6	1.2	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			2.4	1.7	1.4	1.1	0.9	0.7		0.6	-0.2	0.3
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			60.9	44.9	32.9	27.7	19.5	16.5		22.0	-8.9	8.2
Memorandum items:															
Nominal GDP (Billions of US dollars)	17.2	16.8	19.5			21.7	23.5	25.5	27.7	30.1	32.9		55.5	156.4	
Nominal dollar GDP growth	10.3	-2.2	15.8			11.4	8.4	8.5	8.5	8.9	9.2	9.1	11.0	10.0	11.0
PV of PPG external debt (in Billions of US dollars)			2.2			2.5	3.0	3.7	4.4	5.5	6.6		12.2	31.8	
(PVt-PVt-1)/GDPt-1 (in percent)						1.3	2.2	2.9	3.0	3.8	3.9	2.8	2.3	1.9	2.4
Gross workers' remittances (Billions of US dollars)	0.7	0.8	0.8			0.8	0.8	0.9	0.9	1.0	1.1		1.8	4.5	
PV of PPG external debt (in percent of GDP + remittances)	...	...	10.7			11.3	12.4	14.0	15.6	17.7	19.7		21.7	20.0	
PV of PPG external debt (in percent of exports + remittances)	...	...	40.6			44.2	49.8	56.8	63.9	73.2	80.5		83.9	63.1	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	1.9			1.2	1.4	2.1	1.8	2.2	2.6		3.0	3.9	

SourcesUgandan authorities and IMFstaff 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 2a.Uganda: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2013–2033 (In percent)

	Projections							
	2013	2014	2015	2016	2017	2018	**2023**	2033
PV of debt-to GDP ratio								
Baseline	12	13	14	16	18	20	**22**	21
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	12	10	8	6	6	7	**13**	-12
A2. New public sector loans on less favorable terms in 2013-2033 2	12	13	16	18	21	24	**29**	31
A3. Oil sector development starting from FY2013/14	12	13	16	19	20	22	**-15**	-46
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	12	13	15	16	19	21	**23**	21
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	12	14	17	19	21	23	**24**	21
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	12	13	16	17	20	22	**24**	22
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	12	15	19	20	22	24	**25**	21
B5. Combination of B1-B4 using one-half standard deviation shocks	12	13	14	15	18	20	**22**	20
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	12	18	20	23	26	29	**31**	29
PV of debt-to-exports ratio								
Baseline	51	58	66	74	84	93	**95**	69
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	51	44	34	26	28	32	**56**	-39
A2. New public sector loans on less favorable terms in 2013-2033 2	51	59	71	83	97	110	**124**	102
A3. Oil sector development starting from FY2013/14	51	57	74	85	91	92	**-50**	-138
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	51	57	65	73	84	92	**94**	68
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	51	64	88	96	107	115	**112**	77
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	51	57	65	73	84	92	**94**	68
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	51	68	85	92	102	109	**105**	70
B5. Combination of B1-B4 using one-half standard deviation shocks	51	55	57	64	74	82	**85**	63
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	51	57	65	73	84	92	**94**	68
PV of debt-to-revenue ratio								
Baseline	89	85	100	108	120	133	**125**	104
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	89	65	52	38	40	46	**73**	-59
A2. New public sector loans on less favorable terms in 2013-2033 2	89	87	107	121	139	157	**164**	153
A3. Oil sector development starting from FY2013/14	88	85	119	124	134	137	**-54**	-205
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	89	85	102	110	122	135	**126**	104
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	89	91	121	127	137	149	**133**	105
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	89	88	108	116	129	143	**134**	111
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	89	101	129	135	145	155	**138**	106
B5. Combination of B1-B4 using one-half standard deviation shocks	89	85	94	103	115	128	**122**	103
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	89	119	140	151	168	186	**174**	144

Table 2a. Uganda: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2013–2033 (continued)

Debt service-to-exports ratio

Baseline	1	2	2	2	3	3	**3**	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	1	2	2	1	1	1	**2**	1
A2. New public sector loans on less favorable terms in 2013-2033 2	1	2	2	2	3	3	**5**	6
A3. Oil sector development starting from FY2013/14	1	2	2	2	3	3	**0**	-4
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	1	2	2	2	3	3	**3**	4
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	1	2	3	3	3	4	**4**	5
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	1	2	2	2	3	3	**3**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	1	2	3	3	3	4	**4**	5
B5. Combination of B1-B4 using one-half standard deviation shocks	1	2	2	2	2	3	**3**	4
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	1	2	2	2	3	3	**3**	4

Debt service-to-revenue ratio

Baseline	2	2	4	3	4	4	**4**	6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	2	2	3	2	2	2	**3**	1
A2. New public sector loans on less favorable terms in 2013-2033 2	2	2	3	3	4	5	**6**	9
A3. Oil sector development starting from FY2013/14	2	2	4	4	4	5	**0**	-6
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	2	2	4	3	4	4	**5**	7
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	2	2	4	4	4	5	**5**	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	2	3	4	3	4	5	**5**	7
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	2	2	4	4	4	5	**5**	7
B5. Combination of B1-B4 using one-half standard deviation shocks	2	2	4	3	3	4	**4**	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	2	3	5	4	5	6	**6**	9
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	-4	-4	-4	-4	-4	-4	**-4**	-4

Sources: Ugandan authorities and 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 assuming an 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 2b. Uganda: Sensitivity Analysis for Key Indicators of Public Debt 2013–2033

	Projections							
	2013	2014	2015	2016	2017	2018	2023	2033
PV of Debt-to-GDP Ratio								
Baseline	25	26	27	29	32	35	34	34
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	25	24	22	21	21	22	26	48
A2. Primary balance is unchanged from 2013	25	26	26	26	28	29	39	68
A3. Permanently lower GDP growth 1/	25	26	28	30	33	37	39	50
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	25	26	29	31	34	38	39	41
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	25	26	27	29	32	35	34	33
B3. Combination of B1-B2 using one half standard deviation shocks	25	25	25	27	30	34	34	35
B4. One-time 30 percent real depreciation in 2014	25	30	32	34	37	40	39	40
B5. 10 percent of GDP increase in other debt-creating flows in 2014	25	37	38	40	42	45	41	38
PV of Debt-to-Revenue Ratio 2/								
Baseline	167	154	173	184	198	217	188	170
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	167	144	142	133	132	133	140	242
A2. Primary balance is unchanged from 2013	167	155	164	164	172	182	212	347
A3. Permanently lower GDP growth 1/	167	155	175	188	205	227	215	253
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	167	156	180	194	211	233	212	207
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	167	158	170	181	195	214	186	169
B3. Combination of B1-B2 using one half standard deviation shocks	167	151	158	171	186	207	185	176
B4. One-time 30 percent real depreciation in 2014	167	184	203	213	226	246	214	204
B5. 10 percent of GDP increase in other debt-creating flows in 2014	167	224	243	251	261	276	227	191
Debt Service-to-Revenue Ratio 2/								
Baseline	48	40	42	41	40	43	28	29
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	48	40	41	39	38	40	24	31
A2. Primary balance is unchanged from 2013	48	40	42	41	40	42	28	38
A3. Permanently lower GDP growth 1/	48	40	42	41	41	44	30	35
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	48	40	43	42	42	45	30	32
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	48	40	42	41	40	43	28	29
B3. Combination of B1-B2 using one half standard deviation shocks	48	40	42	41	40	43	28	29
B4. One-time 30 percent real depreciation in 2014	48	40	43	42	42	45	31	34
B5. 10 percent of GDP increase in other debt-creating flows in 2014	48	40	45	44	43	46	32	31

Sources: Country authorities; and 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. Risk Assessment Matrix and Vulnerability to External Shocks[1]

A. Risk Assessment Matrix

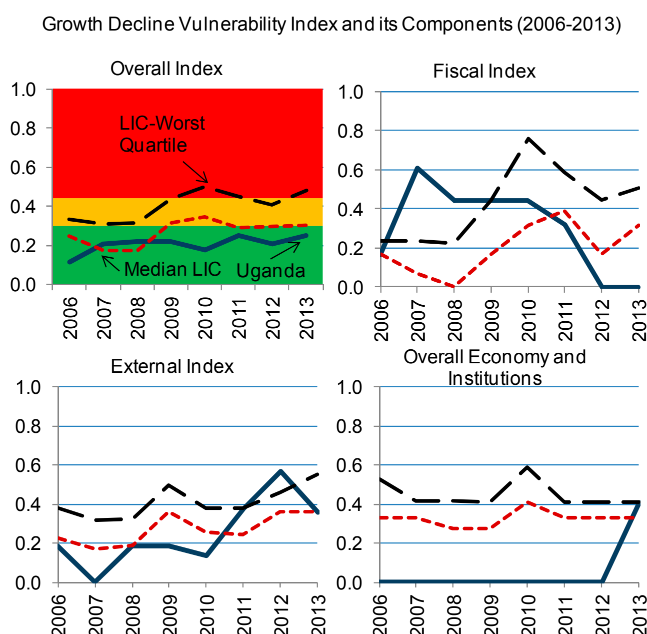
Likelihood	Shock	Vulnerabilities	Potential Impact	Policy Response
Medium	Deeper EMs slowdown (synchronized growth shock triggered by financial sector stress and/or setbacks in fiscal and structural reforms)	Exposure to weak external demand, falling commodity prices (commodities constitute ¾ of exports), and declining FDI (7¾% of GDP) and remittances (3.9% of GDP).	Medium: Growth would slowdown in the near-term, which could lead to permanent output losses. Reserves would fall, but probably remain adequate, as weaker exports, FDI, and remittances would be, partly offset by declining imports, including on account of lower oil prices.	Continued exchange rate flexibility coupled with moderate fiscal easing (allowing for full operation of automatic stabilizers) to limit the impact on growth while preserving external stability. Use of existing fiscal space to frontload spending in public investment. Ease monetary policy somewhat (facilitated by weakening commodity prices and the widening output gap) to alleviate output losses.
Medium	Delays in addressing governance issues resulting in deferrals in the normalization of government's relations with donors	Vulnerability of the external accounts to a protracted suspension of budget support in place since October following misappropriation of public resources.	High: If budget support is not replaced by project financing, resort to excessive domestic borrowing would crowd out the private sector. A negative impact on investor confidence could trigger capital outflows, hurting external balances and generating hard-to-manage pressures on the exchange rate.	A forceful fight against corruption is crucial, and should include anti-money laundering components. A persistent aid shock would call for fiscal adjustment and greater exchange rate flexibility. Prioritization of spending in favor of key infrastructure projects and social expenditures would lessen the adverse impact on long-run growth and poverty. Non-concessional debt could be raised (while preserving debt sustainability) to limit cuts on capital spending. Raising revenue and enhancing PFM would be key structural priorities.
Medium	Constraints on technical implementation capacity affecting key infrastructure projects.	Risk of delaying growth recovery, reflecting Uganda's weak track record of budget execution, and complicated procurement processes.	Medium: A delay in infrastructure projects would significantly weaken growth and lead to a pro-cyclical fiscal stance, complicating ex-post coordination of monetary and fiscal policy.	Weakening growth would abate price pressures, creating room for additional monetary easing and calling for vigilance in coordinating monetary and fiscal policies. Key structural priorities would be to enhance budget credibility, strengthen implementation capacity, address governance problems, and protect the poor.
Low	Global oil shock due to geopolitical events (driving oil prices to $140 per barrel)	Exposure to a deterioration of the external position, as oil imports account for 4.9 percent of GDP.	Low: The shock would worsen the external balance sharply while having limited impact on growth and inflation. The reserve buffer could absorb the shock.	Continuation of full pass-through of global fuel prices to retail prices would ensure no impact on the fiscal balance. Greater exchange rate flexibility would help maintain external stability and limit reserve losses.
Low	Global food price increase caused by supply shocks	With food accounting for about one-third of the consumption basket, the poor would be hard hit.	Medium: Pressures on inflation and demands for higher subsidies may emerge. The external balance impact would be positive (Uganda is a net food exporter).	Careful monitoring of second-round effects on inflation and readiness to tighten monetary policy to counter pressures on core inflation. Reliance on a well-targeted social safety net to cushion the impact on poor would be an essential policy response.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline. The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with authorities.

B. Vulnerability to Exogenous Shocks[1]

1. **Uganda's vulnerability to a growth crisis remains low**.[2] The recent rebuilding of fiscal and external buffers has helped reduce vulnerabilities despite the weakening economy.

2. **A tail risk shock to global growth driven by a persistent hard landing in emerging markets**. Under such a scenario, a reduction in world growth by 1¾ percentage points in 2013 would shave off Uganda's growth by about 0.6 percent. The shock would propagate mainly through trade of goods and services (weakening external demand, declining commodity prices, and falling remittances), and also through the capital account (lower FDI for ongoing telecommunications, banking and oil projects, and diminishing foreign exchange inflows). The deterioration in the external position caused by these factors would be partially offset by lower imports on account of weakening growth and a declining oil bill. While international reserves are high enough to fully absorb this shock, the associated output losses would widen the fiscal deficit by ¼–½ percent of GDP over time, which would call for policy adjustment.



3. **Global oil shock triggered by geopolitical events (driving oil prices to $140 per barrel).** Under such a shock, external balances would deteriorate significantly, reducing the reserve coverage by about ½ months of imports, while the impact on growth and inflation would be limited (headline inflation is projected increase by 2–3 percentage points).

4. **Global food price increase caused by supply shocks (driving food and beverage prices up by 40 percent).** As Uganda is a net food exporter, the external balance would improve and reserve coverage would increase by about 0.4 months of imports. However, the impact on inflation and poverty would be substantial. Under this shock, headline inflation would rise by 8–9 percentage points, reflecting the high food share in the consumption basket (roughly one-third).

[1] Prepared by Yasemin Bal-Gündüz.

[2] A growth decline vulnerability index (GDVI) was introduced as part of IMF's Vulnerability Exercise for LICs (VE-LIC), to assess vulnerabilities and emerging risks arising from changes in the external environment (see Dabla-Norris and Bal Gündüz, 2012, the IMF Working Paper WP/12/264, and the IMF Policy Paper "Managing Volatility-A Vulnerability Exercise for Low-Income Countries", 2011). A growth crisis is defined as a country having negative per capita real GDP growth in the year of the shock and below-trend output per capita level in two post-shock years.

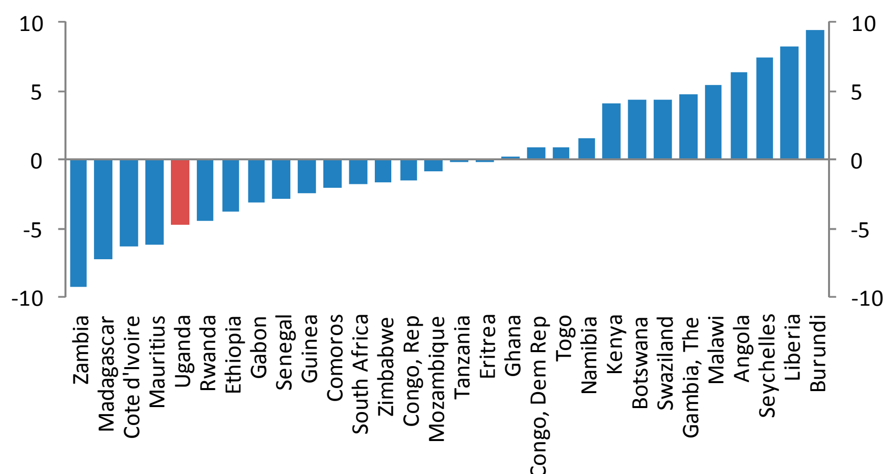
Annex III. Strengthening Revenues in Uganda: Challenging but Necessary[1]

Tax Policy

It has often been argued that many of Uganda's structural features as a small landlocked country with large agricultural and informal sectors have made it harder to close the revenue gap with neighboring countries. However, a comparison with other SSA countries shows that Uganda's tax gap cannot be fully explained by several features typically thought to affect the tax yield such as the share of rural population, the contribution of natural resources to GDP, the share of manufacturing to total value-added. As Figure 1 shows, even after controlling for these country features in a simple regression framework, Uganda stills faces one of the highest revenue gaps among SSA countries.

Figure 1: Tax Gap in selected SSA countries

(Revenue gap as a percent of GDP)



Source: WDI, AFR REO database

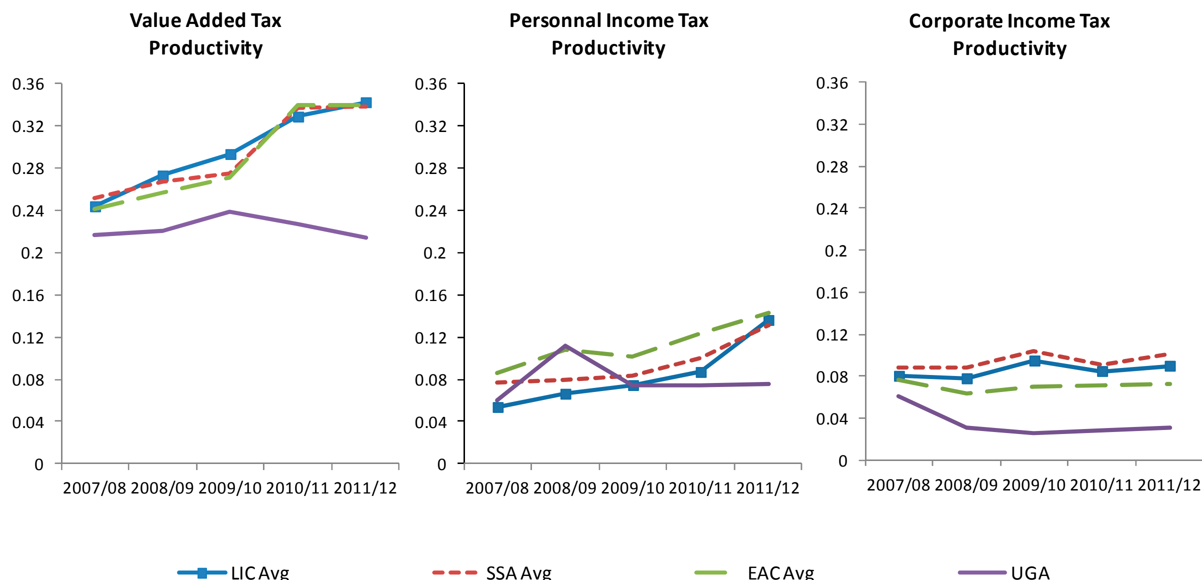
A gap in revenue collection is present for all the major taxes, but especially for the value-added tax (VAT). Figure 2 shows productivity indicators for the VAT, the personal income tax (PIT) and the corporate income tax (CIT) for Uganda and averages for groups of comparator countries.[2] Whereas low-income countries across the world and countries in SSA and the EAC have on average seen productivity gains in all major tax categories, the productivity levels of Uganda's major taxes have failed to grow.

---

[1] Prepared by Philippe Wingender.

[2] These productivity indicators are calculated by dividing the tax yield as a percent of GDP by the headline rate for each tax. For example, if VAT revenues are 10% of GDP and the standard rate is 20%, then the VAT productivity is 0.50.

Figure 2: Productivity of Various Taxes



Source: USAID Collecting Taxes database

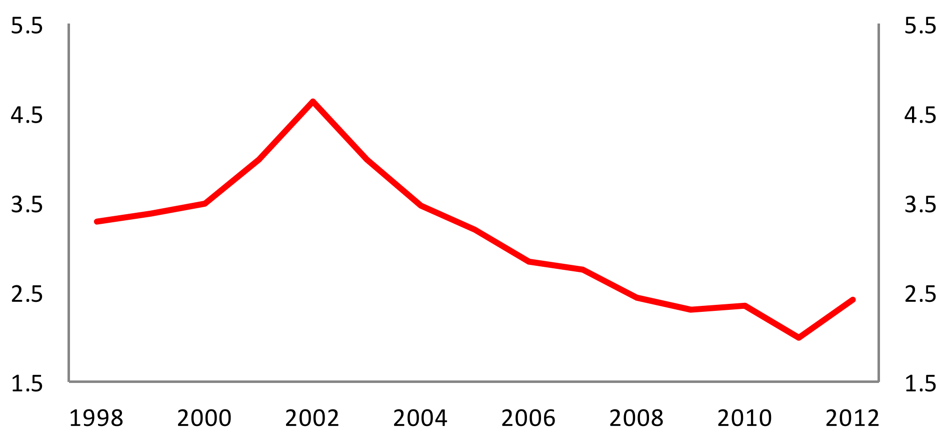
Because it is a tax on consumption, the VAT is an ideal candidate for increasing revenue while maintaining competitiveness and promoting growth through savings and investment. When originally implemented, the VAT was well designed and in line with international standards. Revenue yields steadily improved until 2009, but since then, the VAT's efficiency has been declining and is today something closer to a manufacturer's turnover tax. Of particular concern is the large number of exemptions for intermediate inputs.

Tax Administration

While the tax-to-GDP ratio has remained low, efficiency of the Uganda Revenue Authority (URA) has improved. The cost of collection ratio—defined as the ratio of the URA's annual budget to total collections—has decreased by close to 50 percent compared to its peak of 2002. Key tax administration gains included the re-establishment of a large-taxpayers unit, the strengthening of tax and customs administration operations, and a vast computerization effort. However, as with many other countries at a similar stage of development, tax abuse is eroding revenue. Informality, failure by taxpayers to file and pay on time, under-reporting of income and over-claiming of deductions, aggressive tax planning, and tax fraud contribute to low revenue yields.

Figure 3: URA's Cost of collection

(In percent of collections)



Source: USAID Collecting Taxes; Uganda Authorities

Going forward, continued URA reform will play a crucial role in increasing the tax-to-GDP ratio. This will require developing comprehensive risk-based approaches to improving tax compliance as well as intensifying collaboration and information exchange, both within the URA, with other government agencies, and with EAC partners. It will also be important to keep building capacity of the workforce to fully exploit the new information technology and to prepare to deal with the complex issues involved in taxing multinational companies once oil revenues come on stream.

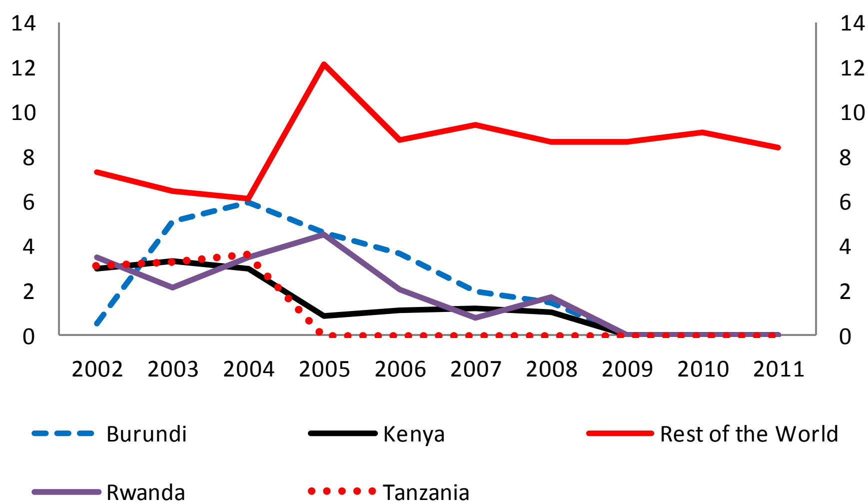
Impact of the EAC Policies

Uganda, Kenya and Tanzania, later joined by Burundi and Rwanda, adopted a common external tariff (CET) and a free trade agreement within a customs union. The introduction of the CET among these countries, however, meant an increase in tariffs for Uganda's trade with the rest of the world.

The EAC free trade agreement did not have a sizeable impact on Uganda's international trade tax revenues. Effective tariffs were already low (average of around 3 percent) and the share of imports coming from EAC countries is relatively low and declining in importance (12 percent of total imports in 2011). Surprisingly, the increase in tariffs with the rest of the world did not lead to any permanent increase in trade tax revenue.

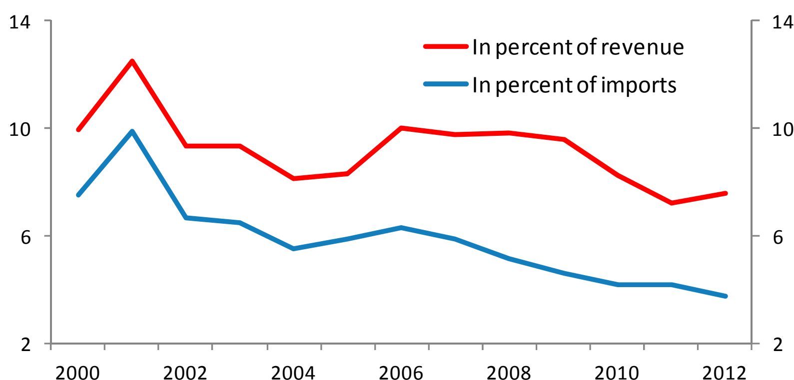
Figure 4: Uganda Average Effective Tariffs

(Percent)



Source: WITS database

Figure 5: Uganda Trade Taxes



Source: Ugandan Authorities

Promotion of intra-regional trade has been complicated by requests for exemptions, difficulties in the harmonization of rules of origin (because most EAC countries are also members of other trade groups, like COMESA, SADC and ECCAS), and imposition of non-tariff barriers. The latter include differences in imports and exports standards, cumbersome documentation requirements, weighbridges, police roadblocks, and unnecessary delays at border posts. Uganda's performance in the "Trading across Borders" indicator is still poor.

Box 1: Revenue Gap Analysis

The revenue gap analysis is performed using a simple econometric model relating total revenue as a percent of GDP to several structural factors considered to be important determinants of this ratio. The analysis is done for 2009. The equation is displayed below along with the values of the estimated coefficients.

$$\widehat{Total\ Revenue}_i = 13.5 + 1.98 * \log(GNI\ per\ capita)_i - 0.16 * Rural\ Population_i + 0.13 * Natural\ Resources_i + 0.25 * Manufacturing_i + 2.76 * Landlocked_i$$

R^2=0.58

The variables $\widehat{Total\ Revenue}$, *Natural Resources* and *Manufacturing* are expressed as a percentage of GDP and *Rural Population* as a percent of total population. Most variables have the expected signs and overall they explain almost 60 percent of total variation in government revenue levels across SSA countries. Interestingly, the point estimate for *Landlocked* is positive and quite large, meaning that on average, landlocked countries have 2.76 percentage points higher revenue than similar countries with access to the sea.

Selected Economic Indicators for SSA Countries, 2009

Country	Total Revenue (Percent of GDP)	GNI per Capita ($US)	Rural Population (Percent Total Population)	Natural Resources (Percent of GDP)	Manufacturing (Percent of GDP)	Landlocked
Angola	35.5	3,590	42.5	38.6	6.1	0
Botswana	32.8	6,270	39.8	2.9	4.2	1
Burundi	26.4	210	89.6	14.8	11.1	1
Comoros	14	740	72	1	4.3	0
Congo, DR	16.8	90	66.8	25.6	5	0
Congo, Rep.	29.1	1,980	37.2	56.2	4.5	0
Cote d'Ivoire	18.3	1,160	50.2	6.8	18.2	0
Eritrea	13.1	290	79.5	0.7	5.7	0
Ethiopia	12	330	83.5	4.1	4	1
Gabon	32.4	7,620	14.6	44.7	4.1	0
Gambia, The	25.1	560	44.1	2.6	5	0
Ghana	22.5	1,190	49.5	8.4	6.9	0
Guinea	16.4	380	65.5	19.2	7.4	0
Kenya	21.2	780	76.8	1.3	11.3	0
Liberia	26.8	240	52.5	13.9	4.3	0
Madagascar	10.8	420	68.7	1.8	14.1	0
Malawi	23	330	84.6	4.3	12.3	1
Mauritius	20.1	7,260	58.1	0	18.8	0
Mozambique	17.8	430	69.2	7.7	13.6	0
Namibia	25.1	4,060	62.7	1	14.7	0
Rwanda	12.8	480	81.4	3.4	6.4	1
Senegal	18.5	1,070	58	2.4	13	0
Seychelles	34.2	10,390	47.1	0	10.7	0
South Africa	26.8	5,730	38.9	4.4	15.2	0
Swaziland	35.4	2,880	78.6	2.1	46.4	1
Tanzania	16.7	500	74.1	6.5	9.5	0
Togo	19	520	62.9	3.9	7.9	0
Uganda	12.5	470	85.2	5.1	8	1
Zambia	15.7	1,070	61.7	19.4	9.7	1
Zimbabwe	21.2	380	62.3	5.1	17.8	1
Average SSA	21.7	2,047	61.9	10.3	10.7	0.3

Source: WDI; AFR REO Database

Annex IV. Inclusive Growth in Uganda: Achievements and Challenges[1]

Key developments

Growth. Uganda has grown well-above the Sub-Saharan Africa average, which has allowed for average gains of 4¼ percent in real per capita income in the past ten years despite the rapidly rising population. The different sectoral growth patterns are leading to a structural transformation of the economy, in which the share of agriculture in GDP and employment is declining, and that of services increasing.

Employment. The ratio of employment to working-age population has increased substantially, but the official unemployment rate has increased from 2 percent in 2005 to 4¼ percent, mostly in urban areas. Total factor productivity has increased, with productivity gains outpacing those of other countries during the growth takeoff period. However, agricultural productivity has not improved, and increases in production are still driven by larger crop area and more abundant labor force.

Poverty. The poverty headcount dropped from 56 percent in 1992 to 25 percent in 2010, allowing early achievement of the Millennium Development Goal of halving poverty by 2015. Progress was made on reducing hunger and addressing gender inequality, but less so on achieving universal primary education. Moreover, 2015 targets on reducing child mortality and improving maternal health are unlikely to be met. Despite some improvements in the war-torn region in the north, poverty also remains very uneven between regions.

Inclusiveness. Despite rising inequality, especially between regions, growth in consumption per capita in the poorest 40 percent of households was relatively high and outpaced growth in all other income groups. This appears to have afforded the most vulnerable groups a significant participation in ongoing economic growth.

Factors behind growth and poverty reduction

Macroeconomic and structural policies. Price stability and sound structural reforms laid the groundwork for sustained growth. Liberalization of key sectors (including foreign exchange and banking), privatization and restructuring (telecommunications and electricity), tax reform and improved banking supervision played a role. Export diversification has been successful particularly in agriculture (where the share of coffee fell from above 50 to 17 percent of total exports between 1996 and 2012).

The role of fiscal policy. Low revenue mobilization undermines capacity for poverty reduction. The Gini coefficient before and after tax is practically the same, showing that the tax system is neutral

[1] Prepared by Clara Mira and Christine Dieterich.

from a redistributive point of view.[2] There is a larger number of taxpayers at the highest income segments, but also a very low average effective tax rate. One third of the budget has been devoted to finance development projects in the last 10 years. Initial emphasis in education and health has been declining in favor of infrastructure, which the authorities expect to provide high returns in terms of poverty reduction.

The role of planning. Following the use of poverty eradication action plans in 1997–2008, Uganda moved to comprehensive planning frameworks with long-term visions. The process of building consensus through a participatory process is positive, but medium-term plans are not consistent with annual budgets.

Structural factors. The decrease in the number of households relying on subsistence farming from about 50 to 40 percent in only 4 years reflects a move to non-farm household enterprises, and a strong growth in formal wage employment (second largest in Africa after Ghana). The number of people entering the labor market each year outnumbered the number of new wage earners by a factor of 4.

Remaining challenges to growth and inclusiveness

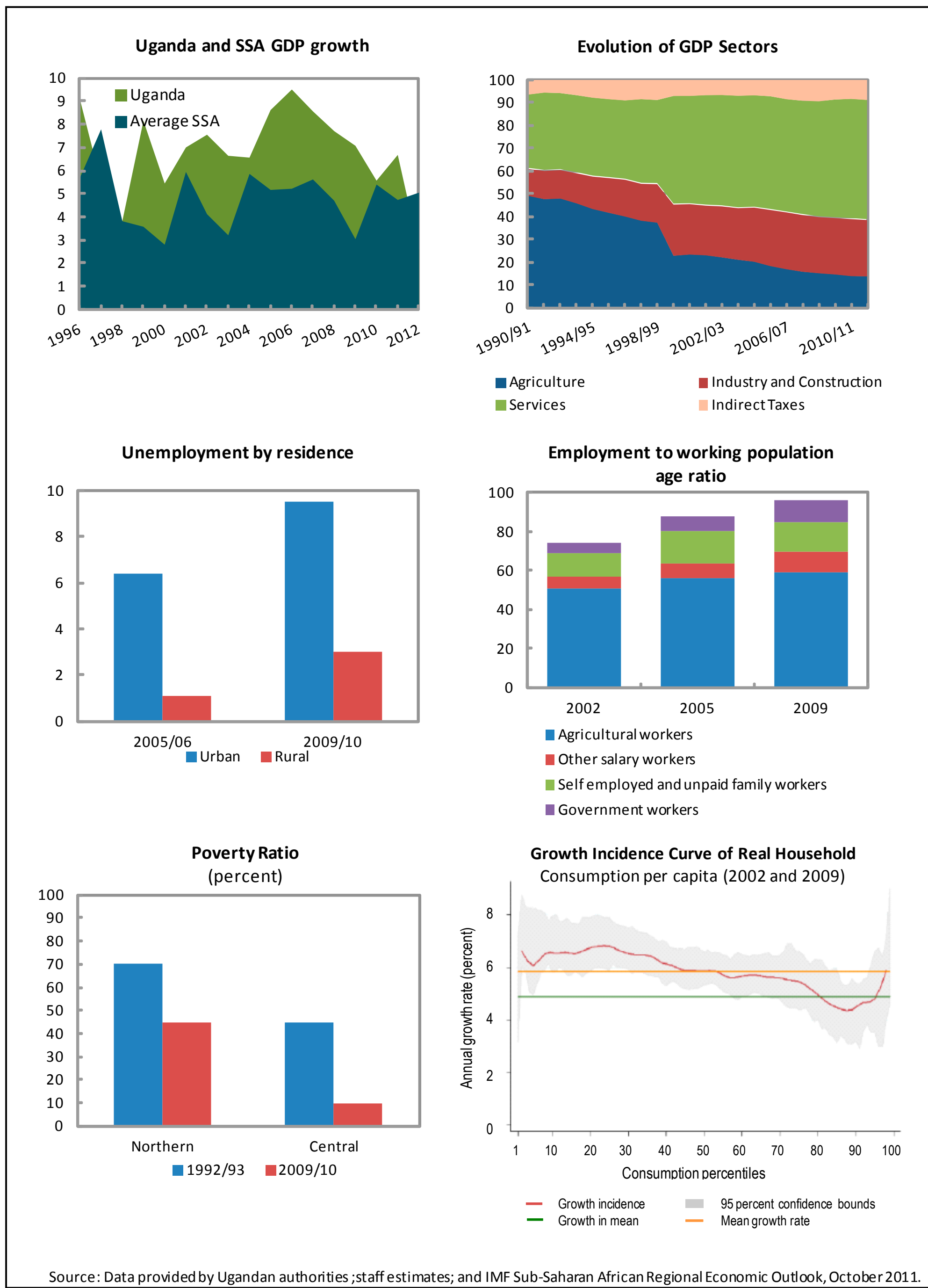
Low productivity in agriculture. Since high population growth constraints access to land, agricultural productivity enhancing measures are required. The sector has suffered from poorly targeted input subsidy schemes and unproductive spending. Improvements in agricultural technologies, better connectivity and strengthening the security of land tenure would contribute to unleashing the sector's potential.

Uneven distribution of public services on education and infrastructure. The quality and access to education differs significantly among regions, being lower in the north. This results in differences in income-earning opportunities and increased inequality. A more even distribution of education, including through vocational training, would make growth more inclusive. Similarly, the rural road system suffers from project under execution and lack of maintenance, which affects transportation of goods and services.

Limited access to financing and regulatory obstacles. Low access to financing results in low capital, rudimentary technology, and low productivity. The agricultural support credit is a step in the right direction. High license fees and permits, collected by local governments, lead to high effective tax rates for non-farm household enterprises, which are also highly regressive (over 50 percent for lower earning enterprises, which is twice the rate for formal sector corporations).

[2] This calculation includes income tax, property tax, user fees and charges, and local service tax and post-tax, as information on these payments is available in the survey questionnaire from the Ugandan Bureau of Statistics (UBOS) Household Survey of 2009/10.

Figure 1. Growth, employment, poverty and inequality in Uganda



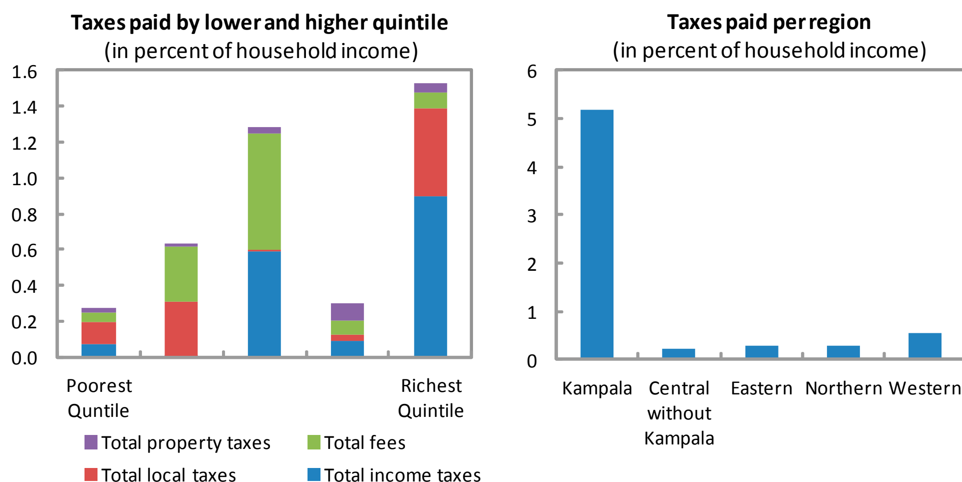
Source: Data provided by Ugandan authorities ;staff estimates; and IMF Sub-Saharan African Regional Economic Outlook, October 2011.

Panel. Fiscal Policy in Uganda—Public Expenditure and Personal Taxes Paid

Public expenditure: sectoral composition

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/2012
	(In percent of GDP)							
Roads & works	2.0	1.5	1.7	1.4	2.3	2.5	2.3	2.6
Agriculture	0.6	0.7	0.7	0.9	0.8	0.8	0.9	0.7
Education	3.9	3.6	3.4	3.1	2.7	2.7	2.9	2.5
Health	2.4	2.3	1.9	1.2	1.3	1.7	1.7	1.4
Public sector management	2.1	2.2	2.1	1.8	1.5	2.3	2.2	2.3
Public administration	1.1	1.1	1.0	1.1	0.6	0.9	1.3	0.7
Interest payments due	1.4	1.4	1.1	1.3	1.2	1.1	1.1	1.2
Total Centre	13.7	12.9	13.4	12.2	11.4	14.6	17.6	13.8
Total Local government	5.0	4.9	4.6	4.5	4.1	3.7	3.8	3.2
Total Interest	1.4	1.4	1.1	1.3	1.2	1.1	1.1	1.2
Grand total	20.1	19.2	18.7	17.6	16.4	19.4	22.5	18.2
	(In percent of total expenditure)							
Roads & works	10.3	7.8	9.1	7.7	13.4	12.5	9.9	13.6
Agriculture	3.3	3.9	3.6	5.2	4.7	4.2	3.9	3.7
Education	19.5	19.4	18.1	17.3	15.6	13.6	12.9	13.1
Health	12.1	12.4	10.4	6.7	7.7	8.6	7.5	7.3
Public sector management	10.5	12.0	11.3	10.1	8.5	11.6	9.8	12.5
Public administration	5.7	5.9	5.3	6.3	3.5	4.6	5.6	3.9
Interest payments due	7.0	7.4	6.0	7.2	6.9	5.6	4.8	6.6
Total Centre	69.2	69.3	72.2	68.4	66.0	74.6	77.4	73.1
Total Local government	25.3	26.5	24.7	25.0	23.6	19.0	16.9	16.9
Total Interest	7.0	7.4	6.0	7.2	6.9	5.6	4.8	6.6

Personal Taxes Paid per Income and Region



Source: Ugandan authorities and staff estimates.

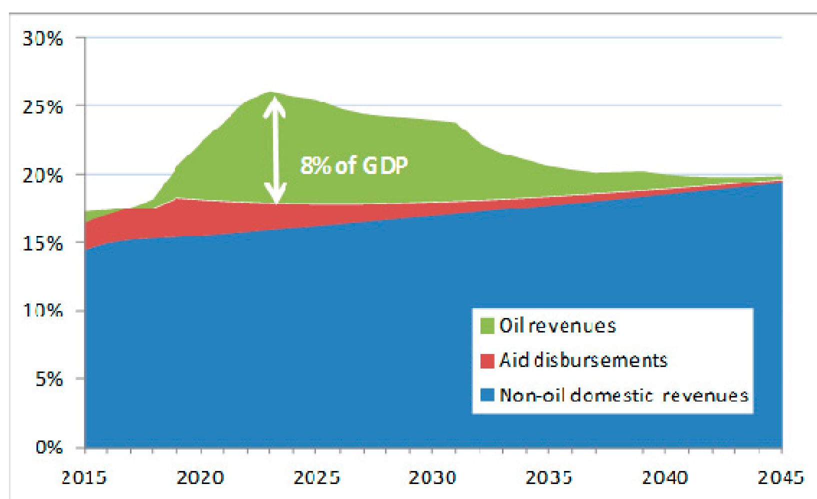
Annex V. Oil Revenues in Uganda: From Resource Wealth to Growth[1]

Oil production

The existence of potentially commercial oil fields in Uganda was confirmed in 2006. Although development of the sector has been marked by delays and uncertainty, oil exploration activities have continued in the Albertine Graben in western Uganda and current reserves are estimated at 3.5 billions of barrels. This places Uganda among the 30 largest in the world and fourth in SSA behind Nigeria, Angola and South Sudan. Negotiations with the oil companies over the development of the sector have progressed in recent weeks but uncertainty remains about the volume, costs and timing of production.

The current fiscal regime for the petroleum sector in Uganda is based on production sharing agreements (PSA) for specific exploration areas. Under these arrangements, oil companies are contracted by Government and are compensated through a specified share in production. Although the PSAs differ in their terms, they rely on broadly the same main components: (i) royalty payments with rates that vary according to the total daily rate of production; (ii) contractors are able to recover their costs from total oil production after paying royalties; (iii) the remaining oil, termed "profit oil', is split between the contractor and the government; (iv) contractors pay the corporate income tax at a rate of 30 percent on their share of profit oil after allowable tax deductions.[2]

Figure 1: Sources of revenue in Uganda (percent of GDP)



Preliminary estimates suggest that oil could account for close to 15 percent of Uganda's GDP, and over 50 percent of total government revenues at peak production. Oil reserves are currently

[1]Prepared by Philippe Wingender.

[2]A recent paper by the Fiscal Affairs Department titled "Fiscal Regimes for Extractive Industries—Design and Implementation" addresses the complex tradeoffs in designing optimal fiscal regimes in developing countries.

expected to last for around 30 years and offer a unique opportunity to raise income levels. However, the substantial size of oil revenues combined with their short duration and inherent volatility will pose significant challenges for macroeconomic management.

Challenges

Uganda faces the challenge of transforming resource wealth into other assets that support sustained development and growth. As a low income country, Uganda faces specific challenges such as low per capita incomes, scarcity of domestic capital and limited access to international capital markets. Resource revenues are an opportunity to make progress on key development goals, such as poverty reduction, infrastructure and growth. Development policy should steer public investment towards building human capital, domestic public and private capital, and foreign financial assets.

Natural resource wealth creates a specific set of challenges. These include price volatility which complicates fiscal planning because it leads to volatile revenue. Optimal management of the country's resources will require the adoption of sound fiscal rules to limit pro-cyclicality of fiscal policy because volatile government spending is less effective and productive. Moreover, higher macroeconomic volatility is a main channel for the growth-damaging "resource curse". Prudent fiscal policy should aim to de-link expenditures from volatile resource revenues to avoid the boom-bust cycles.[3] In the 2012 Oil and Gas Revenue Management Policy, the Ministry of Finance announced its plan to invest all revenues from the oil sector in a sovereign wealth fund and to use the non-oil and non-grant balance as a fiscal anchor, coupled with a limit in the growth of Government expenditures. Such a rule if implemented in a consistent manner would help mitigate the adverse effects of volatility of natural resource revenues.

Given the size of Uganda's oil reserves, the country must also consider carefully the exhaustibility of its resources. This raises the important issues of sustainability and intergenerational equity which will require smoothing government consumption over time. A sustainable fiscal framework should allow for a gradual drawdown of financial assets to build human and physical capital to deliver permanent gains in non-resource revenues. However, public investment should only be front-loaded once implementation capacity and fiscal transparency have been strengthened to avoid misuse. To ensure a balanced growth path in the long run and avoid the need for massive fiscal adjustment once resource wealth has been depleted, Government has announced that it will revert to only spending the interest accumulating on the Petroleum Fund's assets—similar to a Permanent Income Hypothesis-based rule—after an initial period of ramp up in infrastructure.

[3]A recent IMF board paper on "Macroeconomic Policy Frameworks for Resource-Rich Developing Countries" addresses these issues in detail and develops new macro-fiscal frameworks and policy analysis tools for low income countries such as Uganda.

Preparing to manage the oil wealth

Uganda needs to "invest in investing" by building capacity for public and private investment and by reducing the unit cost of capital. Capacity for public investment depends crucially on appraisal, selection, implementation and evaluation of investment projects. Government must prioritize this area for reform. Sustainable public investment must also make room to fund recurrent costs (operation and maintenance) of a higher public capital stock, so that the growth benefits can last. Public investment such as schools and hospitals for example require higher recurrent spending to be made productive. Capacity for private investment depends on the business environment. To this end, government must tackle corruption, improve infrastructure, and ensure fair rules of the game investors with a fair judicial system and a minimum of red tape. It is also important to enhance the financial sector's effectiveness.

The importance of sound institutions cannot be overemphasized. Resource wealth can undermine institutions by promoting rent-seeking and corruption, risking dissipation of government savings and poor investment quality. Resource-rich countries with stronger economic and political institutions tend to have better macroeconomic and growth performance. Fiscal institutions need to ensure the transparent and efficient use of resource wealth. It will therefore be crucial for the Public Financial Management Bill to reflect international best practice and for government to improve its cash management and budget processes before oil revenues start flowing in Uganda.

Government will need to develop a comprehensive communication strategy to enhance transparency and manage expectations. Some of the challenges will include increased pressures on Government to deliver on public services and account for oil revenues as well as unrealistic expectations on wealth prospects shifting private consumption patterns. To this end, staff welcomes the authorities' intention to join the Extractive Industries Transparency Initiative (EITI). Government will also have to resist temptation to borrow against future oil revenue to finance unsustainable increases in public consumption. While increased demand for non-tradables and appreciation of the shilling cannot be avoided, well-designed policies can increase productivity and preserve competitiveness. There is considerable scope, for example, to lower production costs through investment in public infrastructure, skills training, and reforms to land and other input markets.

Appendix I. Uganda: Letter of Intent

Kampala, Uganda
June 13, 2013

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

Dear Ms. Lagarde:

On behalf of the Government of Uganda, I would like to provide you with an update on the progress we have achieved under our economic program supported by the IMF's Policy Support Instrument (PSI). Economic growth has been stronger than expected, inflation has been reduced close to our 5 percent medium-term target, credit growth is accelerating, and the external position has been strong enough to allow an accumulation of reserves significantly higher than programmed. In light of these favorable developments, and in consideration that all December 2012 quantitative assessment criteria under the program were met, we request completion of the sixth and final review under our PSI-supported program.

Going forward, we have developed a strong program of economic reform aimed at achieving broad-based growth, generating employment, and eradicating mass poverty. Specific measures will center on maintaining macroeconomic stability, improving public financial management, raising revenue, improving the business climate, preparing the economy for oil production and revenue, and completing the transformation towards full-fledged inflation targeting. To assist us in carrying out this ambitious reform agenda, the government of Uganda wishes that our existing PSI arrangement, which runs to August 10, 2013, be cancelled, and that a new three-year PSI-supported program be approved in support of our reform agenda.

The attached Memorandum of Economic and Financial Policies (MEFP) sets out Government's objectives for the three-year PSI-supported program, and provides details of the policies to be pursued in the first year. Government believes the policies set forth in the MEFP are fully sufficient to achieve the objectives of our PSI-supported program, but as always we stand ready to take any further measures that may become appropriate for this purpose.

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

Sincerely yours

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

Attachments
Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

Attachment 1. Memorandum of Economic and Financial Policies

This Memorandum of Economic and Financial Policies lays out Government's objectives for the next three years, and provides details of the policies Government intends to implement over the next year to stimulate growth and job creation while maintaining overall macroeconomic stability.

I. Performance Under the Current PSI

1. The objective of macroeconomic policy under the current three-year PSI was to ensure that the economy could adjust to a much less benign external economic environment following the global crisis and could sustain broad-based growth. Key policy reforms to achieve these objectives included a re-orientation of budgetary resources towards growth-promoting public investment and the modernization of the central bank's monetary policy framework. Despite several shocks—including a severe food price shock in 2011 and the suspension of budget support by donors in 2012—progress has been made. Economic growth is recovering, inflation has been brought down to close to the policy target and the balance of payments has been restored to surplus.

2. All quantitative assessment criteria for the sixth PSI review have been met. Fiscal performance for the first half of 2012/13 was in line with program projections and the ceiling on net claims on government by the banking system was observed. The ceiling on net domestic assets was met and the floor on the stock of net international reserves of the Bank of Uganda (BoU) was exceeded by a substantial margin. The indicative target on the increase in base money was not met, but this did not pose any risks to inflation control. All indicative targets for end-March 2013 were achieved.

II. Recent Economic and Policy Developments

3. **Economic growth** was stronger than expected over the first half of FY2012/13 indicating that the economy has begun to recover from the recent supply side shocks. For FY 2012/13 as a whole, the economy is expected to expand by 5.3 percent—a full percentage point more than our previous projection and significantly higher than the 3.4 percent recorded in 2011/12. Growth has been broad based, with the largest contributions coming from telecommunications, construction, services and manufacturing. Aggregate demand has been boosted by, inter alia, an increase in net exports, while aggregate supply has benefitted from the expansion in electricity generating capacity arising from the commissioning of the Bujagali hydropower facility and from better agricultural harvests.

4. **Annual headline and core inflation** have both fallen sharply in the first 11 months of the fiscal year, as a result of the dissipation of supply side shocks and the much slower growth in domestic demand, which was brought about by a tightening of monetary policies. The BoU policy rate—the cCntral Bank Rate (CBR)—which is the operating target of monetary policy under the inflation targeting lite (ITL) monetary policy framework, was raised from 13 percent in July 2011

(when it was first introduced) to 23 percent in October 2011. As inflationary pressures subsided, the CBR was reduced gradually, beginning in February 2012. It stood at 12 percent between December 2012 and May 2013, and was reduced to 11 percent in June 2013 as inflation remained at low levels. In May 2013 annual headline and core inflation stood at 3.6 percent and 5.6 percent respectively, compared to 18 percent and 19.6 percent in June 2012.

5. **Private sector credit growth** is projected at about 15 percent for 2012/13, compared to 11 percent in 2011/12. Credit growth up to March was entirely attributable to foreign currency lending. In contrast, domestic currency lending stagnated because of a combination of high lending rates and structural factors, including the recent closure of the Land Registry, which administers the land titles needed for loan collateral. With the resolution of these issues, domestic currency lending is now showing signs of recovery.

6. **The banking sector** is in a healthy financial condition, recording strong profits in 2012, in part because of high net interest margins. Non-performing loans edged up to 4.2 percent of total loans at end-December 2012, but the banks' capital position remained very strong, with core capital for the banking system as a whole standing at 18.8 percent of risk weighted assets. At the beginning of March 2013, the statutory increase in the minimum paid up capital of banks from Shs 10 billion to Shs 25 billion took effect, with all 24 banks in operation now in compliance.

7. **The BOP** has been stronger than expected because of a decline in the current account deficit and larger than projected net capital inflows. The current account deficit is projected to fall to 9.3 percent of GDP (10.4 percent excluding project grants) in 2012/13 from 13 percent of GDP in 2011/12 (12 percent excluding project grants), mainly because of a reduction of imports and stronger export growth. As a result of the large overall BOP surplus, projected at $414 million, gross international reserves are projected to rise to just over US$3 billion at end June 2013, from US$2.6 billion at end June 2012.

8. **The overall fiscal deficit** in 2012/13 is projected to be 3.9 percent of GDP, 0.5 percent GDP larger than programmed. The larger deficit is attributable mainly to lower than programmed revenues and grants, slightly higher than expected current expenditures and the need to recapitalize the central bank (0.7 percent of GDP), which were only partially offset by underperformance of the development budget primarily due to delays to the start of the Karuma hydropower project. Lower tax revenues partly reflected the disruption caused by the imposition of a cash bond by Kenya earlier in the year and logistical problems with the fuel pipeline. A supplementary budget was appropriated in the last quarter of the year, of which over 50 percent was allocated to paying outstanding certificates in the road sector.

9. Uganda has already met the MDG target on **poverty** and is on track to meet the one on hunger as well. Between 1992 and 2010, the share of the population living below the poverty line has declined from 56 to 24.5 percent, and the prevalence of underweight children aged under 5 from 26 to 13.8 percent. However, the global economic crisis may have negatively impacted these gains.

III. Macroeconomic Objectives

10. To meet the strategic objectives of achieving broad-based growth, generating employment and eradicating mass poverty, Government will continue strengthening the business climate; implement targeted public investments, especially in roads and energy; enhance production and productivity of agriculture and promote agro-processing; enhance human capital formation, particularly through vocational skills development; and maintain price stability and a competitive real exchange rate through sound macroeconomic management.

IV. Macroeconomic Outlook and Risks

11. Real economic output is expected to pick up during 2013/14, as implementation of key infrastructure projects (notably the Karuma hydropower and the Kampala-Entebbe express highway) intensifies, while bottlenecks are alleviated. GDP growth is projected to rise to 6 percent during 2013/14 and further to an average of 7 percent per annum over the medium term. The BoU will aim to achieve its target for annual average core inflation of 5 percent over the medium term which, after incorporating base effects, implies an inflation rate of 6.3 percent in 2013/14. Moreover, foreign exchange reserves will be kept at a level of at least the equivalent of 4 months of import cover.

12. Government is focusing on improving the quality of essential services and the efficiency with which they are provided without compromising on equity in access. Government will put in place a framework to enable public private partnerships (PPPs) to be used to finance and deliver essential services in most sectors while also safeguarding against fiscal risks.

13. Regarding support for the poor and vulnerable households, Government's efforts are concentrated on enhancing their participation in economic activities. Interventions to this end are mostly geared at eliminating barriers to the uptake of essential services by these households (e.g. improving access roads, extending coverage of services, improving staff motivation and supervision especially for hard-to-reach and hard-to-stay areas).

14. Government policies are guided by the National Development Plan (NDP). Experience in the implementation of the NDP has shown that reconciling investment demands with fiscal sustainability and a stable macroeconomic framework remains challenging. In order to address these challenges, Government will update and improve project cycle management capacities, which will not only ensure the highest possible value for money of key projects, but will also allow mobilization of additional resources and optimally combine different financing options without undermining sound macroeconomic management. The new PSI will support government efforts to mobilize finance for infrastructure investments and to implement them efficiently.

15. Areas of concentration of the new PSI-supported economic reform program, that will run from June 2013 to June 2016, will be:

- Supporting revenue enhancement through measures to broaden and deepen the tax base and achieving more effective tax administration;
- Reforming PFM to enhance the effectiveness with which public funds are used;
- Preparing the economy for oil production and optimal management of petroleum revenues;
- Moving from inflation targeting 'lite' to full-fledged inflation targeting during the course of the program; and
- Improving the business environment, supporting the development of the financial sector, and continuing to maintain financial sector stability.

16. The main risks to the outlook include domestic and external shocks. On the domestic front, the economy remains vulnerable to the impact of weather-related agricultural shocks on domestic food prices. On the external front, Uganda's increasing integration into global markets generates vulnerabilities to a sudden reversal of short-term portfolio flows, and to terms of trade shocks, notably through increased oil prices or a decline in external demand. The likely rapid scaling up of investment in the oil sectors may also pose risks to domestic stability if spending on nontraded goods—e.g. in the construction sector—outstrips supply capacities. Government will ensure that it retains sufficient policy space (e.g. through prudent fiscal policy and the holding of adequate foreign reserve cover) to counter the impact of negative shocks without compromising macroeconomic stability.

V. Macroeconomic Policies Under the Program

17. The fiscal strategy for 2013/14 will seek to address the weaknesses in domestic and external revenue mobilization and improve the allocation of resources to key strategic priorities, as identified in the NDP. Revenues are projected to be higher than in the current fiscal year as Government expects to collect taxes on capital gains from oil transactions. Capital expenditure prioritizes infrastructure development, increasing agricultural production and productivity, enhancing human skills including technical capacity, and improving service delivery. Current expenditure will support maintenance of infrastructure and payments of services to sustain the efficiency of government offices. Government will make all efforts to avoid accumulation of arrears in FY 2013/14.

18. Government has developed a comprehensive five-year debt management strategy, which sets out guidelines and benchmarks for external and domestic debt to guide debt policy over that period. The main objectives of the strategy are to: i) ensure that the level of public debt remains sustainable; ii) meet Government's financing requirements; and iii) promote the development of the domestic financial market. Government will mobilize external resources in line with its debt strategy and the private sector will be invited to participate in infrastructure projects. To support these objectives, Government is requesting a ceiling on nonconcessional external debt with a maturity of

more than one year, during the programme period, of US$1.5 billion to be used to finance priority infrastructure projects, particularly in roads, railways, energy and water for production.

19. The BoU will continue to focus its Central Bank Rate (CBR) on the primary policy objective of maintaining price stability by holding core inflation to 5 percent over the medium term. A secondary objective—subordinated to the inflation objective—will be to help ensure that real output is in line with the economy's potential. The CBR will continue to be set every month on the basis of forecasts for inflation and output, and the interest rate decision will be explained to the public through a press briefing and monetary policy statement.

20. The BoU pursues a flexible exchange rate regime, and implements sterilized interventions in the foreign exchange market to dampen excessive exchange rate volatility.

VI. Reform Agenda

Tax Policy and Tax Administration

21. Government is committed to raising total revenue and especially the tax-to-GDP ratio to improve tax efficiency and fund critical projects. A Government's key objective within the PSI supported program is to raise the tax-to-GDP ratio by at least 0.5 percentage points annually from 2013 to 2016 (indicative target). Government will submit to cabinet a new tax procedure code by June 2013. Government will achieve the objective of raising revenue through a combination of tax policy and tax administration measures.

22. In the coming financial year Government will review the exemptions inherent in the tax system with the aim of eliminating those that are not cost efficient. The objective is to improve tax efficiency, facilitate tax administration, enhance compliance, and increase revenue collections. To this end, Government, with technical assistance from IMF, will undertake a VAT gap analysis, which will inform the course of action addressing exemptions, and will publish such analysis (structural benchmark). Government will then prepare an action plan to implement the recommendations on addressing exemptions from the VAT gap analysis (structural benchmark). As a usual undertaking, Government will continue publishing on the internet the names and beneficiaries (whether individual or corporation) of all tax expenditures. Further, Government will also move to VAT accounting on a net basis rather than budgeting for VAT refunds as a spending item.

23. Government will take tax measures to strengthen revenues for next fiscal year's budget. In FY 2013/14 Government will terminate VAT exemptions on: i) hotel accommodation; ii) water for domestic consumption; iii) the textile sector and iv) feeds for poultry and livestock.

24. In the FY 2013/14 budget, Government will also: i) increase the registration fee and stamp duty on third party insurance policies for motor vehicles; ii) introduce capital gains tax on the disposal of commercial buildings by individuals; iii) amend the thin capitalization rule to limit excessive use of related party debt; iv) increase excise duty of cigarettes; v) eliminate income tax exemptions on income derived from agro processing (structural benchmark); vi) expand the number

of withholding tax agents; vii) increase excise duty by 50 shillings on petrol and diesel; viii) restore excise duty of 200 shillings on kerosene; ix) introduce a transaction levy on mobile money transfers; and x) review the taxation of the petroleum and mineral sector. In this regard, Government will seek TA from IMF in the area of natural resource taxation. Implementation of these measures will be structural benchmarks under the PSI.

25. Tax administration has improved tremendously in service delivery in recent years. In the coming year, the Uganda Revenue Authority's (URA) efforts will be focused more explicitly on the major taxpayer segments: large, medium, small and micro. It will rank compliance risks by taxpayer segments and define response across functions. In particular, URA will ensure that the taxpayer service and enforcement functions that support the large taxpayers are improved. This will be accomplished by ensuring that staffing and training needs are met to promote compliance and improve auditing capacity. As part of implementing an effective system of binding public rulings, URA will publish in the gazette all public rulings it makes on interpretation of the law.

Public Financial Management

26. Government will continue implementing PFM reforms to strengthen controls on use of public funds and protect priority areas of the budget. The Public Financial Management Bill (PFMB), currently in Parliament, aims at consolidating the existing 2003 Public Finance and Accountability Act (PFAA) and the Budget Act 2001, and strengthening the fiscal and macroeconomic framework and the budget process. Key milestones include ensuring that the budget is passed before the start of the financial year; providing for a contingencies fund to help manage in-year expenditure pressures and reduce the stock of domestic arrears; setting out a legal framework for the management of oil revenues; and introducing a charter for fiscal responsibility.

27. Government will submit to Parliament a set of amendments to the PFMB 2012 to bring it up to international best practice Amendments will include, inter alia: i) a chapter to strengthen and enforce sanctions; ii) an explicit reference to the decision to establish a Treasury Single Account (TSA); iii) a requirement to specify the source of financing of any supplementary expenditure; iv) a requirement to specify an annual ceiling for the issuance of Treasury securities that is not subject to change without Parliamentary approval; v) a requirement that proceeds from Treasury securities issuance for monetary policy purposes be held in a special fund which is not available for spending by Government; and vi) amendments to the Bank of Uganda Act to significantly tighten access of Government to advances from the BoU. It is expected that the bill will be enacted into law during FY 2013/14.

28. Misappropriation of funds and payment arrears were made possible by the incomplete migration of payroll and pensions votes to the Integrated Personnel and Payroll System (IPPS). To address this issue, Government will complete the rollout of IPPS to cover personnel management and payroll of all entities within central government by December 2013 (structural benchmark).

Treasury Single Account

29. Government is committed to introducing a TSA to improve cash management, control, and transparency of government operations, and to avoid unnecessary interest costs. The Ministry of Finance will submit to cabinet in May 2013 a cabinet information paper reflecting the decision to introduce a TSA. The implementation of the TSA will be undertaken in a phased approach starting with a pilot scheme involving 6 votes followed by a roll out to the rest of Central Government. Government will start introducing a TSA for all Integrated Financial Management Systems (IFMS) related transactions, including for the Treasury General Accounts (TGAs), salaries, and IFMS projects by March 2014 (structural benchmark). Prior to this, by December 2013 Government will complete the expansion of IFMS to all central government votes (structural benchmark).

Management of Arrears

30. Government will reduce the stock of unpaid bills, as measured by the Accountant General, by at least 50 billion shillings between July 1, 2013 and June 30, 2014. The PFMB will require accounting officers to prepare work plans, procurement plans, and recruitment plans to be approved by the Secretary to the Treasury, which will thereafter form the basis for issuing cash limits and releases. This is expected to prevent over committing of government expenditures beyond available resources. In the interim period, as a structural benchmark, Government will continue to submit to Cabinet regular quarterly reports on unpaid bills of nine ministries based on data in the Commitment Control System for the previous quarter of the fiscal year. In addition, Government will publish, on a quarterly basis, releases by the MoFPED for utilities (water, power and telephone) obligations of spending ministries and actual payments for them. This will enhance transparency and facilitate control and elimination of domestic arrears.

Improvements in Implementation Capacity

31. In order to streamline and improve project identification, selection and execution, government will complete the review of the Public Investment Program (PIP) by end May 2014. The review is intended to ensure that the program only contains projects for which cost-benefit analysis and feasibility studies have been conducted and sources of financing have been secured. To this end, Government will ensure that capacity to carry out cost benefit analysis and prepare feasibility studies is developed. Moreover, quarterly project portfolio reviews will be conducted to ensure efficient implementation of projects.

Management of Oil Revenues

32. The PFMB provides for the establishment of fiscal rules that will be designed upon approval of the law with a view to determining a clear framework for savings and investment of oil resources. Under this structure, the non-oil primary balance will be the main measure of the fiscal stance. Government will establish a petroleum fund into which all oil revenues will be deposited and held. A proportion of oil income will be spent through the budget through transparent annual

appropriations. The petroleum fund will belong to the Government of Uganda and be held abroad and managed by the BoU, separately from the foreign exchange reserves.

33. Tax revenue from capital gains from oil company transactions has been accumulated in a special fund in the BoU. Government will use these resources exclusively for the construction of the Karuma hydroelectric project. Similarly, resources in the energy fund will be exclusively used for energy projects.

Other Reforms

34. While delays have impeded the issuing of national identity cards, Government remains committed to bringing this project to completion. This will facilitate tax administration and financial sector development. By May 2014, Government will issue at least 1 million cards under the new national identification system (structural benchmark). To accelerate implementation of the project, budgetary funds have been allocated to it and in addition voluntary payment for ID cards will be encouraged.

VII. Transition to Fully Fledged Inflation Targeting

35. The ITL framework has now been in operation for almost two years and has proved successful in bringing down inflation to its current level which is only slightly higher than the BoU's medium-term target. The BoU is determined to continue to improve the current ITL regime to ensure low inflation over the medium term and allow a transition to Fully Fledged Inflation Targeting, through a combination of institutional reforms and technical capacity building.

36. On the institutional front, Government is finalizing arrangements to carry out by July 2013 the first stage of recapitalization of the BoU with marketable securities to the amount stipulated by law (structural benchmark). To this end, a formal agreement will be signed by the Minister of Finance and the Governor of the BoU that will also enhance operational independence of the BoU by ensuring that the BoU has sufficient instruments at market interest rates and adequate maturities to implement monetary policy; will reflect the BoU's commitment to control inflation and to streamline its operating expenditures; and will recognize that a second phase of recapitalization will be needed in the future.

37. By February 2014, the Ministry of Finance will submit to cabinet amendments to the Bank of Uganda Act including provisions for capital adequacy of BoU as an adequate percent of monetary liabilities as well as other measures to support comprehensive reforms in support of inflation targeting (structural benchmark) and central bank modernization.

38. On the operational side both the MoFPED and BoU are strengthening their technical capacities for macroeconomic modeling. In improving its inflation forecasting skills, the BoU is receiving TA from the Research Department of the Fund. The BoU will improve the efficacy of its monetary policy instruments and enhance its communications strategy to facilitate understanding by the public of monetary policy decisions and forecasts of macroeconomic variables.

39. To support the transition to a fully fledged inflation targeting framework, the Government requests that the quantitative performance criteria on net domestic assets (NDA) be replaced with an inflation consultation clause, while retaining the net international reserves (NIR) floor for external stability.

VIII. Financial Sector Soundness and Development

40. The BoU is implementing Basel III reforms in a phased manner. It has carried out a pilot exercise on the use of a liquidity coverage ratio by large banks, and now intends to enforce the use of this ratio by all banks. A capital conservation buffer will be also imposed. Using the methodology recommended by the Bank for International Settlements, the BoU is identifying the systemically important financial institutions that will be subject to higher capital requirements. Legislations to introduce a capital charge to cover market risk, prevent money laundering, and amend the Financial Institutions Act are under Parliament and will be implemented as soon as they are approved.

41. Most of the commercial banks operating in Uganda are subsidiaries of regional or international banks. The BoU has signed Memorandum of Understanding with several home supervisors to facilitate consolidated supervision and sharing of information. The BoU is also participating in supervisory colleges of international banks.

42. Government is advancing reforms in the pension sector. It will ensure the financial viability of the Public Service Pension Scheme, and improve oversight of the pension sector including the National Social Security Fund. The Uganda Retirement Benefits Regulatory Authority Board has enacted licensing regulations and guidelines for the establishment of private retirement benefit schemes and has started issuing provisional licenses.

43. To promote financial deepening and inclusion, the BoU will improve financial literacy, ensure consumer protection, and promote financial innovation (including through mobile money and agency banking). The BoU will also reinforce efforts to regulate mobile money transactions by preparing legislation governing the national payment system. We expect this strategy will increase access of the population to financial services.

IX. Enhancing the Business Environment

44. Uganda’s competitiveness agenda aims at attracting foreign investment to generate growth and employment. The agenda comprises infrastructure development, institutional and legal reforms to lower the costs of doing business, reduction of red-tape, and access of small and medium enterprises to credit. In addition, Government has developed a policy and legal framework to support the PPP model as an option for providing long-term value and reliability to critically important infrastructure sectors. To enhance transparency, by March 2014 Government will include in the Budget Framework Papers a status report of ongoing PPP programs, including individual estimates of each project’s contingent liability (structural benchmark).

45. Government has introduced an approach called Contractor Facilitated Financing, a system that integrates supplier credits into the tendering process, which is aimed at reducing delays in the implementation of Government projects. Government considers that this approach has potential to improve the efficiency of project execution, but is fully mindful of its inherent risks. Consequently, Government will ensure full transparency in the use of CFF including by publishing details of all agreements and clearly assessing and differentiating the cost of both the projects and the financing terms. The applicable terms and conditions will be detailed in the Revised National Debt strategy to be published by end June 2013.

X. Program Monitoring

46. Progress in the implementation of the policies under this program will be monitored through quantitative assessment criteria (QACs), indicative targets (ITs), and structural benchmarks (SBs) detailed in the attached Tables 1 and 2 and through semi-annual reviews. Quantitative assessment criteria are proposed for end-June 2013 and end-December 2013, to be monitored respectively at the first and second reviews. The first review is expected to be completed by end-December 2013 and the second review by end-June 2014. The attached Technical Memorandum of Understanding—which is an integral part of this Memorandum—contains definitions and adjustors.

Table 1. Uganda: Quantitative Assessment Criteria and Indicative Targets for June 2013–March 2014[1]

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

	June 30, 2013 [2]	September 30, 2013 [3]	December 31, 2013 [3]	March 31, 2014 [3]
		(Billions of Ugandan shillings)		
Assessment criteria				
Ceiling on the increase in net domestic financing of the central government	868	257	-421	-54
		(Millions of US dollars)		
Ceiling on the stock of external payments arrears incurred by the public sector [4]	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 [4, 5]	1,500	1,500	1,500	1,500
Ceiling on new external debt with maturity up to one year contracted or guaranteed by the public sector [4, 6]	0	0	0	0
Minimum increase in net international reserves of the Bank of Uganda (US$mn)	361	16	52	107
Share of oil revenue placed in the Petroleum Fund [7]	100	100	100	100
		(Billions of Ugandan shillings)		
Indicative targets				
Ceiling on the increase in base money liabilities of the Bank of Uganda	836	239	504	591
Floor on tax revenue	7,015	1,813	4,024	5,977
Expenditures on poverty alleviating sectors	2,498	607	1,246	1,745
Ceiling on the issuance of guarantees by the Government/Bank of Uganda	0	0	0	0
		(Annual percentage change)		
Inflation consultation clause				
Outer band (upper limit)	9.8	9.0	9.7	9.6
Inner band (upper limit)	8.8	8.0	8.7	8.6
Core inflation target [8]	6.8	6.0	6.7	6.6
Inner band (lower limit)	4.8	4.0	4.7	4.6
Outer band (lower limit)	3.8	3.0	3.7	3.6

[1] Defined in the Technical Memorandum of Understanding (TMU). Values for June 2013 and December 2013 are quantitative assessment criteria except as marked. Values for September 2013 and March 2014 are indicative targets except as marked.

[2] Proposed targets are measured as the change from June 2012, except as marked.

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

[4] Continuous assessment criterion.

[5] Cumulative change from June 28, 2013. To be used exclusively for infrastructure investment projects.

[6] Excluding normal import-related credits.

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

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

Table 2. Structural Benchmarks

Policy Measure	Macroeconomic Rationale	Date
1. Government to carry out the first stage of recapitalization of the Bank of Uganda with marketable securities to the amount stipulated by law.	To enhance monetary policy independence and central bank credibility.	July 2013
2. Ministry of Finance to submit to cabinet regular quarterly reports on unpaid bills of nine ministries based on data in the Commitment Control System (CCS) for the previous quarter of the fiscal year.	To facilitate control and elimination of expenditure arrears.	October 1, 2013, for quarter ending June 30, 2013; January 1, 2014, for quarter ending September 30, 2013; April 1, 2014, for quarter ending December 31, 2013.
3. Government to carry out a VAT gap analysis in consultation with IMF staff and to publish such analysis.	To make transparent the costs of VAT tax expenditures.	December 2013
4. Government to complete the rollout of the IPPS to cover personnel management and payroll of all entities within central government	To improve both governance and transparency of budget execution	December 2013
5. Government to complete the expansion of the treasury system (IFMS) to all of central government votes	To improve both governance and transparency of budget execution.	December 2013
6. Ministry of Finance to submit to cabinet 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.	To enable full monetary policy independence and credibility of the central bank. This measure would complete the second stage of the recapitalization of BoU.	February 2014
7. Government to start introducing a Treasury Single Account for IFMS related transactions, including for the Treasury General Accounts, salaries, and IFMS projects.	To improve both governance and transparency of budget execution.	March 2014
8. Government to prepare an action plan to implement the recommendations on addressing tax exemptions that come out of the VAT gap analysis	Improve tax efficiency	March 2014
9. Government to include in the Budget Framework Paper a status report of all ongoing PPP programs, including individual estimates of each project's contingent liability.	To enhance fiscal transparency	March 2014
10. Government to have issued a minimum of 1 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.	May 2014
11. Government to eliminate the income tax exemption on income derived from agro-processing.	To increase revenue and tax administration efficiency.	May 2014

Attachment 2. Technical Memorandum of Understanding

I. Introduction

1. This memorandum defines the quarterly assessment criteria and indicative targets described in the Memorandum of Economic and Financial Policies (MEFP) for the financial program supported by the IMF Policy Support Instrument (PSI) over the period of June 30, 2013—March 31, 2014 (until June 2014 for inflation consultation clause), and sets forth the reporting requirements under the instrument. For the first year of the PSI-supported program, all foreign assets and liabilities will be converted into U.S. dollars at each test date using the average cross exchange rates referred to in the table below for the various currencies and then converted into Uganda shillings using the program average U.S. dollar-Uganda shilling exchange rate for March 2013.

Program Exchange Rates (end-March 2013)	
US Dollar (US$)	1
British pound/US$	0.66
Japanese Yen/US$	94.2
SDR/US$	0.67
Kenyan Shilings/US$	85.6
Tanzania Shilings/US$	1598.7
Euro/US$	0.78
Ugandan Shilings/US$	2594.8

II. Consultation Mechanism on Inflation

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 the text table: Inflation Targets. Projected CCPI inflation for end-June 2013 and end-December 2013 will be subject to the consultation mechanism, while those for end-September 2013, end-March 2014 and end-June 2014 are indicative targets.

Text Table. Inflation Targets					
	Jun. 2013	Sep. 2013	Dec. 2013	Mar. 2014	Jun. 2014
Outer band (upper limit)	9.8	9.0	9.7	9.6	9.3
Inner band (upper limit)	8.8	8.0	8.7	8.6	8.3
Core inflation target	6.8	6.0	6.7	6.6	6.3
Inner band (lower limit)	4.8	4.0	4.7	4.6	4.3
Outer band (lower limit)	3.8	3.0	3.7	3.6	3.3

3. Should the observed average CCPI inflation for the test date linked to a PSI program review (i.e., end-June 2013 for the first review and end-December 2013 for the second 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 the above table.

III. Base Money

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

IV. Ceiling on the Cumulative Increase in Net Domestic Financing of the Central Government[1]

5. **Definition.** 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 the banking system, excluding oil revenues in the petroleum fund and deposits in administered accounts and project accounts with the banking system, including the central bank. Credits comprise bank loans and advances to the government and holdings of government securities and promissory notes. Central government's deposits with the banking system include the full amount of resources freed by the IMF Multilateral Debt Relief Initiative (MDRI). NDF by the banking system will be calculated based on data from balance sheets of the monetary authority and commercial banks as per the monetary survey.

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

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

households (including nonresidents and nonresident financial institutions), plus any other liabilities of the central government to domestic nonbank institutions or households;

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

V. Floor on Net International Reserves of the Bank of Uganda

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

8. 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 limit for June 2013 will be a floor on the change of the NIR stock from June 2012 to June 2013. The NIR limits for December 2013 and March 2014 will be floors on the change of the NIR stock from June 2013 to December 2013, and March 2014, respectively. The NIR limit for December 2013 will be quantitative assessment criteria under the PSI-supported program; the floor for March 2014 will be an indicative target.

VI. Expenditures on Poverty Alleviating Sectors

9. The indicative target 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 functional budget classification. Compliance with the indicative floor for poverty alleviating expenditures will be verified on the basis of releases.

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

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

VIII. Share of Oil Revenue Placed in Petroleum Fund

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

IX. Tax Revenue

12. 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 as defined by the Government of Uganda's revenue classification.

X. Adjusters

13. The NIR target is based on program assumptions regarding budget support, assistance provided under the Heavily Indebted Poor Countries (HIPC) Initiative and the MDRI, external debt-service payments. The NIR target is based on program assumptions regarding automatic access by commercial banks to the BoU's rediscount and discount window facilities.

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

Schedule A: Budget Support[1]

(Ush billions)

	Jun-13	Sep-13	Dec-13	Mar-14
Cumulative change from July 1, 2012	469	…	…	…
Cumulative change from July 1, 2013	…	50	79	130

[1]Including HIPC and MDRI.

15. The ceiling on the increases in NDF will be adjusted downward (upward) and the floor on the increase in NIR will be adjusted upward (downward) by the amount by which debt service due[2] plus payments of external debt arrears less deferred payments (exceptional financing) falls short of (exceeds) the projections presented in Schedule B. Deferred payments are defined to be (i) all debt service rescheduled under the HIPC Initiative; and (ii) payments falling due to all non-HIPC Initiative creditors that are not currently being serviced by the authorities (that is, gross new arrears being incurred).

Schedule B: External Debt Service[1]
(Ush billions)

	Jun-13	Sep-13	Dec-13	Mar-14
Cumulative change from July 1, 2012	300	…	…	…
Cumulative change from July 1, 2013	…	92	185	284

[1]Debt service is defined as pre-HIPC Initiative debt service.

16. The ceiling on NDF will be adjusted upward (downward) by the amount by which the domestic currency equivalent of Karuma spending (using the market exchange rate) exceeds (falls short of) the projected amounts as set out in Schedule C.

Schedule C: Expenditures for Karuma Hydropower Project[1]
(US$ millions)

	Jun-13	Sep-13	Dec-13	Mar-14
Cumulative change from July 1, 2012	0	…	…	…
Cumulative change from July 1, 2013	…	0	0	0

[1]Adjustor is the domestic currency equivalent of Karuma spending.

17. The ceiling on NDF will be adjusted upward (downward) by the amount by which inflows into the petroleum fund falls short of (exceeds) the projected amounts as set out in Schedule D.

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

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

	Jun-13	Sep-13	Dec-13	Mar-14
Cumulative change from July 1, 2012	0	…	…	…
Cumulative change from July 1, 2013	…	0	279	279

XI. Ceiling on the Contracting or Guaranteeing of New Nonconcessional External Debt by the Public Sector, and Ceiling on the Stock of External Payments Arrears Incurred by the Public Sector[3]

18. The assessment criterion on short-term debt refers to contracting or guaranteeing external debt with original maturity of one year or less by the public sector. Excluded from this assessment criterion are normal import-related credits and non-resident holdings of government securities and government promissory notes. The definition of "debt" is set out in paragraph 20.

19. The program includes a ceiling on new nonconcessional borrowing with maturities greater than one year contracted or guaranteed by the public sector.[4] Nonconcessional borrowing is defined as loans with a grant element of less than 35 percent, calculated using average commercial interest rates references (CIRRs) published by the Organization for Economic Cooperation and Development (OECD). In assessing the level of concessionality, the 10-year average CIRRs should be used to discount loans with maturities of at least 15 years, while the 6-month average CIRRs should be used for loans with shorter maturities. To both the 10-year and 6-month averages, the following margins for differing payment periods should be added: 0.75 percent for repayment periods of less than 15 years; 1 percent for 15–19 years; 1.15 percent for 20–25 years; and 1.25 percent for 30 years or more. The ceiling on nonconcessional external borrowing or guarantees is to be observed on a continuous basis. The coverage of borrowing includes financial leases and other instruments giving rise to external liabilities, not only current as defined below, but also contingent, on nonconcessional terms. External debt for the purpose of this assessment criterion means borrowing giving rise to liabilities to non-residents. Excluded from the limits are changes in indebtedness resulting from non-resident holdings of government securities and government promissory notes, refinancing credits and rescheduling operations, and credits extended by the IMF. For the purposes of the program, arrangements to pay over time obligations arising from judicial awards to external creditors that

[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.

[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.

have not participated in the HIPC Initiative do not constitute nonconcessional external borrowing. Excluded from these limits are also nonconcessional borrowing within the limits specified in Table 1 of the MEFP. The ceiling also excludes nonconcessional borrowing by one state-owned bank, Housing Finance Bank, which poses limited fiscal risk and is in a position to borrow without a government guarantee.

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

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

21. 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 2013. 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.

XII. Monitoring and Reporting Requirements

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

Attachment II. Table 1. Summary of Reporting Requirements

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

Attachment II. Table 1. Summary of Reporting Requirements

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

[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**
	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
	Statement on new external loans contracted or guaranteed by the central government and the Bank of Uganda 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

June 17, 2013

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION, SIXTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT, REQUEST FOR A NEW POLICY SUPPORT INSTRUMENT, AND CANCELLATION OF CURRENT POLICY SUPPORT INSTRUMENT—INFORMATIONAL ANNEX

Prepared By The African Department

CONTENTS

FUND RELATIONS 2

JOINT BANK-FUND WORK PROGRAM, JULY 2013–JUNE 2014 6

STATISTICAL ISSUES (AS OF MAY 31, 2013) 8

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	140.39	81.12

Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
ECF Arrangements	3.00	1.66

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				
	2013	2014	2015	2016	2017
Principal	0.60	1.20	1.00	0.20	
Charges/Interest	0.02	0.02	0.03	0.02	0.02
Total	0.62	1.22	1.03	0.22	0.02

[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 cannot be added.

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

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

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. As of end-May, 2013 the official exchange rate was USh 2595.01 per U.S. dollar. The exchange system is free of restrictions on the making of payments and transfers for current international transactions. Uganda's exchange rate regime is classified as floating.

Article IV Consultation:

The Executive Board concluded the last Article IV consultation on February 11, 2011. Following the completion of the current Article IV, the next Article IV consultation with Uganda will be held in accordance with the decision on consultation cycles adopted September 28, 2010, as amended.

Technical Assistance:

Uganda has continued to receive extensive technical assistance from the Fund in recent years.[1]

In the last year, FAD has provided TA to the Uganda Revenue Authority (URA) in the areas of taxpayer compliance and effectiveness of administrative actions—with a view to raising tax revenue levels. Significant assistance has been provided to estimate the VAT gap, with a mission in May and an initial estimate expected by mid-June, 2013. FAD also provided support on the drafting of the Public Finance Management Bill (PFMB), with a visit in March 2013 for a workshop held for Parliamentarians. Another mission took place in April 2013 on the introduction of a Treasury Single Account, and suggestions on a draft concept note for Cabinet were provided. A follow-up mission is planned for June to meet with key officials to continue supporting implementation.

[1] For a description of technical assistance provided prior to June 2012, see the staff report for Uganda's third review of the PSI (IMF Country Report No. 12/125).

MCM also continued to provide TA to Uganda, mainly supporting the Bank of Uganda's (BOU) transition to full-fledged inflation targeting, enhancing bank regulation and supervision, modernizing the national payments system, and recapitalizing the central bank. A November 2012 mission focused on assisting the BOU to formulate a national payments system modernization strategy. A December 2012 mission assessed progress and current challenges in the adoption of inflation targeting, and made recommendations. Similarly, a January-February 2013 mission proposed a strategy for ensuring sustainable income for central bank and its recapitalization. TA was also provided for the establishment of a medium-term debt strategy, in May 2013, as well as to enhance the banking regulatory framework and to assist with the implementation of risk-based supervision (missions in February, March and one planned in June 2013). Finally, TA was provided to the Insurance Regulatory Authority of Uganda (IRA) to enhance insurance regulation (March 2013). While several missions are planned in these areas, in the near term, a mission in June/July 2013 will assist the BOU in implementing stress testing as part of the broader financial stability analysis.

STA has also provided TA in the areas of balance of payments statistics, price statistics and quarterly national accounts, to the Ugandan Bureau of Statistics (UBOS).

LEG provided TA in March to assist in drafting the National Payment System Act with a view to developing the comprehensive legal framework for payment systems and instruments. A Fiscal Law mission in March 2013 focused on the review of the Tax Procedures Code Bill.

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.

JOINT BANK-FUND WORK PROGRAM, JULY 2013–JUNE 2014

Title	Products	Provisional timing of missions (if relevant)	Expected delivery date
1. World Bank Work Program	The current IDA portfolio consists of 17 operations with net commitments of US$1.4 billion, and 5 regional projects with net commitments of US$95.7 million. Key sectors of support include agriculture, transport, energy, water, urban, education, and health. In addition to the ongoing projects in these areas, new projects to come on board shortly include the Municipal Infrastructure Development Program, the Competitiveness and Private Sector Development Project, and the Albertine Region Development Project.		
	The PRSC 8-10 series was designed to improve efficiency of public expenditures and value for money in health, education, transport, and water and sanitation by addressing both cross-cutting (such as public financial management) and sector-specific bottlenecks. The series could have sharpened its focus on governance by incorporating policy actions supporting all aspects of the accountability chain (detection, inspection, and sanctions) and a stronger demand for good governance. The Bank and the Government have decided to terminate the current PRSC series once the active PRSC 9 is disbursed.		Disbursement of PRSC9 depends on joint donor assessment on progress on government's progress on action matrix to address governance issues

	Public Expenditure Review (FY13) with a focus on decentralization and delivery of social services.		Final report: June 2013
	Public Investment Management follow-up support to government with support with DFID trust fund.	NA	Project to start disbursing June 2013
	Economic Update series (FY13) Edition 1 - Special focus – regional trade Edition 2 - Special focus - jobs		 February 2013 June 2013
	Country Economic Memorandum (FY14) focusing on Uganda's sources of growth accounting for the linkages of the new natural resources economy.	January 2013	Concept note: June 2013
2. Fund Work Program	First review of the PSI	October 2013	December 2013
	Second review of the PSI	May 2014	June 2014
	TA priorities: • Revenue enhancement, including tax policy follow-up and revenue administration and support on the VAT-gap analysis; • Revision of PFA; • Management of natural resource industries; • Monetary policy and transition to inflation targeting; • Asset and debt management (including petroleum revenue management); • Strengthening financial stability framework; • Enhancing macroeconomic statistics, including national accounts, BoP data, and GFS.	TBD	TBD
3. Joint Work Program	Joint DSA update	May 2014	June 2014

STATISTICAL ISSUES (AS OF MAY 31, 2013)

I. Assessment of Data Adequacy for Surveillance
General: Overall data provision is adequate for surveillance purposes, although some shortcomings remain.
Real sector statistics: Since 2004 Uganda has been receiving technical assistance from the East African Technical Assistance Center (AFRITAC East) and, more recently an external expert, 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. Significant progress has been made by the Uganda Bureau of Statistics (UBOS) in populating supply and use tables (SUTs) that include preliminary product balances for 155 activities by 161 products. An April 2013 an AFRITAC East mission proposed some modifications that should allow final estimates to be available before the end of the current fiscal year. This will put the GDP rebased (2009/10) estimates on a firm footing. **Labor market indicators** such as employment, unemployment, and wages/earnings are infrequently compiled and disseminated. UBOS aims to compile and disseminate these data categories on an annual basis, but due to resource and data unavailability, these data are compiled with a two year lag. From January 2010 the **consumer price index** (CPI) benefited from a rebasing using the (out-of-date) *2005/2006 Uganda National Household Survey*. Its coverage was extended from six to eight urban areas, and improved formulas were adopted (at the elementary level, a geometric average—in accordance with COMESA regulations, and at the higher-level, a modified Laspeyres-type to facilitate incorporation of replacement items and better imputations). UBOS compiles and disseminates a Producer Price Index for Manufacturing (separately for domestic and local output) and for hotels. AFRITAC East will be providing technical assistance to rebase, improve and expand the PPI during the next two years.
Government finance statistics: The Ministry of Finance, Planning and Economic Development (MoFPED) compiles fiscal statistics following the Government Finance Statistics Manual 2011 (GFSM 2011), but for budgetary central government and local governments only. UBOS has recently been given official responsibility for compiling and disseminating these statistics and have been requesting technical assistance for two years.
Monetary and financial statistics (MFS): TA in FY2014 will aim at improving the institutional coverage and classification of other depository corporation (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 the Department for International Development (DFID) on the standardized report forms (SRFs). Uganda began publishing SRF-based monetary data from 2002 in *IFS* beginning in early 2009.

External sector statistics: The focus of an external sector statistics mission, conducted during February 2013, was on aligning Uganda's balance of payments and IIP data to the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6),* and further enhancing source data collection. Particular areas of concern include: (i) net errors and omissions for the published BOP with respect to the financial year 2011-12; (ii) data collection on transactions in non-resident securities; and (iii) reliable current/capital transfer split for foreign aid and more detailed data on the costs of embassies abroad.

II. Data Standards and Quality	
Uganda has participated in the General Data Dissemination System (GDDS) since May 2000. The metadata and plans for improvement need to be updated (from December 2008). Uganda is participating in the SDDS, government finance, and monetary and financial statistics modules of the Fund's GDDS Project for Anglophone Africa (funded by the DFID). This project aims to assist participating countries in implementing plans for improvements identified in the metadata.	In February 2005, a STA mission prepared a Report on the Observance of Standards and Codes (ROSC), with results published in July 2006. The ROSC mission assessed data compilation and dissemination practices against international standards in national accounts, prices, government finance, and balance of payments statistics. The monetary and financial statistics were not assessed.

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

TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE (AS OF MAY 15, 2013)

	Date of latest observation	Date received	Frequency of Data[5]	Frequency of Reporting[5]	Frequency of Publication[5]	Memo Items:	
						Data Quality – Methodological soundness[6]	Data Quality – Accuracy and reliability[7]
Exchange Rates	May 15 2013	May 15 2013	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	March 2013	April 30, 2013	M	M	M		
Reserve/Base Money	March 2013	April 30	M	M	M		
Broad Money	March 2013	April 30	M	M	M		
Central Bank Balance Sheet	March 2013	April 30	M	M	M		
Consolidated Balance Sheet of the Banking System	March 2013	April 30	M	M	M		
Interest Rates[2]	April 30, 2013	May 2, 2013	D	M	M		
Consumer Price Index	May 2013	May 2013	M	M	M	O, LO, O, O	O, O, LO, O, O
Revenue, Expenditure, Balance and Composition of Financing[3] - Central Government	March 2013	May 2013	M	M	M	O, LNO, O, LO	O, O, O, O, LO
Stocks of Central Government and	Mar2013	April 2013	M	M	M		

Central Government-Guaranteed Debt[4]							
External Current Account Balance	Q2 2012/13	April 2013	Q	Q	Q	LO, LO, LO, LO	LO, O, O, O, LO
Exports and Imports of Goods and Services	March 2012/13	May 2013	M	M	M		
GDP/GNP	Q2 2012/13	March 2013	Q	Q	Q	LO, LO, O, LO	LO, O, LO, O, O
Gross External Debt	2011/2012	October 2013	A	A	A		

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] Including maturity composition.

[5] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

[6] Reflects the assessment provided in the data ROSC (published on July 12, 2006, and based on the findings of the mission that took place during February 9-22, 2006) for dataset corresponding to the variable in each row. The data ROSC mission did not cover monetary and financial statistics. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observe (LNO); not observed (NO); and not available (NA).

[7] Same as footnote 7, except referring to international standards concerning source data, statistical techniques, assessment and validation of source data, assessment, and revision studies.

INTERNATIONAL MONETARY FUND
Public Information Notice

EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No. 13/78
FOR IMMEDIATE RELEASE
July 8, 2013

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

IMF Executive Board Concludes 2013 Article IV Consultation with Uganda

On June 28, 2013, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Uganda,[1] completed the sixth and final review of the country's performance under an economic program supported by a Policy Support Instrument (PSI) arrangement and approved a three-year PSI (see Press Release No. 13/239).

Background

Growth has started to pick up following the lowest rate of economic expansion in a decade, and—driven mainly by investment and trade—is projected to reach 5¼ percent this fiscal year. Private sector activity was boosted by a good harvest, by the inauguration of the Bujagali hydropower plant, which lowered manufacturing costs, and by a loosening of the fiscal stance towards the end of the year due to faster than expected implementation of road projects. Inflation was brought down to close to the 5 percent target level as a result of careful monetary management by the Bank of Uganda.

External performance was stronger than anticipated, owing to strong non-coffee exports and a temporary deceleration of imports. Aided by foreign exchange inflows attracted by high shilling rates, international reserves grew significantly and now stand at a comfortable level equivalent to four months of imports, providing a welcome buffer to the economy in the context of an uncertain international environment. Uganda is assessed at a low risk of debt distress, while the banking sector remains solvent, liquid and profitable despite some increase in the stock of nonperforming loans.

---

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Growth is projected at 6–7 percent in the medium term in the context of low inflation. A moderate expansion in the underlying fiscal deficit to support growth, a flexible exchange rate, and monetary management supportive of low and stable inflation, underpin a favorable macroeconomic outlook.

Executive Board Assessment

Executive Directors welcomed the authorities' successful policies to reduce inflation, revive economic activity, and accumulate international reserves, while noting that progress on structural reform was mixed. They stressed the importance of maintaining prudent macroeconomic policies and stepping up governance and structural reforms to underpin plans for oil exploitation and economic diversification.

Directors endorsed the authorities' plans to boost infrastructure and development spending to support growth. They stressed the importance of decisive action to increase revenue collection through tax reform and improved revenue administration. They encouraged the authorities to prepare an action plan to reduce tax exemptions, including implementing the recommendations of the ongoing VAT gap analysis. This will underpin efforts to reduce reliance on donor support and external borrowing, and to limit nonconcessional borrowing to high-economic return projects.

Directors acknowledged the progress in strengthening public financial management. They encouraged the authorities to continue to tighten spending controls and to move swiftly toward introducing a Treasury Single Account to improve budget execution, transparency, and cash management. Directors welcomed submission to parliament of the draft public finance management bill and its amendments.

Directors commended the authorities' commitment to maintaining price stability and urged strong policy coordination to keep inflation under control. They advised the Bank of Uganda (BoU) to remain vigilant and adapt the monetary policy stance to domestic demand developments and possible external spillovers. Directors welcomed the authorities' decision to further strengthen the operational and institutional aspects of their inflation targeting framework and to formally introduce inflation as a program target. They supported the inter-institutional agreement to implement the first stage of the recapitalization of the BoU, as well as the plans to further strengthen the independence, accountability, and technical capacity of the central bank.

Directors noted staff's assessment that the real effective exchange rate is broadly in line with economic fundamentals, and supported the exchange rate flexibility that underpins the monetary framework. They welcomed the authorities' commitment to limiting interventions to smoothing excessive exchange rate volatility and maintaining reserve cover.

While the banking sector remains solvent, liquid, and profitable, Directors recommended strengthened bank supervision and regulation enforcement to mitigate vulnerabilities resulting from increased foreign currency lending. A few Directors suggested that macroprudential or capital flow management measures could be considered. Directors welcomed plans to expand financial deepening and inclusion.

Directors looked forward to the authorities' long-term development plan to promote inclusive growth. They underscored the importance of accelerating structural reforms and addressing governance weaknesses to strengthen the business environment, raise competitiveness, and maximize the benefits of integration in the East African Community. In preparation for oil production, Directors recommended setting a framework for efficient use of the resource wealth, and welcomed Uganda's plan to join the Extractive Industries Transparency Initiative. A well-tailored social safety net will be important to help vulnerable groups share in prosperity.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Uganda: Selected Economic Indicators[1]

	2011/12	2012/13	2013/14	2014/15
	Est.		Proj.	
GDP and prices (percent change)				
Real GDP	3.4	5.3	6.0	7.0
GDP Deflator	23.2	7.3	5.8	4.4
CPI (end of period)	18.0	5.7	5.7	4.5
CPI (average)	23.5	6.0	6.2	5.0
Core inflation (average)	24.6	6.8	6.3	5.0
Core inflation (end of period)	19.6	6.7	5.2	4.9
External sector (percent change)				
Terms of trade (based on all exports, deterioration -)	1.8	-0.5	-1.7	-2.4
Real effective exchange rate (depreciation–)	…	…	…	…
Money and credit (percent change)				
Broad money (M2)	-4.3	20.2	15.4	15.8
Private sector credit	11.1	14.5	15.1	15.6
Savings and investment gap (excluding grants, percent of GDP)	-13.1	-10.7	-12.6	-14.4
Domestic investment	24.7	26.1	27.9	28.6
Public	5.8	5.8	8.1	8.4
Private	18.9	20.2	19.8	20.1
External sector (percent of GDP)				
Current account balance (including grants)	-12.0	-10.4	-12.2	-14.1
Current account balance (excluding grants)	-13.1	-10.7	-12.6	-14.4
Net donor inflows	3.4	3.6	2.2	1.9
Public external debt (including IMF)	16.3	17.0	20.3	22.7
External debt service ratio[2]	1.4	1.6	1.8	1.9
Government budget and debt (percent GDP)				
Revenue	13.3	13.0	15.0	14.5
Grants	2.3	1.7	1.5	1.3
Total expenditure and net lending	18.6	18.6	20.2	21.2
Overall balance (including grants)	-3.0	-3.9	-3.6	-5.4
Overall balance (excluding grants)	-5.3	-5.6	-5.2	-6.7
Memorandum items:				
Nominal GDP (Ush billions)	49,794	56,287	63,122	70,512
Nominal GDP (US$ millions)	19,472	…	…	…
Average exchange rate (Ush/US$)	2,557	…	…	…
End of period exchange rate (Ush/US$)	2,472	…	…	…
Gross foreign exchange reserves (US$ millions)	2,644	3,044	3,264	3,514
(months of next year's imports of goods and services)	4.2	4.2	4.1	4.1
Social and poverty indicators	*Population*: 34.5 million in 2011*; GDP per capita*: US$487 in 2011; *Population below poverty line*: 24.5 percent			

Sources: Ugandan authorities and IMF staff estimates and projections.

[1]Fiscal year runs from July 1 to June 30.
[2]Percent of exports of goods and nonfactor services.

Press Release No. 13/239
FOR IMMEDIATE RELEASE
June 28, 2013

International Monetary Fund
Washington, D.C. 20431
USA

IMF Executive Board Completes Sixth Review Under Policy Support Instrument for Uganda and Approves a New Three-Year PSI

The Executive Board of the International Monetary Fund (IMF) today completed the sixth review under the Policy Support Instrument (PSI) for Uganda and approved a new three-year PSI. To this end, the Executive Board took note of Uganda's cancellation of the current PSI, which was scheduled to expire on August 10, 2013 (see Press Release No. 10/195).

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

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

"The Ugandan authorities are to be commended for the broadly satisfactory implementation of their economic program under the Policy Support Instrument. Prudent policies were successful in bringing inflation under control, raising economic growth, and strengthening the external position.

"Monetary and fiscal policies have been consistent with the growth and inflation objectives, and the authorities have managed large foreign exchange inflows successfully. In the short term, fiscal policy will need to focus on increasing tax revenue collection—currently low compared to the regional East African Community peers—and allocating significant resources to development spending. The central bank is encouraged to remain vigilant to potential demand pressures and stand ready to adjust the monetary policy stance if needed. Continued exchange rate flexibility will help support these efforts.

"Important progress has been achieved in institutional modernization. Public financial management has been significantly strengthened, and efforts to introduce a Treasury Single Account and pass a public finance management bill are expected to improve budget execution, transparency, and cash management. Moreover, progress toward improving the inflation targeting framework is ongoing, with the recent decision to recapitalize the Bank of Uganda representing a

major milestone to enhance its independence and credibility.“To ensure inclusive growth and deal effectively with the challenges posed by natural resource production, further structural reforms to improve the business environment, enhance competitiveness and productivity, promote diversification, and strengthen the social safety net remain essential. This will require additional efforts to strengthen governance and accountability.”

Statement by Mr. Saho on Uganda
Executive Board Meeting
June 28, 2013

My Ugandan authorities appreciate the Fund Executive Board and Management for their continued engagement and support. They are grateful for the productive policy discussions and advice offered by the IMF mission team during the 2013 Article Consultation and sixth review under the Policy Support Instrument. The authorities agree with the thrust of the report as it addresses the main challenges to the successful implementation of Uganda's growth strategy.

Program performance

Despite the daunting challenges, my authorities continue to demonstrate a steadfast commitment to pursuing prudent macroeconomic and structural policies within the context of the IMF program. This is reflected in the strong performance in respect of the end-December 2012 program targets, as all quantitative assessment criteria were met. However, performance on the structural benchmarks was mixed. While there were some delays on avoidance of domestic arrears and transparency of fiscal operations, progress was made on publication of vital statistics. Against this backdrop, my authorities request for Executive Directors' support for the completion of the sixth and final review of the current PSI and approval of a successor PSI.

Recent economic development

Uganda's economic growth remains strong driven by construction, services and manufacturing. The economy is expected to expand by 5.3 percent in FY 2012/13, higher than the 3.4 percent recorded in 2011/12. Aggregate demand has been boosted, inter alia, by an increase in net exports, while aggregate supply has improved by the expansion in electricity generating capacity and better agricultural harvests. Inflation has fallen sharply as a result of the softening of supply side shocks and the tight monetary policy that has dampened the growth in domestic demand. On the fiscal front, the overall fiscal deficit in 2012/2013 is expected to be 3.9 percent of GDP, exceeding the program target by 0.5 percent of GDP. The larger deficit is largely on account of the lower than expected revenues and grants, slightly higher than programmed current expenditures and the need to recapitalize the central bank. Owing to the strong non-coffee exports and the decline in imports, the external current account deficit (including grants) is expected to narrow to 9.3 percent of GDP in FY12/13 from 13.0 percent of GDP in the preceding year. As a result, the gross international reserves of the central bank increased to US $3.0 billion from US $2.6 billion during the same period. However, in months of import cover, reserves remain unchanged at 4.2 months of imports of goods and services.

Medium-term outlook and polices

As the recovery from the recent supply side shocks is gradually consolidated, my authorities' policy focus has shifted to returning the economy to a higher and sustainable growth trajectory in order to increase employment and reduce poverty. Continued scaling up of

investment in infrastructure and improved delivery of basic social services, in line with the authorities' National Development Plan (NDP) will be pursued in the medium term. Against this background, my authorities are in agreement with staff on the growth path of GDP to 6.0 percent during 2013/2014 and further to an average of 7.0 percent per annum over the medium term. Core inflation in the medium term, is expected to average 5.0 percent while gross international reserves will be maintained at a level of at least 4.0 months of import cover.

The new PSI will support government endeavors to expand the fiscal space for infrastructure investment while maintaining debt sustainability. In this regard, efforts will focus on revenue enhancement, reforming PFM to improve effectiveness of public spending, bolstering the new oil economy, and improving the business environment.

Fiscal policy

My authorities remain committed to a near and medium-term macroeconomic framework that aims at consolidating the recovery of the economy. To achieve this objective, the authorities intend to slightly increase budgetary spending levels for FY2013/14, in particular scaling up expenditures on infrastructure and agriculture in line with their NDP. In this regard, the authorities intend to consolidate current expenditures, while increasing spending on social services.

On the revenue side, my authorities are determined to increase revenue mobilization through the broadening of the tax base and reducing discretionary tax exemptions. Also, the authorities will continue implementing additional tax reform measures to raise domestic revenue resources over time. To this end, efforts will focus on enhancing the efficiency of VAT and strengthening tax administration.

To ensure budget credibility and make public spending more effective, the authorities reaffirmed their commitment to enhance public financial management. They are dedicated to strengthening external debt management in order to maintain debt sustainability. In this respect, my authorities will pursue concessional borrowing and grants. Non-concessional financing will be contracted for projects that have high economic returns.
The authorities will continue the implementation of PFM reforms. The Public Financial Management Bill will be amended according to international best practice. In order to avoid misappropriation of funds and payment arrears, my authorities will complete the rollout of the Integrated Personnel and Payroll System (IPPS) to cover personnel management and payroll of entities within central government. In addition, a Treasury Single Account (TSA) to improve cash management, control, and transparency of government operations will be established.

Monetary and financial sector policies

My authorities are committed to maintaining inflation below the Bank of Uganda's mediumterm target. To this end, the current ITL regime will be strengthened through a combination of institutional reforms and technical capacity building in order to smoothly transition to fully fledged inflation targeting. As a result, efforts are being made to recapitalize the central

bank and strengthen its operational independence and by enhancing the potency of monetary policy instruments for the effective implement monetary policy. Accordingly, work is at an advanced stage to submit a revised Bank of Uganda Act to cabinet by February 2014. Furthermore, my authorities are building capacity in macroeconomic modeling in both the Ministry of Finance and the Bank of Uganda. In view of this, my authorities' appreciate the TA from the Research Department of the IMF.

In the financial sector, the medium term strategy of the authorities is to produce a significantly changed financial sector, which is stronger, more stable and vibrant and a vanguard for supporting broad-based economic growth and development. In this regard, the Bank of Uganda is implementing Basel III in segments, starting with a pilot exercise on the use of a liquidity coverage ratio by big banks. All banks will soon be required to use this ratio as well as a capital conservation buffer. Legislations to change the Financial Institutions Act and other financial sector regulations are at the parliament for ratification. Also, to deepen financial intermediation and the extension of credit, the central bank intends to improve public financial literacy and promote financial innovation while strengthening the regulation of the non-bank financial institutions.

Conclusion

The authorities remain steadfast to maintaining a stable macroeconomic environment, creating conditions for sustained broad-based economic growth and poverty reduction, and

persevering with the structural reform agenda. Efforts to create employment opportunities through significant public investment in infrastructure and reforms to the business environment remain priorities. It is in this regard that my authorities consider the Fund's and other development partners' policy advice and technical support critical to successfully implementing their national development plan and poverty reduction.