INTERNATIONAL MONETARY FUND

IMF Country Report No. 13/375

UGANDA

FIRST REVIEW UNDER THE POLICY SUPPORT INSTRUMENT

December 2013

In the context of the First Review Under The Policy Support Instrument, the following documents have been released and are included in this package:

- **Staff Report** for the First Review Under The Policy Support Instrument, prepared by a staff team of the IMF for the Executive Board's consideration on December 18, 2013(LOT), following discussions that ended on November 7, 2013, with the officials of Uganda on economic developments and policies underpinning the IMF arrangement under the Policy Support Instrument. Based on information available at the time of these discussions, the staff report was completed on December 3, 2013.
- **Informational Annex** prepared by the IMF in consultation with the World Bank.
- A **Press Release** including a statement by the Chair of the Executive Board.

The documents listed below has 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 the Staff Report

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

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UGANDA

FIRST REVIEW UNDER THE POLICY SUPPORT INSTRUMENT

December 3, 2013

KEY ISSUES

Growth has continued to recover from the 2011/12 low. In an environment of declining inflation—recently halted by a drought-driven food price shock—the fiscal stimulus has been successful in driving economic activity, and a planned program of infrastructure investment is expected to boost growth further.

Monetary policy was appropriately tightened to abate the impact of the price shock on core inflation. Consolidating its credibility as an inflation-targeting central bank, the Bank of Uganda (BoU) raised the policy rate in reaction to the shock, and subsequently signaled a neutral monetary stance until the updated inflation forecast adjusts to the 5 percent medium-term target. Exchange rate flexibility continued to support the regime.

Construction of two large hydropower projects is expected to address Uganda's electricity deficit. The economy would absorb these investments with limited impact on inflation and the exchange rate. Nonetheless, efficiency and transparency in managing the projects are crucial to mitigating potential fiscal risks.

The external accounts remain sustainable. The current account deficit declined mainly owing to a temporary slowdown of foreign direct investment (FDI)-related imports. International reserves would remain at a comfortable level despite the high import component of the hydropower projects. External debt will remain at low risk of distress notwithstanding the non-concessional borrowing (NCB) requirements to finance the projects.

The fiscal stance has remained broadly consistent with the program, but spending pressures need to be resisted. With output closer to potential and the recent inflation pickup, expenditure needs to adhere to the budget. Although there is space for raising the domestic debt-to-GDP ratio somewhat this year, it needs to start declining thereafter because domestic debt service accounts for a large share of government revenue.

With satisfactory program performance, staff supports completing the first PSI review and increasing the ceiling on NCB. Quantitative assessment criteria (QAC) were met and structural benchmarks partially observed. Operation of a treasury single account started, public accounting systems were improved, and the central bank was recapitalized. Progress on increasing tax revenues and reducing arrears, however, are key remaining challenges.

Approved by
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Discussions: Held in Washington, D.C. and Kampala October 23–November 7, 2013. The mission met with senior government officials and economic authorities, as well as representatives of the private sector, civil society, the international community, and the media.

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RECENT ECONOMIC DEVELOPMENTS

1. With low inflation and slow credit expansion, the economic recovery continued to gain momentum in FY2012/13 (Figure 1).

- **Real GDP growth** was driven by public investment and consumption, exports, and private investment in telecommunications. The contribution of household consumption was negative, affected by low credit growth and declining real wages. Growth is officially estimated at 5¾ percent, higher than projected.

- **Headline inflation** continued its downward trend reaching 3.6 percent in June, but reversed its decline since August driven by drought-related food price increases and picked up to 8 percent in October. Average core inflation rose to 5.9 percent.

- **The current account deficit** declined owing to a temporary slowdown of imports and strong growth in remittances and private transfers. Lower-than-anticipated FDI inflows, possibly related to delays in approval of oil legislation, contributed to a slightly weaker-than-expected reserve accumulation, but import coverage remained high at 3.9 months.

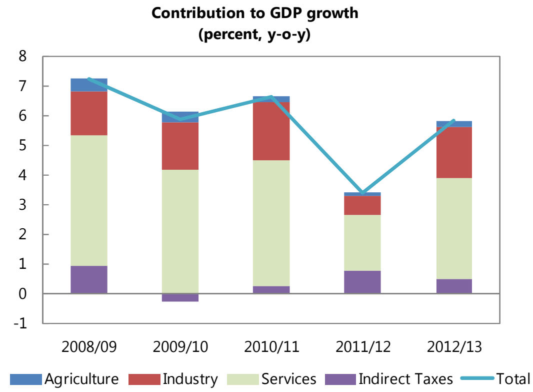
- With stubbornly high lending rates, **private sector credit** remained subdued and largely comprised foreign currency loans to manufacturing, agriculture and construction. Bank capital was raised to meet the new mandatory minimum level, nonperforming loans reversed somewhat the recent increase, and profitability remained high.

2. Fiscal policy drove the growth recovery. The overall deficit in FY2012/13 was slightly more expansive than programmed (Figure 2). Higher-than-anticipated project loans allowed for sustained levels of capital expenditure despite a supplementary budget that shifted the spending composition in favor of current outlays. Execution of the budget during the first quarter of FY2013/14 was faster than expected, notably on domestically financed road construction, but tax revenue is expected to underperform slightly this year as the approved budget omitted measures for about ¼ percent of GDP, including the dismantling of income tax exemptions for agro-processing and some value-added tax (VAT) exemptions and the strengthening of capital gains tax policies. Pressures from civil servants led to a two-year agreement that will compensate workers for past inflation starting next year. Progress on addressing financial impropriety following the end-2012 scandal has improved the outlook for resumption of budget support, possibly starting in the next financial year.

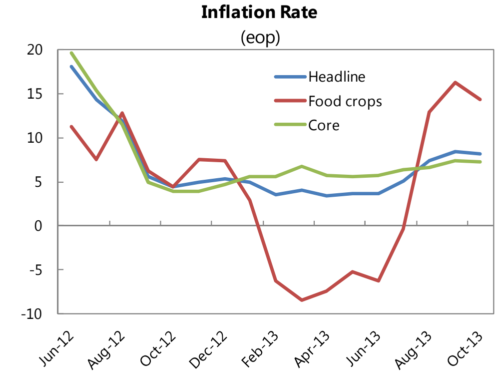
3. The food price hike prompted the BoU to tighten monetary policy for the first time in 22 months. An increase in the inflation forecast as a result of the shock led the BoU to raise the central bank rate (CBR) by 100 basis points to 12 percent in September. The interbank, deposit, and lending rates generally followed the CBR move (Figure 3). In subsequent months, based on modeling and trends in historical data, the BoU monitored the impact of still-high food prices on projected core inflation to detect possible second round effects. On that basis, it kept the CBR constant in October and November. In parallel, the central bank increased the amount of daily dollar purchases in the market to build up international reserves in anticipation of higher public sector imports. The BoU is largely sterilizing these interventions, and the shilling has remained broadly stable.

Figure 1: Uganda: Recent Macroeconomic Developments

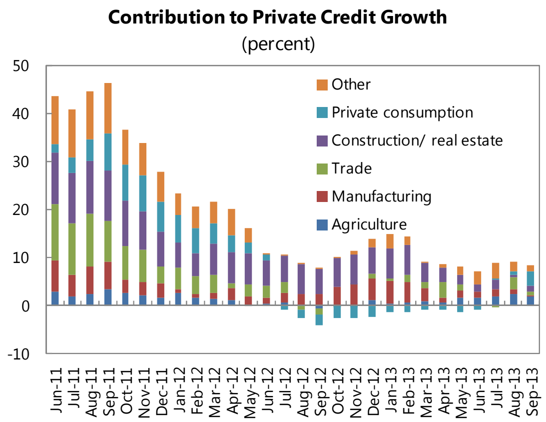
The economic rebound continues, with services and industry leading growth.



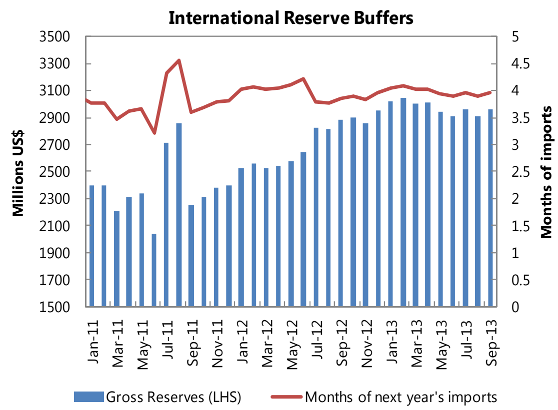
Despite a significant decline, inflation increased recently because of a drought.



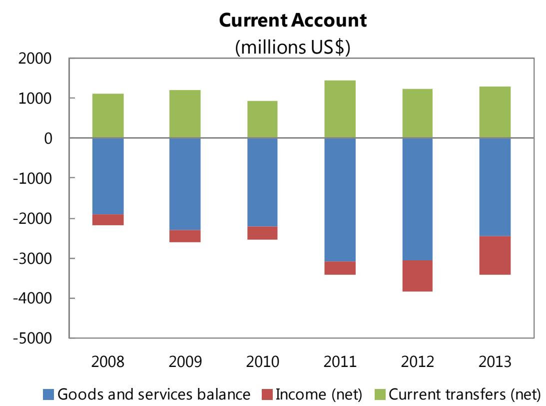
Private sector credit growth remains subdued.



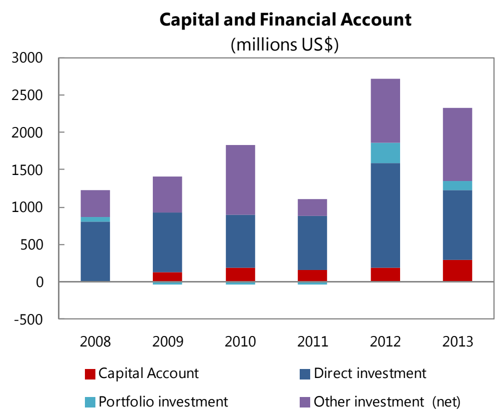
Despite a recent mild deceleration in reserve accumulation, reserve coverage remains adequate.



The current account deficit declined compared to the previous FY on account of a less negative trade balance,...



... and FDI inflows were lower than expected.

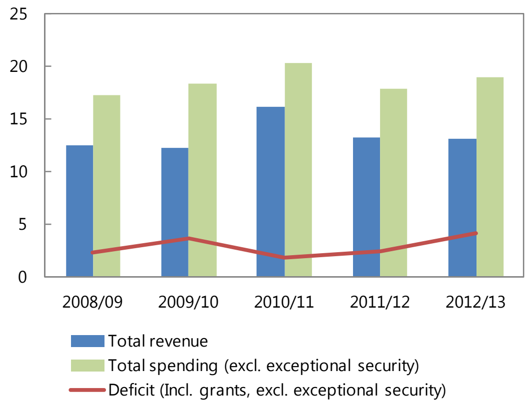


Sources: Ministry of Finance; Bank of Uganda; UBOS; and IMF staff calculations.

Figure 2. Uganda: Fiscal Developments and Outlook

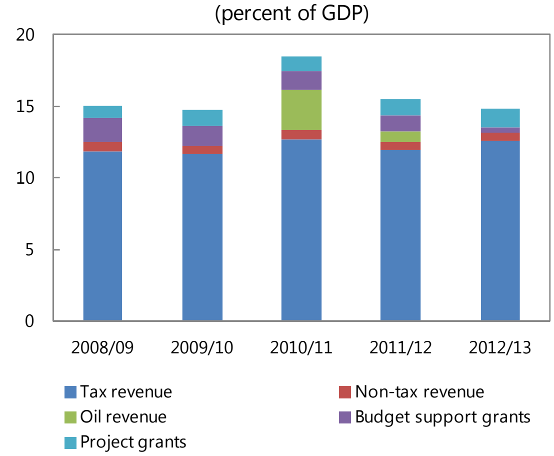
The fiscal stance was slightly eased in 2012/13,...

Central Government Fiscal Accounts
(percent of GDP)



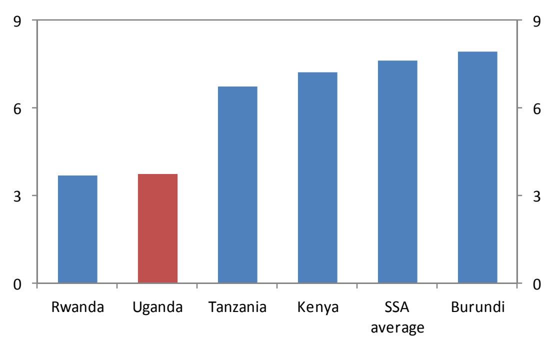
...and tax revenue remains low.

Total Revenue
(percent of GDP)



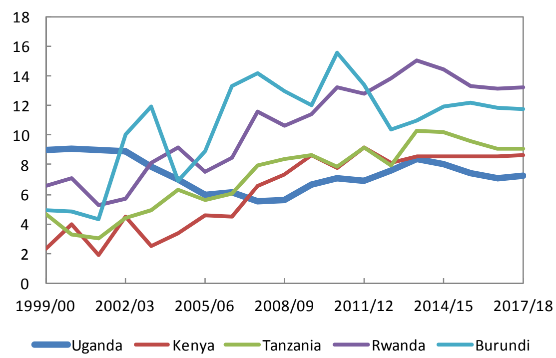
Compensation of employees in Uganda is below levels in neighboring countries.

Compensation of Employees in the EAC
(2012, general government, percent of GDP)



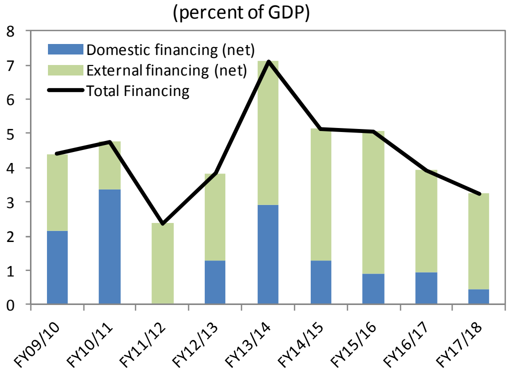
Despite the expected increase, capital expenditure in Uganda would remain lower than in other EAC countries.

Capital Expenditure in the EAC
(percent of GDP)



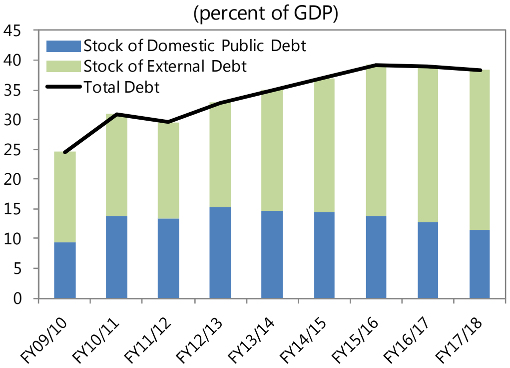
Financing of the deficit is skewed toward external sources,...

Fiscal Deficit
(percent of GDP)



...as is government debt.

Government Debt
(percent of GDP)



Sources: Ministry of Finance; WEO and IMF staff calculations.

PROGRAM PERFORMANCE

4. Program performance during the first six months of the PSI has been broadly positive. At 6.6 percent and 5.7 percent in June and September, respectively, 12-month average core inflation was in line with 6.8 and 6 percent foreseen under the PSI inflation consultation clause. The net international reserve floor and the ceiling on net domestic financing for end-June 2013 were also met. Indicative targets on tax revenue (June and September 2013) and on poverty reduction spending were missed in June by small margins of 0.1 and 2 percent of the targets, respectively, without significant impact on the program objectives.

5. Reforms on the structural front have advanced. The first stage of BoU recapitalization was completed. Measures to introduce the treasury single account (TSA), including restructuring bank accounts and payment systems, were launched in October. The Public Finance Management Bill (PFMB) is being discussed by parliament. Meanwhile the Ministry of Finance, Planning and Economic Development (MoFPED) is upgrading the integrated financial management system (IFMS) and the integrated personnel and payroll system (IPPS). Rollout of the latter helped identify ghost workers and pensioners. However, progress on enhancing tax revenues has been slow. The VAT gap analysis was delayed because gathering the necessary input data proved challenging. The practice of running arrears continues, and the commitment to send to cabinet quarterly reports on unpaid bills of nine key ministries was once again missed.[1]

ECONOMIC OUTLOOK

6. The economic outlook remains favorable but there are risks. Growth is expected to reach 6¼ percent this year and 6½ percent in FY2014/15 with some recovery of private activity as business confidence seems to be improving.[2] With output still below potential and low credit growth, the revised inflation forecast points to only a slightly slower convergence to the 5 percent medium-term inflation target. Average core inflation is projected at 6.9 percent in FY2013/14—within the inner upper limit of the consultation band. The construction of roads and electricity infrastructure projects, the start of oil production in 2018, and a renewed emphasis on East African Community (EAC) regional integration bring favorable medium-term growth and external stability prospects.
Key challenges remain making growth inclusive by integrating lagging regions to the economy, improving agricultural productivity, and strengthening institutions. Uganda is also vulnerable to political instability in the region and to risks from governance weaknesses, overspending pressures, and capacity constraints.

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[1] Audited arrears were not available, but preliminary data on unpaid bills points to an accumulation of about 0.2 percent of GDP between June 2012 and March 2013, the latest available data. The authorities have indicated that the end-year stock would be lower.

[2] Fitch revised its rating from stable to positive in September on account of prudent macroeconomic policies. However, S&P has maintained a B+/B, negative outlook, since end-2012, when relations with donors became strained.

FISCAL POLICY: EMPHASIS ON INFRASTRUCTURE

7. **Fiscal policy is expected to continue to support growth.** With available fiscal space, the authorities see scope for scaling up public investment. While this expansion would lead to an overall deficit of about 7 percent of GDP in FY 2013/14 (up from 4 percent of GDP in FY 2012/13), the underlying balance, which better reflects demand pressures on the domestic economy because it is measured net of one-off factors, would increase only marginally this year and decline thereafter.[3] Staff supported this strategy provided that it is accompanied by a strengthening of tax revenue of 1 percent of GDP in the next two years and financed by a sustainable combination of external and domestic borrowing and the use of government savings earmarked to infrastructure investment, as currently envisaged.

Text Table 1. Uganda: Fiscal Operations of the Central Government, FY 2012/13-2015/16

(Percent of GDP)

	2012/13	2013/14	2014/15	2015/16
Total revenue and grants	14.8	15.1	15.8	15.8
Revenue	13.2	13.7	14.3	14.8
Tax	12.6	13.1	13.6	14.1
Expenditures	18.2	18.7	18.8	18.6
Current expenditures	10.5	10.2	10.6	11.0
Development expenditures	7.6	8.4	8.1	7.5
Other spending	0.1	0.1	0.2	0.2
Underlying balance (excl. one-off items)	-3.4	-3.6	-3.0	-2.8
Net lending and investment	0.7	3.5	2.1	2.2
Of which: HPP projects	0.0	3.5	1.7	2.0
Of which: Bank of Uganda recapitalization	0.7	0.0	0.4	0.3
Overall balance	-4.1	-7.1	-5.1	-5.1
Financing	3.8	7.1	5.1	5.1
External financing (net)	2.6	4.2	3.9	4.2
Domestic financing (net)	1.3	2.9	1.3	0.9
Government securities	1.4	1.6	1.2	1.0
Errors and Omissions	0.3	0.0	0.0	0.0

Sources: Ugandan authorities and IMF staff estimates and projections.

A. Tax Revenue

8. **The PSI envisages tax revenue enhancement through policy refinements and administration improvements.** An increase in tax revenue of ½ percent of GDP a year in the next three years would narrow the gap with the regional average and reduce reliance on borrowing. Some ad hoc revenue measures, notably increasing excise duties on fuels and introducing levies on

[3] Capital gain taxes on oil transactions envisaged at the time of the PSI approval are now not expected to materialize this fiscal year owing to procedural delays. Staff discussions also covered plans for FY 2014/15 as an eventual approval of the PFMB this year would bring forward the budget cycle, compelling the authorities to send the budget to parliament in early 2014 (and not mid-year as in the past).

mobile money transfers and international calls, were approved with this year's budget. However, staff noted the importance of centering the tax effort on a comprehensive strategy—as opposed to a piecemeal approach—to broaden the tax base (Box 1). The authorities highlighted the political constraints to removing critical VAT and income tax exemptions, but committed to garnering consensus while focusing on better tax administration. Staff urged avoiding further delays and decisively engaging parliament in the revenue-enhancing strategy.

Box 1. Uganda: Revenue-Enhancing Plan

Successful tax reform will need to address the revenue gap under the VAT. Uganda faces a large shortfall in VAT revenues—compared with other EAC countries—as illustrated by the C-efficiency measure, which captures both revenues lost from statutory exemptions in the law and from poor administration and enforcement of tax laws.

Table 1. VAT Revenue Performance in EAC Countries

	Standard VAT Rate	C-Efficiency[1]
Uganda	18	28.6
Burundi	18	81.7
Kenya	16	44.4
Rwanda	18	41.7
Tanzania	18	45.7
EAC Average		48.4

Source: USAID Collecting Taxes database 2011/12

[1] The C-Efficiency is an indicator of the departure of the VAT from a perfectly enforced tax levied at a uniform rate on all consumption. It is calculated by dividing VAT revenue as a percent of aggregate consumption by the headline rate.

To address this gap, the government plans to complete a VAT gap analysis to quantify the revenue foregone owing to exemptions or zero-rated goods and services as well as the compliance gaps in goods and sectors. This will in turn allow the use of a cost-benefit analysis to determine which exemptions are worth maintaining and which should be dropped. The VAT gap analysis will also enable the Uganda Revenue Authority (URA) to better use its limited resources for compliance management by focusing on sectors with the highest revenue potential.

The government intends to conduct a comprehensive review of exemptions under the Income Tax Act. A key action is the elimination of exemptions on income derived from agro-processing, which now faces widespread opposition. The government also plans to amend the thin capitalization rule to limit excessive use of related-party debt and to introduce a capital gains tax on the disposal of commercial buildings by residents.

Planned tax administration measures are intended to enhance transparency in collection and improve enforcement. Compliance management will focus among other actions on further expanding audit coverage and improving audit risk criteria for problematic industries, better using taxpayers' segmentation and coordinating among various departments to boost revenue, using tax identification numbers for traders more systematically, and reviewing the VAT register and ledger to ensure the largest taxpayers can be accurately monitored. The scope of withholding agents will be widened and a legal framework put in place to collect taxes on small businesses which have historically been hard to reach.

B. Investment Plans

9. The authorities will launch the construction of hydroelectric projects and oil-related infrastructure upgrades. At a cost of $2.35 billion spread over the next five years, two hydropower projects, the Karuma and Isimba dams and their related industrial substations, are expected to address the electricity deficit—a critical bottleneck to growth. An additional investment of $200 million on the needed connectivity (e.g. roads, bridges) for the start of oil production in 2018 is also anticipated (Box 2). The World Bank supports these projects because they would lower production costs, enhance trade, and ultimately contribute to poverty reduction. A multiplier analysis shows a growth impact of about 1 percentage point during the construction phase and further gains in potential output from narrowing the infrastructure gap. Given the high import content, the economy is anticipated to absorb the investment without significant impact on inflation or the real exchange rate. However, international reserves are projected to decline in line with the up-front use of the equivalent to $253 million of shilling denominated deposits of the government to cofinance the projects, dropping to 3.5 months of imports in FY2013/14— still an adequate level for Uganda. Excluding such deposit withdrawals, international reserves would increase by $113 million in FY2013/14, keeping the reserve coverage at 3.9 months of imports.[4]

Text Table 2. Uganda: Financing of Key Infrastructure Projects

		Financing Modality		
	Cost	**EF&PF [1]**	**NCB**	**PPP**
	(Billions of US$)			
Karuma hydro power project	1.7	0.3	**1.4**	
Isimba hydro power project	0.6	0.1	**0.5**	
Industrial substations for transmission	0.1		**0.1**	
Oil-related infrastructure projects	0.2		**0.2**	
Kampala-Mpigi highway	0.4			0.4
Kampala-Jinja highway	0.5			0.5
Total	3.5	0.3	**2.2**	**0.9**

Source: Ugandan authorities.

[1] Drawdown of the Energy Fund and the Petroleum Fund.

10. Based on the information made available to staff, the projects look commercially viable. Independent feasibility studies conducted for the two dams and an updated preliminary cash flow analysis performed by staff based on available information on capital and operating costs and expected production suggests that, in the absence of subsidies to electricity tariffs, the exploitation

[4] The revised TMU incorporates an adjustor to the NIR target such as if deposit withdrawals fall short of projections owing to delays in projects or foreign currency inflows to the petroleum fund the NIR accumulation floor will be adjusted upward (TMU ¶20-21).

of the dams would allow recovery of the bulk of the investment and financial costs.[5] Nonetheless, the budget may need to cover interest payments during the construction period. To address concerns about preexisting operating losses of the electricity generation and transmission companies, the authorities indicated they will create a performance-oriented special unit within the companies to manage the new projects and ensure their viability. They also intend to implement institutional reforms in the electricity sector in the medium term.

11. Changes in project financing modalities would result in higher NCB than earlier envisaged. At the time of PSI approval, Karuma was expected to be financed with government savings and issuance of domestic debt. The Isimba dam and the road program were to be financed with NCB. The financing modalities have changed as now a Chinese company and China Eximbank will construct and finance 85 percent of both projects. The remaining 15 percent, as well as any insurance and fees, are to be financed by a drawing of government savings. At the same time, use of public-private partnership (PPP) schemes instead of NCB is now envisaged for the road program. All together, these plans would require an increase in the NCB ceiling from $1.5 billion to $2.2 billion, which the authorities have requested.

12. Based on economic considerations, staff supported the request to increase NCB to finance the projects. First, the projects are macro critical, they look commercially viable if well managed, and are consistent with the absorptive capacity of the economy. Second, external debt would remain at low levels of distress with an estimated increase in the NPV of external debt of 8¾ percent of GDP (Annex 1 in the DSA).[6] Third, it is unlikely that the required financing could be mobilized from concessional sources given the size of the projects. Fourth, the terms of financing, still under negotiation, would likely involve a combined grant element of at least 10 percent, resulting in lower costs than floating a market bond or issuing domestic debt. Fifth, concerns about weak implementation capacity are mitigated by the recent favorable experience with road construction.

13. Nonetheless, staff warned the authorities about possible risks. The planned borrowing is large and subject to delays in implementation that could raise costs, suboptimal public financial management that could derail funds and still weak institutional arrangements that could raise fiscal liabilities. Furthermore, the potential volatility in financing terms in international markets could raise debt service costs. Staff urged the MoFPED to ensure efficiency and transparency in the management of the projects, including by institutional building of the electricity companies, as well as by publishing feasibility studies, terms of the contracts, and cash flows of financing and operations. Moreover, the investment program and its financing modalities must be included in the

[5] Feasibility studies have also been conducted for the highways, but not yet for the oil-related infrastructure projects.

[6] Uganda is expected to receive substantial inflows from oil revenue starting in 2018, which would further improve the debt outlook. A scenario that reflects the planned cross-border railway connecting landlocked Uganda and Rwanda to the Mombasa port also maintains debt at low levels of distress.

medium-term fiscal strategy to ensure efficiency in electricity generation, transmission, and distribution and guarantee the envisaged cost recovery.

C. Current Spending

14. Staff made the case for resisting pressures and limiting current spending to sustainable levels. Compensating civil servants in FY2014/15 for the decline in purchasing power of salaries is warranted given that past increases have not kept up with inflation, and the overall wage bill is below levels in neighboring countries (Figure 2). Nonetheless, staff emphasized the need to accompany these increases with a strengthening in tax revenue mobilization consistent with the plan supported by the PSI, and with a medium-term civil service reform ideally supported by development partners. On spending related to the forthcoming presidential and legislative elections, the authorities intend to limit it to essential outlays. Staff urged avoiding squeezing resources available for development spending. Staff also supported a renewed interest to move faster with the plan of issuing the long awaited national identification cards and accommodate the related spending in the budget.

Box 2. Uganda: Planned Infrastructure Projects and Their Financing Modalities

- **Hydropower plants**. The 600 MW Karuma dam will double current production capacity. Construction is expected to start in FY2013/14 and take five years, at a cost of $1.7 billion. Uganda would finance 15 percent from its savings in the oil and energy funds and borrow the rest non-concessionally from China. At the smaller Isimba hydropower plant ($570 million) construction would also start in FY2013/14 with Chinese involvement and a similar financing scheme.
- **Roads.** The program mainly includes construction of roads linking Kampala with Jinja and with Mpigi, expected to start in FY2013/14 and be completed in five years at a cost of about $500 million each. With support from International Finance Corporation (IFC), the authorities are working on the design of PPPs to finance and manage these highways.
- **Regional railway.** To step up progress towards regional integration, a new railway between Kenya, Rwanda and Uganda is being planned. Total costs would reach $13 billion, with a Ugandan share of $3 billion. Discussions on execution and financing are at an early stage.
- **Refinery and pipeline.** Construction is planned to start in FY2015/16, and total capital expenditure is estimated at $15–20 billion financed primarily through FDI. The government would increase external borrowing only marginally to meet its expected equity commitments. In preparation, an investment of about $200 million in oil-related infrastructure works, financed from non-concessional sources, is planned.

MONETARY POLICY: DEALING WITH RISING INFLATION

15. Discussions centered on the potential impact of ongoing food price increases and fiscal spending pressures on the policy rate. While the pass-through to core inflation has so far been moderate, the BoU acknowledged potential second-round effects if the shock persists. This risk was viewed as being mitigated by the remaining output gap and likely effect on demand of the September CBR hike. On this basis, the BoU is expected to keep an unchanged policy stance in the next few months, but it emphasized its willingness to tighten policies if incoming data suggest a rise in core inflation.

16. Staff supported the BoU's stance, but stressed the importance of being prepared to respond to developments in the fiscal front. In particular, the BoU's announced foreign exchange purchasing plan is expected to help offset the impact on international reserves of the government's infrastructure financing needs. Staff emphasized the need to continue to communicate clearly to the market the rationale for such purchases and fully sterilize them—allowing interest rates to adjust accordingly—in line with the inflation objective. Staff also recommended maintaining a close watch over base money developments in line with the program indicative target, without distracting attention from the need to ensure sound implementation of the authorities' inflation targeting lite regime.

17. Ongoing refinements in operational and institutional arrangements to support inflation targeting are crucial in consolidating the BoU's credibility. Improvements in inflation forecasting techniques are proving a useful tool in assessing the sources of inflation and the impact of shocks (Box 3). Staff recommended adapting the BoU's organization and processes to the IT framework, including through revisions of the decision-making process, improvements in communication, and legal amendments of the BoU Act to strengthen central bank independence. A macro-critical element within these reforms is the completion of central bank recapitalization to further bolster the BoU's credibility and align its capital to monetary liabilities, providing the BoU with needed additional marketable securities of diverse maturities to be used in monetary policy operations. A serious streamlining of the BoU's non-monetary policy related costs is at the center of this decision, and ongoing negotiations between the MoFPED and the BoU point to gradual capital injections in the next few years (structural benchmark).

Box 3. Uganda: Inflation Forecasting Techniques

The BoU is refining its forecasting system. The Forecasting and Policy Analysis System (FPAS) incorporates a model with four behavioral equations to project real GDP, inflation, real interest rate, and real exchange rate—all in terms of deviations from equilibrium levels. In its basic form, the model includes an aggregate demand or IS curve for real GDP; a price-setting or Phillips curve; an uncovered interest parity condition for the exchange rate; and a Taylor rule for setting the policy rate as a function of the output gap and expected inflation. The model does not explain movements in equilibrium real output or in real exchange rates or interest rates. Rather, these are taken from filtering methodologies and judgmental analysis. The transparency and simplicity of the model is an advantage.

The model incorporates features to account for country-specific characteristics. In particular, it disaggregates food and oil prices, both of which have traditionally exerted pressures on inflation; and differentiates between non-core and core inflation to allow for quick detection of second round effects. Another attractive application of the model is its ability to identify trends in historical data and detect the impact of shocks to get deeper insights about inflation drivers.

Most inflation variability is related to a few determinants. In the last several years, the exchange rate and food prices have been the main determinants of inflation. Delayed responses to these shocks are likely to have a toll on inflation by leaving inflation expectations unanchored.

Inflation (YoY) Historical Decomposition of Shocks (2006-2013)

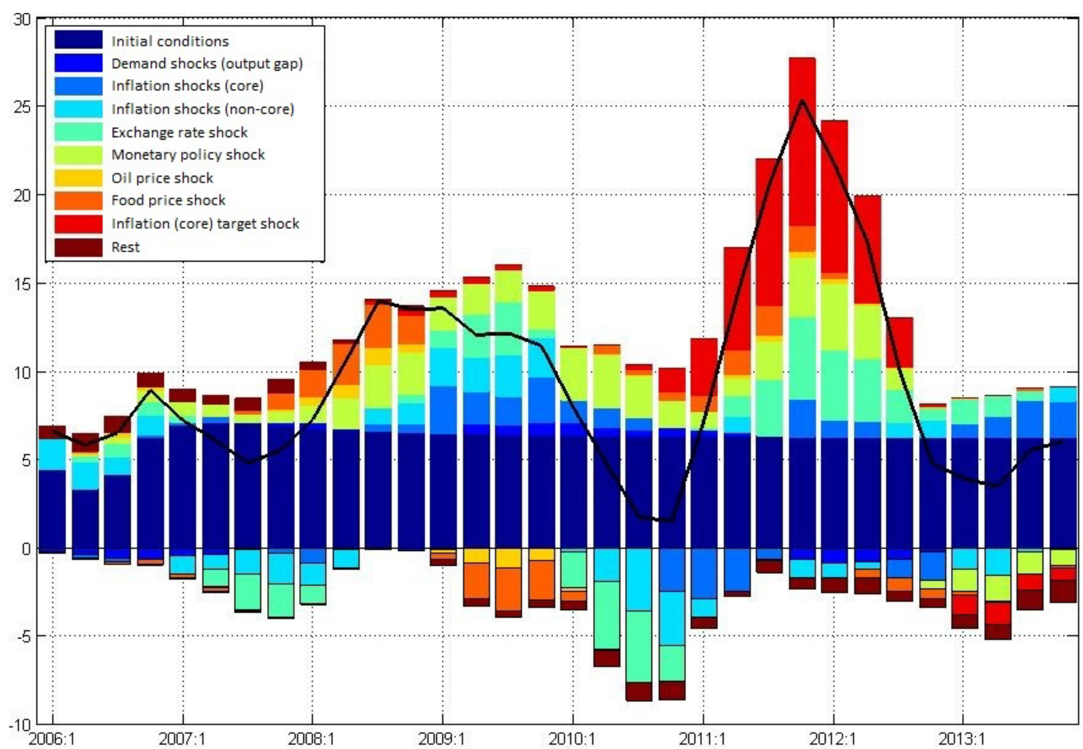
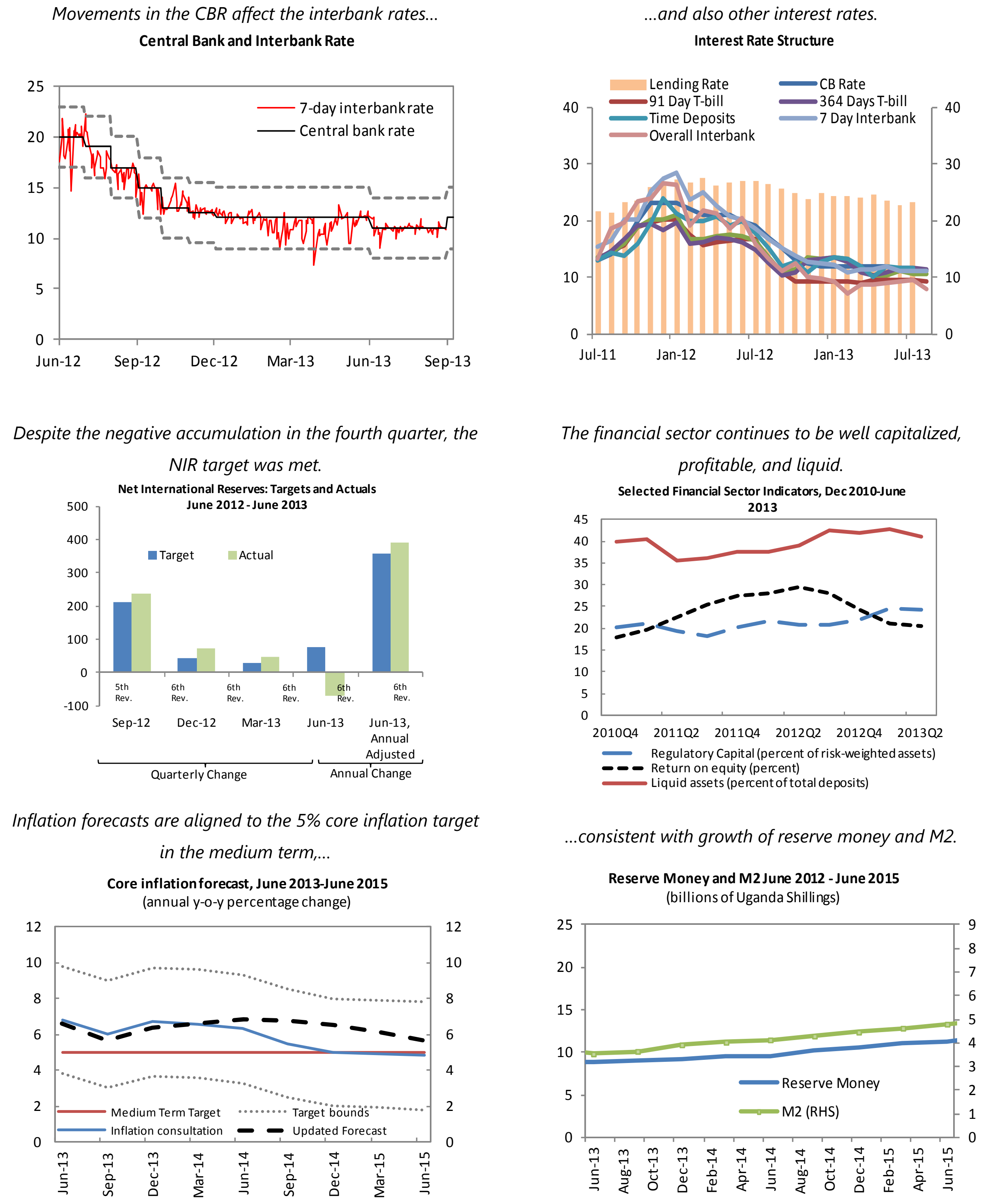


Figure 3. Uganda: Monetary and Financial Sector Developments and Outlook



Sources: Bank of Uganda; and IMF staff calculations.

STRUCTURAL REFORMS

18. Follow–up discussions on the following main topics took place:

- **PFM and arrears management.** Efforts to increase budget credibility are underway. The TSA is expected to become operational soon and the MoFPED—with support from a U.S. Treasury advisor—plans to set up cash and debt management units. Staff urged avoiding a supplementary budget this year, paying bills timely, and reducing the stock of arrears—all aspects that require substantial progress. The government is confident that IFMS and IPPS improvements, complemented by the ongoing imposition of sanctions, will result in arrears reduction, and they introduced an indicative target in the program to reflect this commitment. Despite some parliamentary resistance, the authorities expect approval of the PFMB in the next few months and plan to start preparing for its implementation.

- **Improving legal frameworks to increase transparency.** Staff welcomed the approval of the Anti-Money Laundering Act aimed at improving financial transparency, fighting tax evasion and corruption. It recommended a well thought out and careful approach to the envisaged PPP Law to ensure efficiency in project implementation and minimize contingent liabilities.

- **Deepening financial markets and supervision.** The weak intermediation role of banks (with credit under 15 percent of GDP) calls for efforts to deepen the sector and make it more inclusive. The authorities explained that recent actions to reduce information asymmetries, improve financial literacy and regulate the growing mobile money industry (with a total transaction value equivalent to about 30 percent of GDP) to mitigate potential operational risks are expected to bear fruit soon. They are also closely monitoring foreign exchange lending to un-hedged borrowers and are prepared to upgrade their prudential and supervisory tools in case currency mismatch risks arise.

- **Progress on EAC Integration.** Rwanda, Kenya, and Uganda agreed on a single customs territory in October and have discussed regional infrastructure plans with clear opportunities for economies of scale in the water, power, transport, and oil sectors. Aided by an open capital account, Uganda has made progress on meeting its commitments under the customs union and common market protocols. Nonetheless, some non-tariff barriers persist such as cumbersome procedures for testing goods, unnecessary weigh bridge stations, restrictions on imports of beef, and difficulties in issuing rule of origin certificates. The issuance of national identity cards is expected to facilitate free movement of workers, and the authorities are committed to homogenizing regimes on access to property and on licensing and registration requirements.

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19. Policies continue to support the economic recovery. Mainly driven by public investment, growth continues its successful return to potential. Nonetheless, the private sector's contribution to the expansion is still sluggish as highly leveraged corporations are delaying investment plans owing to a fall in real incomes, worsening terms of trade, and credit constraints from the damaging impact of high lending rates on bank balance sheets. Ongoing efforts to improve the business environment should underpin further private investment.

20. Action to control inflation in the face of recent food price hikes is commendable. The BoU struck the right balance between signaling its commitment to low inflation, avoiding excessive exchange rate volatility, and keeping consistency with the fiscal policy stance. The BoU's action to accumulate international reserves should also be helpful in meeting anticipated needs related to government infrastructure investment, but it will be important to ensure that these interventions are fully sterilized and to allow interest rates to adjust in response to fiscal and other developments in a manner consistent with meeting the inflation objective. Institutional reforms to strengthen inflation targeting, including streamlining the BoU's non-monetary policy related costs to secure the needed recapitalization and gain independence, are essential.

21. While accommodating important infrastructure plans, fiscal policy needs to be supportive of low inflation. The planned electricity and road projects are consistent with fiscal and debt sustainability and critical to closing the infrastructure gap and contributing to job creation and poverty reduction. To ensure efficient use of resources—largely borrowed—it is imperative that projects be subject to timely implementation, strong financial practices, transparent management of funds, and an appropriate cost recovery strategy. Since infrastructure spending will use large fiscal space, it is also essential that the MoFPED closely coordinates with the BoU the pace of other spending to prevent an upsurge of domestic debt beyond the expected levels.

22. The tax revenue enhancement strategy, a key pillar of the program, has suffered some setbacks that need to be overcome soon. The authorities are encouraged to build consensus to remove tax exemptions that have outlived their usefulness, and bring the tax-to-GDP ratio closer to regional levels. A broader tax base will reduce reliance on borrowing and donor financing.

23. Progress in strengthening PFM systems and governance is welcome but challenges remain. The introduction of a TSA and upgrade of accounting systems should help improve efficiency and deter mishandling of public funds. However, accumulation of payment arrears is a serious concern because it hampers policy analysis and creates perceptions of weak governance. The authorities are therefore encouraged to implement their commitments to reinforce control over unpaid bills, issue national identification cards, and publish unspent balances of government accounts. Approval of the PFMB is critical to ensuring sound management of revenues and the budget process.

24. Staff recommends completing the first review of the PSI. The attached MEFP outlines the macroeconomic objectives and policies for the period ahead and proposes rescheduling some structural benchmarks to take account of ongoing progress. To reflect recent economic developments and outlook, modifications are proposed to the end-December 2013 Quantitative Assessment Criteria and end-March 2014 targets, and an increase from $1.5 billion to $2.2 billion in the NCB limit is recommended. These amendments mainly reflect the impact on the fiscal and external accounts of the use of government resources to finance the envisaged large infrastructure projects.

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
				6th Rev	Est.	6th Rev	Proj.	Proj.	Proj.	Proj.	Proj.
GDP and prices (percent change)											
Real GDP	5.9	6.6	3.4	5.3	5.8	6.0	6.2	6.5	7.1	7.2	7.2
GDP Deflator	9.5	5.0	24.1	7.3	4.7	5.8	7.8	6.9	4.7	4.8	5.0
CPI (end of period)	4.2	15.7	18.0	5.7	3.6	5.7	7.6	6.3	5.0	5.0	5.0
CPI (average)	9.4	6.5	23.5	6.0	5.8	6.2	7.9	6.9	5.0	5.0	5.0
Core inflation (average)	7.8	6.3	24.6	6.8	6.6	6.3	6.9	5.7	5.0	5.0	5.0
Core inflation (end of period)	4.6	12.1	19.6	6.7	5.8	5.2	6.7	5.3	5.0	5.0	5.0
External sector (percent change)											
Terms of trade (based on all exports, deterioration -)	-8.1	4.3	1.6	-0.5	1.0	-1.7	-3.7	-3.3	-2.0	-0.4	-0.3
Real effective exchange rate (depreciation –)	4.8	-0.9	4.5	…	5.4	…	…	…	…	…	…
Money and credit (percent change)											
Broad money (M3)	33.2	25.7	7.2	10.3	6.6	16.1	11.3	16.3	13.4	13.6	14.9
Private sector credit	30.6	43.6	11.5	14.5	6.4	15.1	15.4	14.4	12.8	13.6	13.8
Bank of Uganda's policy rate[2]	…	…	20.0	11.0	11.0	…	…	…	…	…	…
Savings and investment gap (excluding grants, percent of GDP)	-10.8	-13.1	-14.5	-10.7	-10.3	-12.6	-13.8	-12.7	-13.2	-12.6	-11.1
Gross Domestic Savings	12.6	11.9	10.1	…	14.3	…	14.6	13.4	13.7	13.5	14.8
Domestic investment	23.5	25.0	24.6	26.1	24.5	27.9	28.1	26.9	27.4	26.8	26.7
Public	5.6	5.9	5.7	5.8	6.1	8.1	9.2	7.9	7.6	7.2	6.9
Private	17.9	19.1	18.8	20.2	18.4	19.8	19.0	19.1	19.8	19.6	19.8
External sector (percent of GDP)											
Current account balance (including grants)	-9.5	-11.8	-13.3	-10.4	-9.9	-12.2	-13.4	-12.4	-13.0	-12.4	-10.8
Current account balance (excluding grants)	-10.8	-13.1	-14.5	-10.7	-10.3	-12.6	-13.8	-12.7	-13.2	-12.6	-11.1
Public external debt (including IMF)	13.6	17.3	16.2	17.0	17.5	20.3	20.2	22.6	25.4	26.2	26.9
External debt-service ratio[3]	1.8	1.4	1.4	1.6	1.5	1.8	1.6	1.9	2.3	2.7	3.0
Government budget and debt (percent of GDP)											
Revenue	12.2	16.2	13.2	13.0	13.2	15.0	13.7	14.3	14.8	15.1	15.4
Total expenditure and net lending	19.6	22.8	18.5	18.6	18.9	20.2	22.2	21.0	20.8	20.0	19.5
Overall balance (including grants)	-4.9	-4.3	-3.0	-3.9	-4.1	-3.6	-7.1	-5.1	-5.1	-3.9	-3.2
Overall balance (excluding grants)	-7.3	-6.6	-5.3	-5.6	-5.8	-5.2	-8.5	-6.7	-6.1	-4.8	-4.1
Net Domestic Financing	2.1	3.4	0.0	1.5	1.3	1.7	2.9	1.3	0.9	0.9	0.4
Public Domestic Debt	9.3	13.7	13.4	13.0	15.4	12.7	14.7	14.3	13.8	12.7	11.4
Memorandum items:											
Nominal GDP (Ush billions)	34,909	39,086	50,172	56,287	55,574	63,122	63,679	72,474	81,267	91,233	102,678
Nominal GDP (US$ millions)	17,206	16,822	19,620	21,689	21,448	…	…	…	…	…	…
Average exchange rate (Ush/US$)	2,029	2,323	2,557	2,595	2,591	…	…	…	…	…	…
End of period exchange rate (Ush/US$)	2,283	2,623	2,472	2,631	2,593	…	…	…	…	…	…
Gross foreign exchange reserves (US$ millions)	2,385	2,044	2,644	3,044	2,912	3,264	2,772	3,102	3,502	3,832	4,182
(months of next year's imports of goods and services)	4.2	3.2	4.2	4.2	3.9	4.1	3.5	3.6	3.9	4.0	4.0
Social and poverty indicators	Population: 34.1 million in 2012; GDP per capita of US$487 in 2011; Population below poverty line of 24.5 percent										

Sources: Ugandan authorities and IMF staff estimates and projections.

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

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

[3] 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.	6th Rev	Est.	6th Rev	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	5,136	7,208	7,771	8,300	8,245	10,472	9,608	11,455	12,819	14,638	16,691
Revenue	4,273	6,317	6,634	7,338	7,309	9,495	8,727	10,343	12,003	13,801	15,830
Tax	4,067	4,958	5,983	7,015	7,005	8,272	8,314	9,866	11,437	13,176	15,120
International trade taxes	352	455	503	596	599	705	731	862	1,017	1,175	1,335
Income taxes	1,361	1,750	2,112	2,647	2,588	3,049	3,053	3,666	4,252	4,883	5,647
Excises	1,025	1,186	1,446	1,435	1,466	1,689	1,746	2,046	2,330	2,712	3,052
Value-added tax	1,329	1,567	1,921	2,337	2,353	2,829	2,784	3,292	3,838	4,405	5,086
Nontax	206	251	259	323	304	480	413	477	566	625	710
Oil revenue	0	1,108	392	0	0	743	0	0	0	0	0
Grants	863	891	1,137	962	936	977	881	1,112	816	836	861
Budget support[2]	467	515	581	186	199	208	206	227	214	219	222
Project grants	396	375	556	776	738	769	675	886	602	618	639
Expenditures and net lending	6,836	8,900	9,281	10,479	10,523	12,762	14,132	15,183	16,935	18,222	20,022
Current expenditures	4,308	5,963	5,585	5,935	5,813	6,323	6,510	7,668	8,901	9,730	10,971
Wages and salaries	1,308	1,664	1,832	2,175	2,160	2,312	2,440	2,890	3,266	3,525	4,004
Interest payments	386	424	603	891	890	975	1,047	1,156	1,448	1,662	1,833
Other current	2,614	3,875	3,150	2,870	2,763	3,036	3,022	3,622	4,188	4,544	5,134
Development expenditures	2,312	2,774	3,458	4,096	4,237	6,287	5,348	5,835	6,060	6,462	7,461
Externally-financed projects	889	1,042	1,701	2,010	2,163	2,227	2,468	2,668	2,562	2,376	2,772
Government of Uganda investment	1,423	1,732	1,756	2,086	2,074	4,060	2,880	3,167	3,498	4,085	4,689
Net lending and investment[3]	-37	-30	-39	409	409	0	2,225	1,530	1,824	1,881	1,441
Of which: HPP projects			0	0	0	0	2,225	1,205	1,604	1,691	1,341
Of which: Bank of Uganda recapitalization			0	0	410	0	0	325	220	190	100
Other spending	253	194	278	39	63	152	50	150	150	150	150
Clearance of domestic arrears	84	194	278	39	63	50	50	0	0	0	0
Contingency	169	0	0	0	0	102	0	150	150	150	150
Overall balance	-1,699	-1,692	-1,510	-2,179	-2,277	-2,290	-4,524	-3,728	-4,115	-3,585	-3,331
Underlying balance (excl. one-off items)	-1,314	-2,377	-1,942	-1,770	-1,868	-3,033	-2,299	-2,198	-2,292	-1,704	-1,891
Financing	1,532	1,863	1,192	2,179	2,131	2,290	4,524	3,728	4,115	3,585	3,331
External financing (net)	784	546	1,172	1,311	1,418	1,209	2,661	2,811	3,382	2,727	2,883
Disbursement	919	707	1,372	1,517	1,628	1,458	2,916	3,092	3,673	3,044	3,250
Budget support	236	229	124	283	324	0	0	104	110	113	117
Concessional project loans	683	478	1,056	1,234	1,303	921	1,793	1,782	1,382	1,520	1,676
Non-concessional borrowing	0	0	192	0	0	537	1,123	1,205	2,181	1,412	1,457
Amortization (–)	-110	-152	-191	-196	-200	-224	-224	-280	-291	-321	-370
Exceptional financing	-26	-8	-10	-10	-10	-25	-31	0	0	3	3
Domestic financing (net)	749	1,316	20	868	713	1,080	1,862	917	733	858	449
Bank financing	811	622	-1,242	689	530	455	1,238	340	199	500	236
Bank of Uganda[4]	473	270	-1,182	300	-43	48	822	14	-98	385	105
Of which : Petroleum fund withdrawals	0	0	0	0	0	271	327	0	0	521	343
Of which : Energy fund withdrawals	0	0	122	0	0	806	783	0	0	0	0
Of which : Government Securities[3]	0	0	0	0	410	0	0	325	220	190	100
Commercial banks	338	351	-60	389	573	407	416	326	297	115	131
Nonbank financing	-62	694	1,262	179	182	625	624	576	534	358	213
Errors and omissions/financing gap (- is gap, + is surplus)	-167	170	-318	0	-147	0	0	0	0	0	0
Memorandum Items:											
Petroleum revenues (Ush billions)											
Inflows (including interest)	0	1,108	405	889	16	80	16	14	15	16	11
Valuation adjustment	0	52	20	10	71	32	32	83	56	39	36
Withdrawals	0	0	0	982	0	837	327	0	0	521	343
Stock at end period	0	1,128	1,553	1,547	1,640	821	1,362	1,458	1,529	1,063	767
Public domestic debt	3,234	5,356	6,705	7,297	8,534	8,034	9,387	10,397	11,205	11,597	11,735

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

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

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.	6th Rev	Est.	6th Rev	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	14.7	18.4	15.5	14.7	14.8	16.6	15.1	15.8	15.8	16.0	16.3
Revenue	12.2	16.2	13.2	13.0	13.2	15.0	13.7	14.3	14.8	15.1	15.4
Tax	11.7	12.7	11.9	12.5	12.6	13.1	13.1	13.6	14.1	14.4	14.7
International trade taxes	1.0	1.2	1.0	1.1	1.1	1.1	1.1	1.2	1.3	1.3	1.3
Income taxes	3.9	4.5	4.2	4.7	4.7	4.8	4.8	5.1	5.2	5.4	5.5
Excises	2.9	3.0	2.9	2.5	2.6	2.7	2.7	2.8	2.9	3.0	3.0
Value-added tax	3.8	4.0	3.8	4.2	4.2	4.5	4.4	4.5	4.7	4.8	5.0
Nontax	0.6	0.6	0.5	0.6	0.5	0.8	0.6	0.7	0.7	0.7	0.7
Oil revenue	0.0	2.8	0.8	0.0	0.0	1.2	0.0	0.0	0.0	0.0	0.0
Grants	2.5	2.3	2.3	1.7	1.7	1.5	1.4	1.5	1.0	0.9	0.8
Budget support[2]	1.3	1.3	1.2	0.3	0.4	0.3	0.3	0.3	0.3	0.2	0.2
Project grants	1.1	1.0	1.1	1.4	1.3	1.2	1.1	1.2	0.7	0.7	0.6
Expenditures and net lending	19.6	22.8	18.5	18.6	18.9	20.2	22.2	21.0	20.8	20.0	19.5
Current expenditures	12.3	15.3	11.1	10.5	10.5	10.0	10.2	10.6	11.0	10.7	10.7
Wages and salaries	3.7	4.3	3.7	3.9	3.9	3.7	3.8	4.0	4.0	3.9	3.9
Interest payments	1.1	1.1	1.2	1.6	1.6	1.5	1.6	1.6	1.8	1.8	1.8
Other current	7.5	9.9	6.3	5.1	5.0	4.8	4.7	5.0	5.2	5.0	5.0
Development expenditures	6.6	7.1	6.9	7.3	7.6	10.0	8.4	8.1	7.5	7.1	7.3
Externally-financed projects	2.5	2.7	3.4	3.6	3.9	3.5	3.9	3.7	3.2	2.6	2.7
Government of Uganda investment	4.1	4.4	3.5	3.7	3.7	6.4	4.5	4.4	4.3	4.5	4.6
Net lending and investment[3]	-0.1	-0.1	-0.1	0.7	0.7	0.0	3.5	2.1	2.2	2.1	1.4
Of which: HPP projects			0.0	0.0	0.0	0.0	3.5	1.7	2.0	1.9	1.3
Of which: Bank of Uganda recapitalization			0.0	0.0	0.7	0.0	0.0	0.4	0.3	0.2	0.1
Other spending	0.7	0.5	0.6	0.1	0.1	0.2	0.1	0.2	0.2	0.2	0.1
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
Contingency	0.5	0.0	0.0	0.0	0.0	0.2	0.0	0.2	0.2	0.2	0.1
Overall balance	-4.9	-4.3	-3.0	-3.9	-4.1	-3.6	-7.1	-5.1	-5.1	-3.9	-3.2
Underlying balance (excl. one-off items)	-3.8	-6.1	-3.9	-3.1	-3.4	-4.8	-3.6	-3.0	-2.8	-1.9	-1.8
Financing	4.4	4.8	2.4	3.9	3.8	3.6	7.1	5.1	5.1	3.9	3.2
External financing (net)	2.2	1.4	2.3	2.3	2.6	1.9	4.2	3.9	4.2	3.0	2.8
Disbursement	2.6	1.8	2.7	2.7	2.9	2.3	4.6	4.3	4.5	3.3	3.2
Budget support	0.7	0.6	0.2	0.5	0.6	0.0	0.0	0.1	0.1	0.1	0.1
Concessional project loans	2.0	1.2	2.1	2.2	2.3	1.5	2.8	2.5	1.7	1.7	1.6
Non-concessional borrowing	0.0	0.0	0.4	0.0	0.0	0.9	1.8	1.7	2.7	1.5	1.4
Amortization (–)	-0.3	-0.4	-0.4	-0.3	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
Exceptional financing	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing (net)	2.1	3.4	0.0	1.5	1.3	1.7	2.9	1.3	0.9	0.9	0.4
Bank financing	2.3	1.6	-2.5	1.2	1.0	0.7	1.9	0.5	0.2	0.5	0.2
Bank of Uganda[4]	1.4	0.7	-2.4	0.5	-0.1	0.1	1.3	0.0	-0.1	0.4	0.1
Of which: Petroleum fund withdrawals	0.0	0.0	0.0	0.0	0.0	0.4	0.5	0.0	0.0	0.6	0.3
Of which: Energy fund withdrawals	0.0	0.0	0.2	0.0	0.0	1.3	1.2	0.0	0.0	0.0	0.0
Of which: Government Securities[3]			0.0	0.0	0.7	0.0	0.0	0.4	0.3	0.2	0.1
Commercial banks	1.0	0.9	-0.1	0.7	1.0	0.6	0.7	0.4	0.4	0.1	0.1
Nonbank financing	-0.2	1.8	2.5	0.3	0.3	1.0	1.0	0.8	0.7	0.4	0.2
Errors and omissions/financing gap (- is gap, + is surplus)	-0.5	0.4	-0.6	0.0	-0.3	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	0.0	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	0.1	0.0	0.0
Withdrawals	0.0	0.0	0.0	1.7	0.0	1.3	0.5	0.0	0.0	0.6	0.3
Stock at end period	0.0	2.9	3.1	2.7	3.0	1.3	2.1	2.0	1.9	1.2	0.7
Public domestic debt	9.3	13.7	13.4	13.0	15.4	12.7	14.7	14.3	13.8	12.7	11.4

Sources: Ugandan authorities and IMF staff estimates and projections.

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

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

[3] Reflects actula and projected issuances for the recapitalization of Bank of Uganda.

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

Table 2c: Uganda: Quarterly Fiscal Operations of the Central Government, 2013/14–2014/2015[1]

(Billions of Ugandan Shillings)

	2013/14					2014/15				
	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual
	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	1,971	2,605	2,385	2,648	9,608	2,527	3,132	2,637	3,160	11,455
Revenue	1,860	2,319	2,101	2,447	8,727	2,299	2,645	2,498	2,901	10,343
Tax	1,779	2,208	1,984	2,342	8,314	2,185	2,519	2,382	2,779	9,866
International trade taxes	185	180	176	190	731	204	208	204	246	862
Income taxes	540	882	671	960	3,053	733	1,013	781	1,138	3,666
Excises	428	456	443	419	1,746	478	500	556	512	2,046
Value-added tax	626	691	695	772	2,784	769	797	842	883	3,292
Nontax	81	110	117	105	413	114	126	116	122	477
Oil revenue	0	0	0	0	0	0	0	0	0	0
Grants	110	286	284	201	881	228	487	139	259	1,112
Budget support[2]	47	28	50	81	206	76	84	28	39	227
Project grants	63	258	235	119	675	152	403	111	219	886
Expenditures and net lending	2,608	3,438	3,102	4,985	14,132	3,067	3,713	3,421	4,983	15,183
Current expenditures	1,560	1,749	1,672	1,528	6,510	1,699	1,939	2,040	1,990	7,668
Wages and salaries	615	598	601	626	2,440	691	718	729	752	2,890
Interest payments	244	259	270	273	1,047	252	285	302	318	1,156
Other current	701	892	800	630	3,022	756	936	1,009	920	3,622
Development expenditures	1,048	1,689	1,406	1,205	5,348	1,308	1,720	1,366	1,442	5,835
Externally-financed projects	285	935	696	551	2,468	581	892	632	563	2,668
Government of Uganda investment	763	754	709	654	2,880	727	828	733	879	3,167
Net lending and investment	0	0	0	2,225	2,225	0	0	0	1,530	1,530
Other spending	0	0	24	26	50	60	54	15	21	150
Overall balance	-637	-833	-716	-2,337	-4,524	-540	-581	-783	-1,824	-3,728
Underlying balance (excl. one-off items)	-637	-833	-716	-112	-2,299	-540	-581	-783	-293	-2,198
Financing	579	891	716	2,337	4,524	540	581	783	1,824	3,728
External financing (net)	120	615	399	1,528	2,661	370	461	460	1,521	2,811
Disbursement	173	677	462	1,605	2,916	431	559	521	1,580	3,092
Of which : Budget support	0	0	0	0	0	3	70	0	31	104
Amortization (–)	-48	-62	-57	-57	-224	-62	-98	-62	-59	-280
Exceptional financing	-5	0	-6	-20	-31	0	0	0	0	0
Domestic financing (net)	460	276	317	809	1,862	170	120	324	302	917
Bank financing	338	-140	157	883	1,238	84	-24	180	100	340
Bank of Uganda	90	-224	78	879	822	35	-106	98	-14	14
Commercial banks	248	85	79	4	416	49	82	82	114	326
Nonbank financing	122	416	160	-74	624	86	144	144	202	576
Errors and omissions/financing gap (- is gap, + is surplus)	-58	58	0	0	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.

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
				6th Rev	Est.	6th Rev	Proj.	Proj.	Proj.	Proj.	Proj.
					Depository Corporations Survey[2]						
Net foreign assets	5,779	6,669	8,008	9,719	8,868	10,434	7,907	9,475	10,903	11,648	12,790
Bank of Uganda	5,200	6,177	6,845	9,099	8,305	9,642	7,388	8,853	10,296	11,072	12,163
Commercial banks	579	491	1,163	621	563	791	519	622	607	576	627
Net domestic assets	2,595	3,857	3,271	2,651	3,158	3,932	5,500	6,112	6,766	8,434	10,283
Claims on public sector (net)[3]	179	772	-496	187	18	642	1,245	1,595	1,794	2,294	2,530
Claims on central government (net)	92	692	-569	118	-70	573	1,166	1,516	1,715	2,215	2,451
Claims on the private sector	4,705	6,756	7,532	8,287	8,011	9,539	9,240	10,570	11,920	13,540	15,406
Other items (net)[4,5]	-2,289	-3,671	-3,765	-5,823	-4,870	-6,250	-4,980	-6,048	-6,942	-7,395	-7,647
Money and quasi-money (M3)	8,388	10,542	11,296	12,371	12,047	14,366	13,412	15,593	17,674	20,087	23,079
Broad money (M2)	6,503	8,056	7,721	9,139	8,932	10,543	9,602	11,195	12,661	14,436	17,013
Foreign exchange deposits	1,886	2,486	3,575	3,232	3,115	3,823	3,810	4,397	5,013	5,651	6,066
						Bank of Uganda					
Net foreign assets	5,200	6,177	6,845	9,099	8,305	9,642	7,388	8,853	10,296	11,072	12,163
Net domestic assets	-2,766	-3,209	-3,832	-5,350	-4,765	-5,296	-3,255	-4,056	-4,866	-4,911	-5,095
Claims on public sector (net)[3]	-1,821	-1,561	-2,749	-2,440	-2,824	-2,393	-2,003	-1,989	-2,087	-1,702	-1,597
Claims on central government (net)	-1,821	-1,561	-2,750	-2,441	-2,824	-2,393	-2,003	-1,989	-2,087	-1,702	-1,597
Claims on commercial banks	139	225	87	-345	-439	-64	213	267	49	122	286
Other items (net)[4,5]	-1,101	-1,883	-1,175	-2,565	-1,507	-2,839	-1,471	-2,339	-2,834	-3,336	-3,789
Base money	2,434	2,968	3,013	3,749	3,540	4,347	4,133	4,798	5,430	6,161	7,068
Currency in circulation	1,739	2,190	2,204	2,585	2,453	2,982	2,697	3,038	3,424	3,904	4,601
Commercial bank deposits	695	778	808	1,164	1,087	1,365	1,436	1,759	2,005	2,257	2,467
						Other Depository Corporations					
Net foreign assets	579	491	1,163	621	563	791	519	622	607	576	627
Net domestic assets	6,375	8,163	8,194	9,503	9,343	10,982	10,582	12,388	14,159	16,195	18,544
o/w Claims on central government (net)	1,877	2,228	2,168	2,558	2,753	2,966	3,169	3,505	3,802	3,917	4,048
o/w Claims on private sector	4,680	6,720	7,471	8,225	7,964	9,477	9,191	10,521	11,871	13,490	15,356
Deposit liabilities to the non-bank public	6,954	8,654	9,357	10,124	9,906	11,773	11,100	13,010	14,766	16,770	19,171
Shilling deposits	5,069	6,168	5,781	6,892	6,791	7,950	7,291	8,612	9,753	11,120	13,105
Foreign exchange accounts	1,886	2,486	3,575	3,232	3,115	3,823	3,810	4,397	5,013	5,651	6,066
Memorandum items:											
(Annual percentage change)											
Base money	24.8	21.9	1.5	24.4	17.5	15.9	16.7	16.1	13.2	13.5	14.7
M3	33.2	25.7	7.2	10.3	6.6	16.1	11.3	16.3	13.4	13.6	14.9
Credit to the private sector	30.6	43.6	11.5	14.5	6.4	15.1	15.4	14.4	12.8	13.6	13.8
Memorandum items:											
Base money-to-GDP ratio (percent)	7.0	7.6	6.0	6.7	6.4	6.9	6.5	6.6	6.7	6.8	6.9
M3-to-GDP ratio (percent)	24.0	27.0	22.5	22.0	21.7	22.8	21.1	21.5	21.7	22.0	22.5
Base money multiplier (M2/base money)	2.7	2.7	2.6	2.4	2.5	2.4	2.3	2.3	2.3	2.3	2.4
Credit to the private sector (percent of GDP)	13.5	17.3	15.0	14.7	14.4	15.1	14.5	14.6	14.7	14.8	15.0
Gross reserves of BOU (US$ millions)	2,385	2,044	2,644	3,044	2,912	3,264	2,772	3,102	3,502	3,832	4,182.3
Velocity (M3)	4.2	3.7	4.4	4.5	4.6	4.4	4.7	4.6	4.6	4.5	4.4
Exchange rate (Ush/US$, eop)	2,283	2,623	2,472	2,631	2,593	…	…	…	…	…	…

Sources: Uganda authorities and IMF staff estimates and projections.

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

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

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

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

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

Table 4. Uganda: Balance of Payments, FY2009/10–2017/18[1]

(Millions of U.S. Dollars, unless otherwise indicated)

	2009/10	2010/11	2011/12	2012/13		2013/14		2014/15	2015/16	2016/17	2017/18
				6th Rev	Est.	6th Rev	Proj.	Proj.	Proj.	Proj.	Proj.
Current account	-1,630	-1,984	-2,611	-2,250	-2,134	-2,874	-3,292	-3,284	-3,647	-3,812	-3,630
Trade balance	-1,800	-2,383	-2,604	-2,250	-2,061	-2,861	-2,765	-2,834	-3,051	-3,062	-2,806
Exports, f.o.b.	2,317	2,298	2,660	2,910	2,982	3,059	3,132	3,330	3,588	3,841	4,328
Of which: coffee	262	371	444	436	423	435	388	356	336	332	339
Imports, f.o.b.	-4,117	-4,680	-5,264	-5,160	-5,044	-5,920	-5,897	-6,163	-6,639	-6,903	-7,135
Of which: oil	-501	-679	-947	-998	-1,028	-1,066	-1,094	-1,175	-1,271	-1,372	-1,478
Of which: government, infrastructure related	-176	-173	-304	-264	-359	-658	-601	-556	-613	-608	-485
Services (net)	-416	-691	-437	-336	-373	-612	-811	-790	-951	-987	-1,100
Income (net)	-335	-341	-808	-530	-981	-584	-1,051	-1,085	-1,154	-1,380	-1,474
Of which: interest on public debt	-29	-36	-35	-37	-39	-61	-68	-76	-104	-138	-166
Transfers	920	1,430	1,238	866	1,282	1,182	1,336	1,425	1,509	1,618	1,750
Private transfers	687	756	838	794	1,203	826	1,256	1,342	1,435	1,544	1,677
Of which: workers' remittances (inflows)	777	751	792	774	1,059	819	1,110	1,189	1,284	1,388	1,502
Official transfers	234	675	400	72	79	356	79	83	74	74	72
Of which: budget support (including HIPC)	234	225	224	72	71	77	79	83	74	74	72
capital gains tax	0	449	176	0	7	279	0	0	0	0	0
Capital and financial account	1,787	1,081	2,722	2,664	2,320	3,104	3,144	3,613	4,047	4,141	3,979
Capital account	197	160	194	298	297	286	259	323	209	209	209
Of which: project grants	197	160	194	298	297	286	259	323	209	209	209
Financial account	1,589	921	2,528	2,366	2,023	2,818	2,885	3,290	3,839	3,932	3,771
Foreign direct investment	693	719	1,398	1,476	925	1,576	1,066	1,484	1,759	2,110	2,219
Portfolio investment	-37	-29	270	-60	125	0	0	50	50	70	306
Other investment	933	230	860	950	973	1,242	1,819	1,755	2,030	1,752	1,245
Of which:											
Public sector (net)	528	-211	745	508	534	802	1,209	1,026	1,170	919	939
SDR allocation	224	0	0	0	0	0	0	0	0	0	0
Build-up (-)/drawdown (+) of petroleum fund	0	-449	273	0	-7	342	171	0	0	0	0
Loan disbursements	371	304	546	582	617	543	1,121	1,129	1,271	1,027	1,060
Project support (loans)	263	206	396	473	501	343	689	651	478	513	547
Budget support (loans)	107	98	45	109	116	0	0	38	38	38	38
Non-concessional borrowing	0	0	105	0	0	200	432	440	755	476	475
Amortization due	-67	-66	-75	-74	-76	-83	-83	-102	-101	-108	-121
Commercial banks (net)	41	66	-283	249	253	-55	21	-23	12	16	-11
Other private (net)	365	375	668	193	185	495	589	753	848	817	317
Errors and omissions	80	306	648	0	200	0	0	0	0	0	0
Overall balance	237	-598	759	414	386	230	-147	329	400	329	349
Financing	-237	598	-759	-414	-386	-230	147	-329	-400	-329	-349
Of which:											
Central bank net reserves (increase = –)	-224	601	-755	-400	-382	-220	142	-329	-400	-330	-350
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	3,044	2,912	3,264	2,772	3,102	3,502	3,832	4,182
Months of imports of goods and services	4.2	3.2	4.2	4.2	3.9	4.1	3.5	3.6	3.9	4.0	4.0
Net donor support	694	584	746	836	867	557	889	917	594	588	580
Of which: Budget support (loans and grants)	341	324	270	181	187	77	79	121	112	112	110
Project support (loans and grants)	461	366	590	771	798	629	949	974	687	721	755
Current account balance (percent of GDP)	-9.5	-11.8	-13.3	-10.4	-9.9	-12.2	-13.4	-12.4	-13.0	-12.4	-10.8
Current account balance (excluding grants)	-10.8	-13.1	-14.5	-10.7	-10.3	-12.6	-13.8	-12.7	-13.2	-12.6	-11.1
Trade balance (percent of GDP)	-10.5	-14.2	-13.3	-10.4	-9.6	-12.2	-11.3	-10.7	-10.8	-9.9	-8.4
Exports (percent of GDP)	13.5	13.7	13.6	13.4	13.9	13.0	12.8	12.6	12.8	12.5	12.9
Imports (percent of GDP)	23.9	27.8	26.8	23.8	23.5	25.2	24.1	23.3	23.6	22.4	21.3

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–June 2013

(In Percent)

	2010				2011				2012				2013	
	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13
Capital adequacy														
Regulatory capital to risk-weighted assets	22.7	21.7	21.2	20.2	21.2	19.3	18.3	20.3	21.8	20.7	20.9	21.9	24.5	24.3
Regulatory tier 1 capital to risk-weighted assets	19.9	19.2	18.8	17.5	18.9	17.3	16.2	17.9	19.0	18.3	18.5	18.8	21.4	21.2
Asset quality														
NPLs to total gross loans	3.7	3.3	2.8	2.1	2.5	1.6	1.8	2.2	3.4	3.9	4.7	4.2	4.7	4.0
NPLs to total deposits	2.5	2.1	1.8	1.4	1.7	1.1	1.4	1.7	2.6	2.9	3.4	3.1	3.5	2.9
Earning assets to total assets	82.4	74.9	76.7	77.1	73.6	74.8	74.3	74.0	74.7	72.0	71.9	71.3	69.6	70.0
Large exposures to gross loans	41.0	35.4	35.5	35.7	38.6	41.7	38.3	34.6	33.7	34.6	34.6	34.6	34.8	36.0
Large exposures to total capital	123.9	112.8	116.1	124.4	129.8	156.2	145.4	120.8	109.4	111.5	104.2	104.7	95.4	103.4
Earnings and profitability														
Return on assets	2.4	2.3	2.4	2.7	2.9	3.1	3.6	4.0	4.4	4.4	4.3	3.9	3.6	3.3
Return on equity	15.5	16.1	16.2	18.0	19.6	22.4	25.4	27.4	28.1	29.5	27.9	24.2	21.0	20.4
Net interest margin	10.0	9.9	10.0	10.0	10.1	10.5	11.0	11.7	12.5	12.8	12.9	12.8	12.5	12.2
Cost of deposits	3.5	3.3	3.2	2.9	2.7	2.5	2.8	3.2	3.4	3.6	4.0	4.1	4.3	4.1
Cost to income	78.9	79.2	78.7	75.7	73.5	71.2	68.8	68.2	67.5	68.1	68.8	70.9	72.0	72.4
Overhead to income	53.0	53.7	54.0	53.1	52.5	50.4	47.5	43.9	40.9	39.6	38.5	40.1	41.9	43.2
Liquidity														
Liquid assets to total deposits	45.5	41.6	40.5	39.8	40.5	35.6	36.2	37.6	37.5	38.9	42.5	42.0	42.7	41.1
Market sensitivity														
Foreign currency exposure to regulatory tier 1 capital	-3.0	-3.5	-11.8	-1.6	-2.1	-0.9	-3.4	-3.6	-4.1	-5.2	-5.2	-0.6	-5.1	-6.7
Foreign currency loans to foreign currency deposits	59.2	52.1	54.4	65.2	63.4	68.6	66.8	67.9	74.7	67.1	74.8	87.0	72.3	72.8
Foreign currency assets to foreign currency liabilities	101.1	98.4	96.3	98.0	98.1	100.1	98.1	100.2	103.2	103.4	100.7	105.0	104.8	104.9

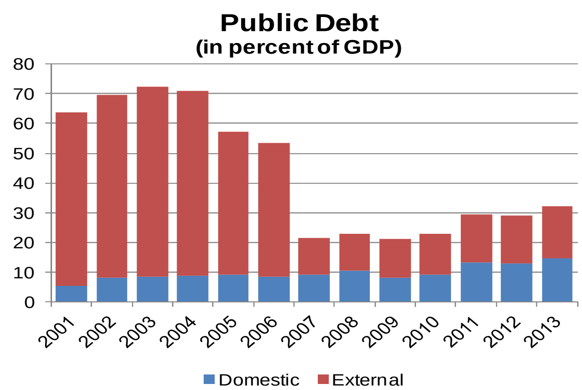
Source: Bank of Uganda.

Annex 1. Debt Sustainability Analysis Update

This debt sustainability analysis (DSA) updates the joint IMF/IDA DSA from June 17, 2013.[1] *It incorporates recent macroeconomic developments and the planned scaling up of non-concessional borrowing (NCB) from $1.5 billion to $2.2 billion to finance critical infrastructure projects. The DSA also incorporates contingent liabilities arising from two public-private partnership (PPP) projects. In an alternative scenario, the DSA takes account of a potential additional NCB increase to finance the Ugandan share of a regional railway project aimed at advancing EAC integration. Another scenario illustrates the impact of oil production set to start in 2018. Results indicate that Uganda remains at a low risk of debt distress. Nonetheless, the debt service-to-revenue ratio is high owing to the relatively short maturity of domestic debt and poses some risks.*

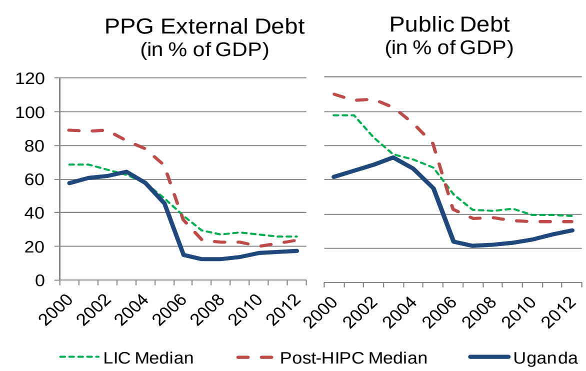
A. Background and Recent Developments

1. Since Uganda benefited from debt relief, the authorities have been cautious in accumulating new external debt while steadily developing the domestic debt market. At about 5 percent of GDP, the increase in external debt in 2007–2013 was limited. In the same period, public domestic debt increased by 5½ percent of GDP, reflecting efforts to diversify funding sources and develop the market. The composition of public debt has been fairly stable, with the share of external debt remaining in the range of 55–60 percent.



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

2. The external debt burden compares favorably to other post-MDRI countries. Uganda's external debt to GDP ratio dropped to 12¼ percent of GDP in 2007, becoming one of the lowest among recipients of Multilateral Debt Relief Initiative (MDRI) relief (text chart). Since then, both external and total public debt- to-GDP ratios have remained substantially below both the LIC and post-HIPC countries medians. The gap with both has narrowed as more countries received MDRI relief; while early beneficiaries, including Uganda, accumulated debt. Uganda's external debt stock increased by only about 4¾ percent of GDP in 2007–2012 compared to a median increase of 6 percent of



[1] In line with the 2010 Staff Guidance Note, a full joint LIC DSA is expected to be prepared once every three years for PRGT-eligible IDA-only countries. In between, short annual updates are produced unless macroeconomic conditions since the last full DSA have significantly changed. See Staff Guidance Note on the Application of the Joint Fund-Bank Debt Sustainability Framework for Low-Income Countries (www.imf.org).

GDP for early beneficiaries of MDRI. The cautious approach in contracting new external debt maintains Uganda's external debt in the lowest quartile within the countries that qualified for MDRI in 2006 (Text Table 1). New debt has mainly financed infrastructure projects and enhancement of transparency and service delivery in the public sector.

3. Nonetheless, domestic borrowing in Uganda increased faster than in its peer countries. Between 2007 and 2012 Uganda's domestic debt stock picked up from 9 percent to 13.1 percent of GDP—higher than about two-thirds of early beneficiaries of MDRI. Nevertheless, at 30¼ percent of GDP at end-2012, Uganda's total public debt is still lower than the median for the early MDRI beneficiaries.

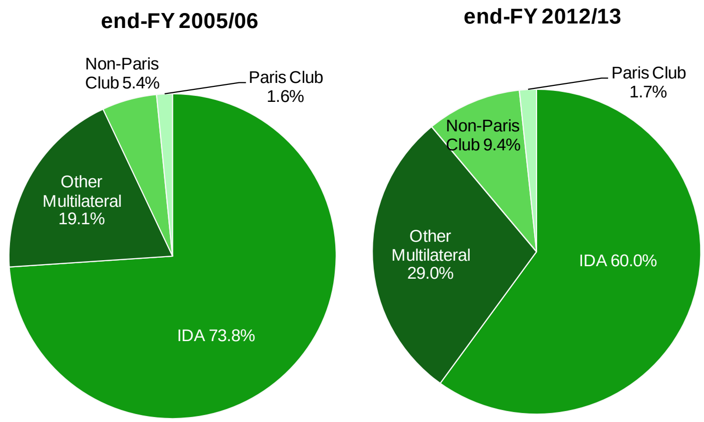
Table 1. Post-MDRI Debt Accumulation: Uganda Versus Selected Post-MDRI Countries[1]

	External Debt			Domestic Debt			Public Debt		
	2007	2012	Change	2007	2012	Change	2007	2012	Change
	(In percent of GDP)								
Zambia	10.3	16.3	6.0	16.4	16.1	-0.3	26.7	32.4	5.6
Ethiopia	11.3	17.9	6.7	25.9	3.3	-22.6	37.2	21.2	-16.0
Uganda	**12.3**	**17.1**	**4.8**	**9.0**	**13.1**	**4.1**	**21.3**	**30.3**	**8.9**
Benin	12.7	17.0	4.3	8.5	12.1	3.6	21.2	29.1	7.9
Ghana	14.5	21.9	7.4	16.6	28.3	11.8	31.0	50.2	19.1
Rwanda	15.7	14.5	-1.3	11.9	9.6	-2.3	27.6	24.1	-3.5
Niger	16.0	17.7	1.7	9.3	11.0	1.7	25.4	28.8	3.4
Honduras	16.4	19.7	3.3	8.2	14.7	6.5	24.6	34.4	9.8
Mali	18.1	26.3	8.2	3.0	3.5	0.4	21.1	29.7	8.6
Senegal	19.0	31.3	12.3	4.4	10.3	5.9	23.5	41.7	18.2
Tanzania	19.6	29.7	10.1	8.8	11.1	2.2	28.4	40.8	12.3
Burkina Faso	23.3	23.8	0.4	2.1	3.5	1.5	25.4	27.3	1.9
Madagascar	26.0	25.8	-0.1	7.5	12.3	4.8	33.5	38.1	4.7
Mozambique	40.8	34.8	-6.1	1.1	7.5	6.4	41.9	42.2	0.3
Guyana	41.3	48.0	6.7	18.6	17.2	-1.3	59.9	65.3	5.4
All-median	**16.4**	**21.9**	**4.8**	**8.8**	**11.1**	**2.2**	**26.7**	**32.4**	**5.6**
Low post-MDRI debt [2]	**15.7**	**17.9**	**6.0**	**9.0**	**11.1**	**2.2**	**25.4**	**30.3**	**8.6**
High post-MDRI debt [2]	**33.4**	**30.3**	**0.2**	**4.8**	**9.9**	**3.1**	**37.7**	**40.2**	**3.3**
Uganda percentiles									
All post-MDRI countries	*14*	*21*	*50*	*57*	*71*	*64*	*14*	*43*	*71*
Low post-MDRI debt [2]	*20*	*30*	*40*	*50*	*70*	*70*	*20*	*50*	*60*

[1] For comparability to Uganda's Debt ratios countries that received the MDRI relief in 2006 are reported.
[2] Median. Low post-MDRI debt refers to countries with external debt lower than 20 percent of GDP.

4. Concessional multilateral debt continues to constitute most of Uganda's public and publicly guaranteed (PPG) external debt. The share of multilateral creditors—primarily the World Bank and the African Development Bank—remains close to 90 percent, only marginally lower than their pre-MDRI share. Owing almost exclusively to higher borrowing from China, non-Paris Club creditors account for close to 10 percent of PPG external debt. During the previous PSI Uganda accumulated only $455 million in NCB, substantially lower than the ceiling of $1 billion.

Composition of PPG External Debt



5. **Despite a recent increase, private sector debt remains relatively low.** Preliminary data shows that after remaining stable at about 7 percent of GDP in FY2000–2008, private sector external debt has increased to about to 16¼ percent of GDP in FY2012. The upsurge was driven by intercompany lending, which now represents more than half of private external debt.

6. **The authorities have taken steps to improve debt management.** The government is undertaking regular assessments of debt maturities and associated risks, notably exchange rate and rollover risks. In line with its revised debt strategy, in 2013 the government started restructuring debt management processes and the institutional framework, and is planning to set up a debt management unit within the Ministry of Finance. The new medium-term debt strategy accounts for a planned scaling up of NCB to finance key infrastructure projects.

Underlying Assumptions

7. **This DSA is consistent with the macroeconomic framework outlined in the main report.** The baseline scenario assumes implementation of the economic and structural policies envisaged in the PSI. Expected gains in revenue mobilization, further deepening of domestic debt markets, and greater availability of financing at non-concessional but still reasonable terms are expected to create the fiscal space for significant scaling up of infrastructure investment—mainly on energy generation and road construction. Taking into account projects starting later this fiscal year (construction of the Karuma and Isimba dams), and later on oil-related infrastructure, NCB will need to increase from $1.5 billion to $2.2 billion in the program period. Projections for key macroeconomic variables are explained below. Box 1 presents changes in assumptions in comparison to the previous DSA.

Macroeconomic Assumptions

- **Average medium-term growth** is projected to increase to about 7 percent of GDP mainly supported by infrastructure investment. Once the large energy and road projects are completed and ease the acutely binding infrastructure gap, potential output is likely to be higher, particularly if supported by an environment conducive to private sector development. On this basis, average long-term growth is projected at 7.2 percent.

- **Over the medium-term the average current account deficit** is projected to reach 12½ percent of GDP, reflecting high import demand associated with the construction of large infrastructure projects. Once these are completed, import demand would come down while export receipts would increase on account of potential energy surpluses and better road and railway infrastructure. As a result, under the baseline scenario, which does not include oil exports, the current account deficit is projected, on average, at 7½ percent of GDP in the long term.

- **The fiscal deficit** is projected to widen from about 4 percent of GDP in FY2012/13 to 5¼ percent of GDP in the medium term, peaking at 7½ percent of GDP in FY2013/14. This increase reveals the impact of the construction of large projects. The long-term average is expected to come down to about 2¾ percent of GDP.

Other Assumptions

- **An increase in the NCB** ceiling from $1.5 billion to $2.213 billion in is incorporated. While debt will continue to be primarily highly concessional, additional concessional resources are not available to finance the large projects needed for addressing the infrastructure deficit. Uganda ranks 133th out of 146 countries in indicators on quality of infrastructure, in particular roads, railroads, and availability of electricity. It also lags behind most of its EAC partners. The World Bank supports the authorities' decision to develop critical infrastructure projects.

	Infrastructure		*Quality of infrastructure* Roads		Railroads		Electricity and telephony	
	Score	Ranking	Score	Ranking	Score	Ranking	Score	Ranking
Uganda	**2.27**	**133**	**2.91**	**110**	**1.44**	**111**	**1.80**	**133**
Kenya	3.09	103	3.93	72	2.50	72	2.73	111
Tanzania	2.27	132	3.22	94	2.26	82	1.77	134
Rwanda	3.22	96	4.96	40	…	…	2.71	112
Burundi	1.87	141	2.70	121	…	…	1.44	139
Median (all countries)	**3.91**	**73**	**3.93**	**73**	**2.66**	**63**	**4.24**	**73**

Source: World Economic Forum.

- **Improvements in implementation capacity** will be critical for the planned scaling up of infrastructure spending. Uganda's weak track record of implementation of public investment raises concerns. However, recent improvements in implementation of road projects, as well as prospects for tapping into technical and project management expertise of external contractors and, when needed, high-skilled workers are likely to alleviate technical capacity constraints.

- **Another key consideration is preserving macroeconomic stability.** The expected high import content would significantly limit inflationary and exchange rate appreciation pressures. Staff estimates that the growth stimulus associated with the projects would be compatible with potential output and not lead to overheating concerns.

Box 1.Uganda: Assumptions in Comparison with the Previous DSA

Compared to the previous joint IMF/IDA DSA, conducted in the context of the sixth review under the PSI, key changes are as follows:

- **Non-concessional borrowing (NCB).** The NCB ceiling is revised upward from $1.5 billion to $2.2 billion to reflect the change in the financing modalities of the Karuma HPP, the construction of industrial substations for transmission, and smaller-scale oil-related infrastructure projects.

- **Discount rate.** An increase from 3 percent to 5 percent, in line with the new guidelines, leads to an increase in the grant element of both the new borrowing and the debt service associated with the existing debt, thereby reducing the net present value of debt.

- **Financing terms for the NCB.** Based on prospective financing terms of the Eximbank China loans under negotiation, staff estimates a grant element of about 11½ percent in the financing package of the Karuma, Isimba, and industrial substation projects. Overall, the DSA incorporates a higher grant element for new borrowing compared to the 6th review, taking into account the increase in the discount rate and the impact on interest rates of the expected tightening of global liquidity conditions over the medium-term.

- **Growth.** The positive impact of the projects on the infrastructure gap, together with updated developments in the domestic and global economy, led staff to raise long-run growth projections from 7 percent to 7¼ percent.

- **Contingent liabilities from PPPs.** Expected contingent liabilities associated with two road projects to be developed under PPP arrangements, amounting to about 1½ percent of GDP, are included in the baseline projections.

- **Domestic borrowing.** With the recent extension of effective maturity to close to 2.7 years, the annual rollover of domestic debt stock has been reduced to about 35 percent from the previous 50 percent, reducing the rollover risk of public debt service.

B. External Debt Sustainability Analysis

8. **PPG external debt is assessed to be sustainable over the projection period.** All debt burden indicators are projected to remain below Uganda's country-specific debt burden thresholds under the baseline scenario and the standardized stress tests (Figure 1a, Table 1a, and Table 1b).

9. **Uganda's external debt is projected to remain below the relevant debt burden thresholds even if long-term growth rates weaken sharply.** To examine the sensitivity of DSA results to changes in long-term GDP growth, staff examined a shock scenario that illustrates at which long-term growth rate the baseline projections would exceed relevant external debt thresholds. The results show that an implausibly large decline in long-term growth from 7¼ percent to 2½ percent would be required to breach the debt service-to-revenue threshold by the end of the projection period. However, these results should be interpreted cautiously as this partial-equilibrium analysis does not incorporate feedback effects of a sharp and persistent deceleration in output on key macroeconomic aggregates including the fiscal deficit.

10. An alternative scenario that considers prospective construction of a regional railway shows that debt would still remain safely within the relevant thresholds. This scenario assesses implications of additional NCB of about $1.6 billion beyond the PSI period to finance the Ugandan share of the Mombasa-Kampala-Kigali regional railway project. Debt burden indicators, while significantly higher, would still be sustainable.

11. An illustrative scenario that includes the onset of oil production beginning in 2018 shows that the debt outlook would improve significantly (Box 2). This scenario simply illustrates the impact of oil revenues on the DSA, keeping expenditures unchanged with respect to the baseline. The borrowing needs for oil sector development would lead to an initial marginal increase in debt. Not surprisingly, when oil revenues come on stream, the DSA is projected to improve significantly with an elimination of external debt by 2025. This illustrates the space available to Uganda to use a significant portion of its prospective oil revenue to finance infrastructure investment.

Box 2. Assumptions for the Oil Illustrative Scenario

Cost and financing. Construction of the envisaged pipeline and small refinery 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.

Growth impact. Based on the investment and production profile, real GDP growth in 2016–2023 is expected to be 2–4 percent higher than under the baseline scenario. Growth would pick up during the investment phase and the onset of full production. Oil production is expected to account for close to 15 percent of Uganda's GDP during the peak extraction period. Oil reserves are anticipated to last for about 30 years.

Revenue impact. Oil revenues would amount to more than 50 percent of total government revenues. For the exercise, oil export prices are conservatively assumed to be constant in real terms at 80 dollars a barrel. Domestically refined oil is priced at import-parity minus a 20 percent discount.

C. Public Debt Sustainability Update

12. The evolution of total public debt (external and domestic debt) is sustainable over the projection period under the baseline scenario and when subject to stress tests. The public debt-to-GDP ratio is projected to peak at about 40 percent of GDP in 2018, well below the benchmark level of 74 percent associated with heightened public debt vulnerabilities for strong performers.[2] However, the relatively short average maturity of domestic debt

[2] Uganda is ranked as a "strong performer" under the Country Policy and Institutional Assessment (CPIA) framework of the World Bank. Accordingly, debt burden thresholds applicable for Uganda are PV of debt to GDP ratio of 50 percent, PV value of debt–to-exports ratio of 200 percent, PV of debt-to-revenue ratio of 300 percent, debt-service-to-exports ratio of 25 percent, and debt-service-to-revenue ratio of 22 percent. The indicative benchmark for public-debt-to-GDP ratio is 74 percent.

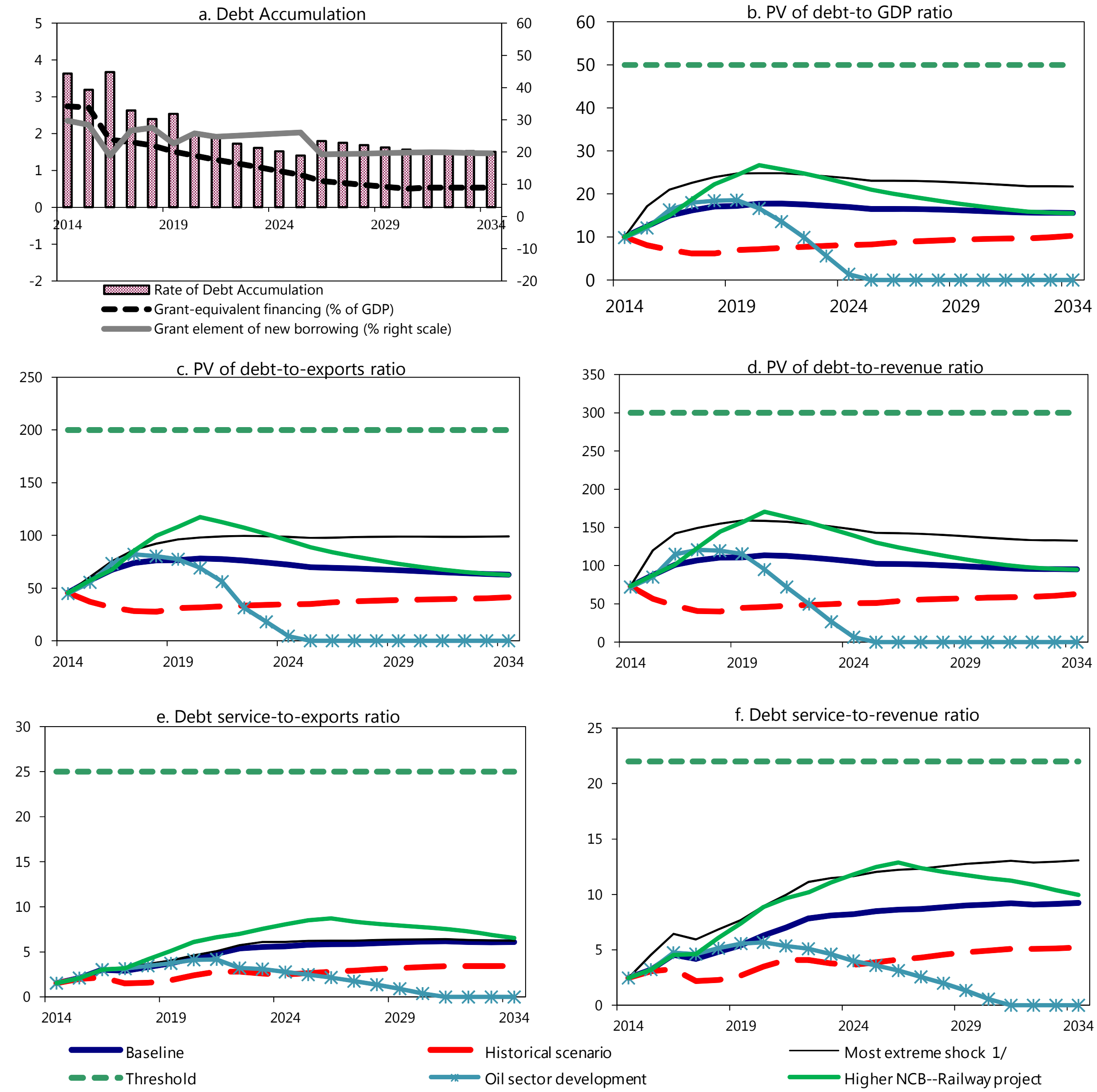
(less than three years) combined with a low revenue base leads to a debt service-to-revenue ratio of about 35 percent, among the highest in LICs. This significantly increases the rollover and interest rate risks, and needs to be addressed in the medium term by a combination of stronger revenue mobilization and deeper financial markets to extend average maturities.

13. Stress tests indicate that the path of public debt would become unsustainable in the absence of fiscal consolidation (Table 2b). In an illustrative scenario that assumes an unchanged primary deficit over the projection period at 5.9 percent of GDP, the NPV of public debt to GDP would grow rapidly and reach 77 percent by 2034. These results highlight the importance of reducing fiscal deficits after the temporary increase during the scaling up of public investment.

D. Conclusion

14. Despite the envisaged scaling-up of external borrowing, Uganda continues to face a low risk of debt distress. The government's cautious approach in accumulating new external debt during the post-MDRI period has provided the economy with significant borrowing space to scale up public investment. However, the authorities are encouraged to adhere to the planned pace of implementation of these projects and ensure appropriate cost recovery to avoid delays and inefficiencies that could add costs and affect economic stability. Once the construction of the projects is completed, the temporary increase in fiscal deficits should be halted to bring public debt back to a sustainable path. The planned increase in tax revenues and maintenance of a stable economic environment should help reduce the existing rollover and interest risk of domestic debt.

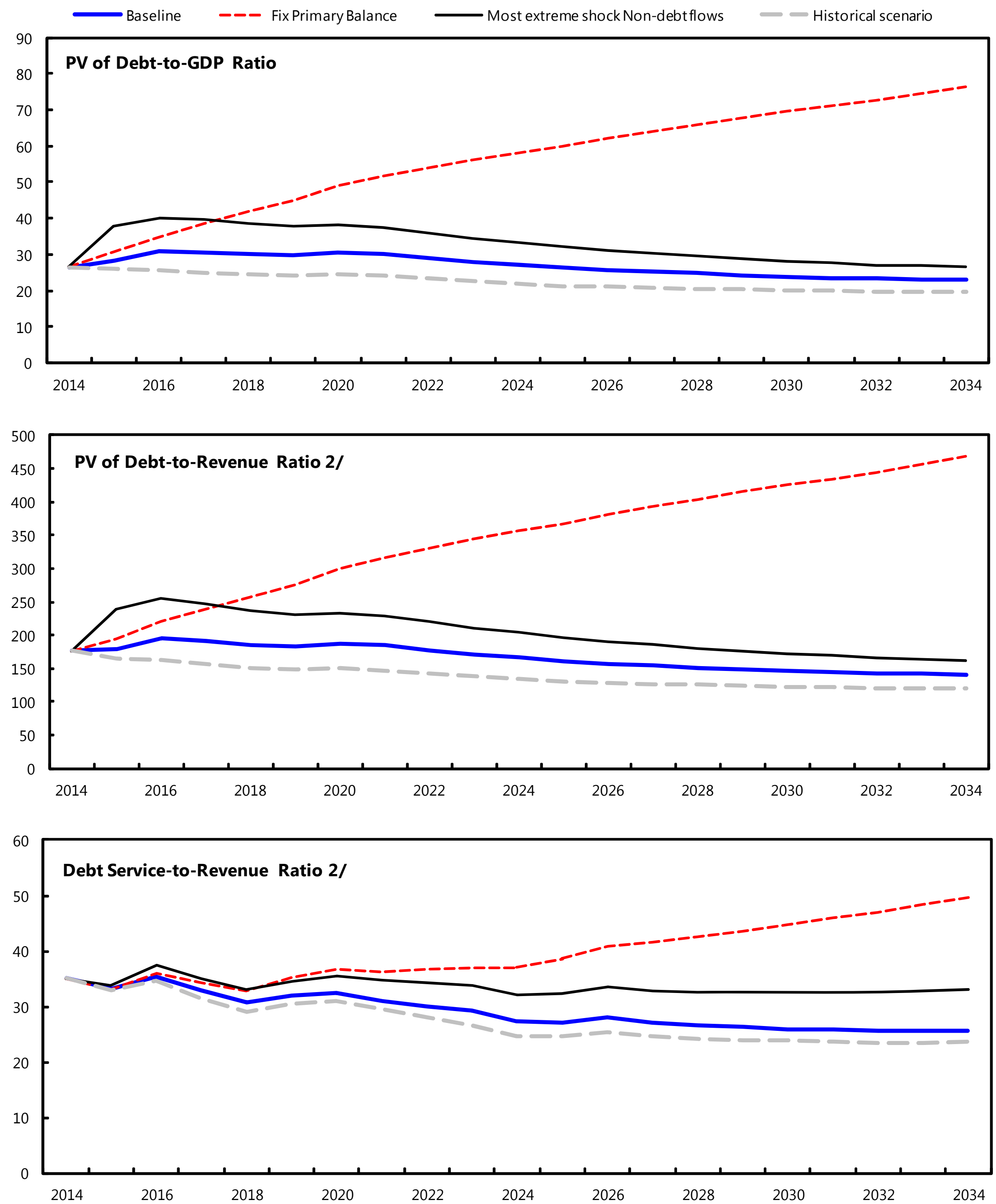
Figure 1.a. Uganda: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2014–2034[1]



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

1/ The most extreme stess test is the test that yields the highest ratio in 2024. 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 1.b. Uganda: Indicators of Public Debt Under Alternatives Scenarios, 2014–2034[1]



Sources: Uganda authorities; and IMF staff estimates and projections.
1/ The most extreme stress tests is the test that yields the highest ratio in 2014
2/ Revenues are defined inclusive of grants.

Table 1a. Uganda: Public Sector Debt Sustainability Framework, Baseline Scenario, 2011–2034

	Actual					Estimate	Projections								
	2011	2012	2013	Average 5/	Standard Deviation 5/	2014	2015	2016	2017	2018	2019	2014-19 Average	2024	2034	2020-34 Average
Public sector debt 1/	31.9	29.0	32.8			36.4	38.5	41.0	40.6	39.8	38.9		34.7	28.5	
Of which :foreign-currency denominated	18.2	15.6	17.5			19.9	22.8	25.2	26.2	26.9	26.4		24.5	21.0	
Change in public sector debt	7.3	-2.9	3.8			3.6	2.1	2.5	-0.4	-0.8	-0.9		-1.2	-0.2	
Identified debt-creating flows	3.8	-4.8	2.0			5.0	1.8	2.4	0.0	-0.6	-0.9		-1.2	-0.2	
Primary deficit	3.3	1.8	2.5	1.1	1.8	5.9	3.3	4.0	1.9	1.3	1.5	3.0	1.3	1.2	1.2
Revenue and grants	18.4	15.5	14.8			15.1	15.8	15.8	16.0	16.3	16.4		16.4	16.4	
of which: grants	2.3	2.3	1.7			1.4	1.5	1.0	0.9	0.8	0.8		0.3	0.0	
Primary (noninterest) expenditure	21.7	17.3	17.3			20.9	19.1	19.8	17.9	17.6	17.9		17.6	17.6	
Automatic debt dynamics	0.5	-6.7	-0.5			-2.3	-1.6	-1.7	-1.9	-1.9	-2.4		-2.5	-1.4	
Contribution from interest rate/growth differential	-1.0	-2.7	-0.9			-1.8	-2.0	-1.8	-1.9	-1.9	-1.4		-2.1	-1.2	
of which: contribution from average real interest rate	0.5	-1.6	0.7			0.2	0.3	0.8	0.8	0.8	1.3		0.3	0.7	
of which: contribution from real GDP growth	-1.5	-1.0	-1.6			-1.9	-2.2	-2.5	-2.7	-2.7	-2.7		-2.4	-1.9	
Contribution from real exchange rate depreciation	1.4	-4.0	0.3			-0.6	0.4	0.1	0.1	0.0	-1.0		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			1.5	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			1.5	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	3.5	2.0	1.8			-1.4	0.3	0.1	-0.4	-0.2	0.0		0.0	0.0	
Other Sustainability Indicators															
PV of public sector debt	...	...	23.0			26.6	28.2	30.8	30.6	30.0	29.8		27.2	23.1	
Of which : foreign-currency denominated	...	...	7.6			10.0	12.5	15.0	16.2	17.0	17.2		16.9	15.6	
Of which : external	...	...	7.6			10.0	12.5	15.0	16.2	17.0	17.2		16.9	15.6	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	9.9	6.5	12.5			16.5	14.3	15.1	12.6	11.2	11.2		9.2	7.6	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	155.0			176.0	178.4	195.3	190.7	184.4	182.1		166.0	141.1	
PV of public sector debt-to-revenue ratio (in percent)	...	...	174.9			193.8	197.6	208.6	202.3	194.4	191.7		169.3	141.1	
Of which : external 3/	...	...	58.1			73.2	87.6	101.4	106.9	110.6	110.9		105.7	95.3	
Debt service-to-revenue and grants ratio (in percent) 4/	33.7	28.4	35.1			35.1	33.1	35.3	33.0	30.7	31.9		27.3	25.5	
Debt service-to-revenue ratio (in percent) 4/	38.4	33.3	39.6			38.6	36.6	37.7	35.0	32.4	33.6		27.8	25.5	
Primary deficit that stabilizes the debt-to-GDP ratio	-4.0	4.7	-1.3			2.2	1.2	1.6	2.2	2.1	2.4		2.5	1.4	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	6.6	3.4	5.8	7.0	2.0	6.2	6.5	7.1	7.2	7.2	7.2	6.9	7.2	7.2	7.2
Average nominal interest rate on forex debt (in percent)	1.0	1.1	1.1	1.1	0.5	1.1	1.5	2.1	2.1	2.2	2.4	1.9	2.6	3.1	2.7
Average real interest rate on domestic debt (in percent)	5.5	-11.7	6.8	4.4	8.2	2.2	2.2	5.1	5.4	5.4	9.6	5.0	1.5	6.5	4.8
Real exchange rate depreciation (in percent, + indicates depreciation)	10.1	-23.0	2.1	-2.9	12.1	-3.6	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	5.0	24.1	4.7	8.7	6.4	7.8	6.9	4.7	4.8	5.0	3.4	5.4	6.8	5.8	6.4
Growth of real primary spending (deflated by GDP deflator, in percent)	0.3	-0.2	0.1	0.1	0.1	0.3	0.0	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Grant element of new external borrowing (in percent)	...	...	...	...	...	29.7	28.4	18.9	26.7	27.5	22.7	25.7	25.8	19.6	...

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, 2011–2013[1]

	Actual			Historical Average 6/	Standard Deviation 6/	Projections									
	2011	2012	2013			2014	2015	2016	2017	2018	2019	2014-2019 Average	2024	2034	2020-2034 Average
External debt (nominal) 1/	**32.9**	**31.9**	**36.4**			**39.9**	**43.1**	**46.5**	**48.0**	**48.5**	**47.4**		**43.5**	**40.0**	
o/w public and publicly guaranteed (PPG)	18.2	15.6	17.5			19.9	22.8	25.2	26.2	26.9	26.4	9.4	24.5	21.0	
Change in external debt	6.2	-0.9	4.4			3.5	3.2	3.4	1.5	0.5	-1.1		-0.6	-0.1	
Identified net debt-creating flows	8.1	1.5	2.9			7.1	4.4	3.9	2.5	1.1	0.2		0.5	0.5	
Non-interest current account deficit	**11.5**	**12.9**	**9.6**	**6.8**	**4.2**	**13.1**	**11.9**	**12.4**	**11.7**	**10.1**	**7.2**		**7.0**	**6.2**	6.9
Deficit in balance of goods and services	18.3	15.5	11.4			14.6	13.7	14.2	13.2	11.7	11.5		10.5	9.2	
Exports	22.3	23.5	23.8			22.0	21.8	22.2	21.9	22.3	22.5		23.5	24.8	
Imports	40.6	39.0	35.2			36.6	35.5	36.4	35.0	34.0	34.0		34.0	34.0	
Net current transfers (negative = inflow)	-8.5	-6.3	-6.0	-7.8	1.5	-5.5	-5.4	-5.4	-5.3	-5.2	-5.1		-4.3	-3.7	-4.1
o/w official	-4.0	-2.0	-0.4			-0.3	-0.3	-0.3	-0.2	-0.2	-0.2		-0.2	0.0	
Other current account flows (negative = net inflow)	1.7	3.7	4.2			3.9	3.6	3.6	3.8	3.7	0.8		0.8	0.8	
Net FDI (negative = inflow)	**-4.3**	**-7.1**	**-4.3**	**-4.8**	**1.1**	**-4.4**	**-5.6**	**-6.3**	**-6.9**	**-6.6**	**-4.6**		**-4.4**	**-3.9**	-4.2
Endogenous debt dynamics 2/	**0.9**	**-4.2**	**-2.3**			**-1.6**	**-1.9**	**-2.3**	**-2.4**	**-2.5**	**-2.4**		**-2.1**	**-1.9**	
Contribution from nominal interest rate	0.3	0.5	0.4			0.4	0.5	0.5	0.7	0.7	0.7		0.7	0.7	
Contribution from real GDP growth	-1.8	-1.0	-1.7			-2.0	-2.4	-2.9	-3.0	-3.2	-3.1		-2.9	-2.6	
Contribution from price and exchange rate changes	2.4	-3.7	-1.0			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-1.9**	**-2.4**	**1.5**			**-3.6**	**-1.2**	**-0.5**	**-1.0**	**-0.6**	**-1.3**		**-1.1**	**-0.6**	
o/w exceptional financing	0.0	0.0	0.1			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	26.6			30.0	32.8	36.3	38.0	38.6	38.2	11.7	35.9	34.6	
In percent of exports	...	...	111.6			136.3	150.4	163.4	173.5	173.1	169.8		153.0	139.3	
PV of PPG external debt	**...**	**...**	**7.6**			**10.0**	**12.5**	**15.0**	**16.2**	**17.0**	**17.2**		**16.9**	**15.6**	
In percent of exports	**...**	**...**	**32.1**			**45.6**	**57.3**	**67.5**	**73.9**	**76.3**	**76.5**		**72.2**	**62.8**	
In percent of government revenues	**...**	**...**	**58.1**			**73.2**	**87.6**	**101.4**	**106.9**	**110.6**	**110.9**		**105.7**	**95.3**	
Debt service-to-exports ratio (in percent)	**4.4**	**6.2**	**5.0**			**4.5**	**5.1**	**6.7**	**6.8**	**6.9**	**7.0**		**8.5**	**9.0**	
PPG debt service-to-exports ratio (in percent)	**2.4**	**2.1**	**2.0**			**1.5**	**2.1**	**3.0**	**2.9**	**3.3**	**3.7**		**5.6**	**6.1**	
PPG debt service-to-revenue ratio (in percent)	**3.3**	**3.7**	**3.6**			**2.5**	**3.2**	**4.5**	**4.2**	**4.8**	**5.4**		**8.2**	**9.2**	
Total gross financing need (Billions of U.S. dollars)	1.4	1.4	1.4			2.4	2.0	2.2	2.0	1.7	1.5		2.9	8.1	
Non-interest current account deficit that stabilizes debt ratio	5.3	13.8	5.1			9.5	8.7	9.1	10.2	9.7	8.3		7.6	6.3	
Key macroeconomic assumptions															
Real GDP growth (in percent)	6.6	3.4	5.8	7.0	2.0	6.2	6.5	7.1	7.2	7.2	7.2	6.9	7.2	7.2	7.2
GDP deflator in US dollar terms (change in percent)	-8.3	12.8	3.3	5.5	8.3	7.4	1.5	-0.7	2.1	1.5	3.6	2.6	3.6	2.7	3.5
Effective interest rate (percent) 5/	1.1	1.7	1.3	1.9	1.1	1.1	1.3	1.3	1.6	1.6	1.7	1.4	1.8	2.0	1.9
Growth of exports of G&S (US dollar terms, in percent)	6.3	22.7	10.7	21.5	10.3	5.7	7.0	8.2	7.9	11.0	12.0	8.6	12.0	11.0	11.6
Growth of imports of G&S (US dollar terms, in percent)	18.8	12.0	-1.5	17.1	12.8	19.0	4.8	9.0	5.3	5.5	11.1	9.1	11.1	10.0	10.9
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	29.7	28.4	18.9	26.7	27.5	22.7	25.7	25.8	19.6	22.0
Government revenues (excluding grants, in percent of GDP)	16.2	13.2	13.2			13.7	14.3	14.8	15.1	15.4	15.5		16.0	16.4	16.1
Aid flows (in Billions of US dollars) 7/	0.7	0.8	1.0			0.9	0.9	0.6	0.7	0.7	0.7		0.9	1.4	
o/w Grants	0.4	0.4	0.4			0.3	0.4	0.3	0.3	0.3	0.3		0.2	0.0	
o/w Concessional loans	0.3	0.3	0.6			0.5	0.5	0.3	0.4	0.5	0.4		0.7	1.4	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			2.7	2.7	1.8	1.8	1.7	1.5		1.0	0.5	0.8
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			46.1	47.8	34.0	43.0	43.1	38.9		33.9	19.6	27.0
Memorandum items:															
Nominal GDP (Billions of US dollars)	16.8	19.6	21.4			24.5	26.5	28.1	30.8	33.5	37.2		62.8	176.1	
Nominal dollar GDP growth	-2.2	16.6	9.3			14.1	8.1	6.3	9.4	8.8	11.1	9.6	11.1	10.0	10.9
PV of PPG external debt (in Billions of US dollars)			1.6			2.4	3.2	4.2	4.9	5.6	6.5		10.5	27.0	
(PVt-PVt-1)/GDPt-1 (in percent)						3.6	3.2	3.7	2.6	2.4	2.5	3.0	1.5	1.5	1.6
Gross workers' remittances (Billions of US dollars)	0.8	0.8	1.2			1.3	1.3	1.4	1.5	1.7	1.8		3.0	7.5	
PV of PPG external debt (in percent of GDP + remittances)	...	...	7.2			9.5	11.9	14.3	15.4	16.2	16.4		16.2	14.9	
PV of PPG external debt (in percent of exports + remittances)	...	...	26.0			36.9	46.5	54.9	60.1	62.4	62.7		60.1	53.6	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	1.6			1.2	1.7	2.5	2.4	2.7	3.1		4.7	5.2	

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

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

Table 2a. Uganda: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2014–2034

(in Percent)

	Projections							
	2014	2015	2016	2017	2018	2019	**2024**	2034
PV of debt-to GDP ratio								
Baseline	10	13	15	16	17	17	**17**	16
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	10	8	7	6	6	7	**8**	10
A2. New public sector loans on less favorable terms in 2014-2034 2	10	13	17	19	21	22	**23**	25
A3. Oil sector development starting from FY2013/14	10	12	16	18	18	19	**1**	-12
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	10	12	15	16	17	18	**17**	16
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	10	11	13	14	15	16	**16**	15
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	10	13	16	17	18	19	**18**	16
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	10	13	17	18	19	19	**18**	16
B5. Combination of B1-B4 using one-half standard deviation shocks	10	10	10	11	12	13	**14**	15
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	10	17	21	23	24	25	**24**	22
PV of debt-to-exports ratio								
Baseline	46	57	67	74	76	77	**72**	63
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	46	37	32	28	28	31	**35**	41
A2. New public sector loans on less favorable terms in 2014-2034 2	46	61	76	86	92	96	**99**	99
A3. Oil sector development starting from FY2013/14	45	55	73	82	80	77	**4**	-43
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	46	55	67	73	75	77	**71**	62
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	46	50	54	60	63	65	**62**	57
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	46	55	67	73	75	77	**71**	62
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	46	59	76	82	84	86	**76**	63
B5. Combination of B1-B4 using one-half standard deviation shocks	46	43	39	44	48	51	**51**	51
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	46	55	67	73	75	77	**71**	62
PV of debt-to-revenue ratio								
Baseline	73	88	101	107	111	111	**106**	95
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	73	57	48	41	40	45	**51**	63
A2. New public sector loans on less favorable terms in 2014-2034 2	73	93	114	125	133	139	**144**	150
A3. Oil sector development starting from FY2013/14	72	85	115	121	120	116	**6**	-68
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	73	86	104	109	113	116	**107**	97
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	73	80	87	93	97	101	**97**	92
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	73	88	107	112	117	120	**111**	100
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	73	90	115	119	122	124	**111**	95
B5. Combination of B1-B4 using one-half standard deviation shocks	73	72	68	75	81	86	**87**	90
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	73	120	142	149	155	159	**148**	133

Table 2a. Uganda: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2014–2034 (continued)

(in Percent)

				Debt service-to-exports ratio				
Baseline	2	2	3	3	3	4	**6**	6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	2	2	2	2	2	2	**2**	3
A2. New public sector loans on less favorable terms in 2014-2034 2	2	2	2	3	3	4	**6**	8
A3. Oil sector development starting from FY2013/14	2	2	3	3	3	4	**3**	-1
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	2	2	3	3	3	4	**6**	6
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	2	2	3	2	3	3	**5**	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	2	2	3	3	3	4	**6**	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	2	2	3	3	4	4	**6**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	2	2	2	2	2	3	**4**	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	2	2	3	3	3	4	**6**	6
				Debt service-to-revenue ratio				
Baseline	2	3	5	4	5	5	**8**	9
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	2	3	3	2	2	3	**4**	5
A2. New public sector loans on less favorable terms in 2014-2034 2	2	3	4	4	5	5	**9**	12
A3. Oil sector development starting from FY2013/14	2	3	5	5	5	6	**4**	-2
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	2	3	5	4	5	6	**8**	10
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	2	3	4	4	4	5	**8**	9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	2	3	5	4	5	6	**9**	10
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	2	3	5	5	5	6	**9**	9
B5. Combination of B1-B4 using one-half standard deviation shocks	2	3	4	3	4	4	**7**	9
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	2	5	6	6	7	8	**12**	13
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	16	16	16	16	16	16	**16**	16

Sources: Country 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, 2014–2034

	Projections							
	2014	2015	2016	2017	2018	2019	2024	2034
PV of Debt-to-GDP Ratio								
Baseline	27	28	31	31	30	30	27	23
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	27	26	26	25	24	24	22	20
A2. Primary balance is unchanged from 2014	27	31	35	38	42	45	58	77
A3. Permanently lower GDP growth 1/	27	28	31	31	31	31	31	35
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-2016	27	29	33	33	33	33	32	30
B2. Primary balance is at historical average minus one standard deviations in 2015-2016	27	28	29	29	29	28	26	23
B3. Combination of B1-B2 using one half standard deviation shocks	27	27	28	28	28	28	27	25
B4. One-time 30 percent real depreciation in 2015	27	32	35	34	33	33	30	28
B5. 10 percent of GDP increase in other debt-creating flows in 2015	27	38	40	40	39	38	33	27
PV of Debt-to-Revenue Ratio 2/								
Baseline	176	178	195	191	184	182	166	141
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	176	164	163	156	150	149	134	120
A2. Primary balance is unchanged from 2014	176	194	221	239	257	274	356	468
A3. Permanently lower GDP growth 1/	176	179	198	195	191	191	191	216
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-2016	176	182	206	204	200	200	195	185
B2. Primary balance is at historical average minus one standard deviations in 2015-2016	176	176	186	182	176	174	160	138
B3. Combination of B1-B2 using one half standard deviation shocks	176	171	177	175	171	171	164	152
B4. One-time 30 percent real depreciation in 2015	176	205	219	213	205	199	185	170
B5. 10 percent of GDP increase in other debt-creating flows in 2015	176	239	254	247	238	231	204	162
Debt Service-to-Revenue Ratio 2/								
Baseline	35	33	35	33	31	32	27	26
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	35	33	35	31	29	30	25	24
A2. Primary balance is unchanged from 2014	35	33	36	34	33	35	37	50
A3. Permanently lower GDP growth 1/	35	33	36	33	31	33	29	32
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-2016	35	34	37	34	32	33	29	29
B2. Primary balance is at historical average minus one standard deviations in 2015-2016	35	33	35	33	30	32	27	25
B3. Combination of B1-B2 using one half standard deviation shocks	35	33	35	33	30	32	27	26
B4. One-time 30 percent real depreciation in 2015	35	34	37	35	33	35	32	33
B5. 10 percent of GDP increase in other debt-creating flows in 2015	35	33	38	36	33	34	31	27

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.

Appendix I. Uganda: Letter of Intent

Kampala, Uganda,
November 28, 2013

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

Dear Ms. Lagarde:

On behalf of the Government of Uganda, we would like to provide you with an update on the progress we have achieved under our economic program supported by the IMF's Policy Support Instrument (PSI). Economic growth has been stronger than expected, inflation is under control despite a significant food price shock, and the external current account improved allowing international reserves to meet the PSI end-June 2013 target. In light of these favorable developments, we observed all June 2013 quantitative assessment criteria under the program. Unfortunately, we missed the indicative targets on tax revenue and expenditure on poverty reduction by small margins and some structural commitments have suffered delays, but we have taken remedial action and remain committed to speeding up the implementation of the structural reform agenda. Therefore, we request completion of the first review under our PSI-supported program.

Going forward, we will continue to conduct policies that maintain economic stability and support sustainable and inclusive growth by generating employment and reducing poverty levels. Monetary policy is designed to support the 5 percent medium-term core inflation target. A program of infrastructure investment in electricity and road projects to address the infrastructure gap is at the center of our growth and development strategy, and we will ensure that this program is consistent with debt sustainability and the absorption capacity of the economy. We are also advancing integration efforts with other Eastern African countries to boost trade, improve competiveness, and ultimately culminate in a monetary union. We have made progress on improving tax collection and enhancing public financial management and will continue to take steps to advance further. To assist us in carrying out this ambitious reform agenda, the government of Uganda wishes to continue to benefit from technical assistance from the IMF in areas included in the program. We also wish to request that the ceiling for non-concessional borrowing included in the PSI arrangement be raised from $1.5 to $2.2 billion to finance our infrastructure investment program, and that the December

2013 quantitative assessment criteria and March 2014 indicative targets be modified in line with recent developments.

The attached Memorandum of Economic and Financial Policies (MEFP) sets out details of the policies to be pursued in the next year, which Government believes will be 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 first review under the PSI.

Sincerely yours

/s/
Maria Kiwanuka
Minister of Finance, Planning
and Economic Development

/s/
Louis Kasekende
For Prof. E. Tumusiime Mutebile
Governor
Bank of Uganda

Attachments
Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

This Memorandum of Economic and Financial Policies complements the previously agreed policies under the June 2013 Memorandum of Economic and Financial Policies (IMF Country Report 13/215). It presents an update on the economic performance in the second half of the fiscal year 2012/13, and provides details of the policies Government intends to implement in the period ahead to maintain overall macroeconomic stability and stimulate growth and job creation.

I. Recent Economic and Policy Developments

1. Economic growth for FY 2012/13 reached 5.8 percent, 0.7 percentage points higher than projected, driven by stronger-than-expected industrial output, services, and public investment. Inflation declined in the second half of FY2012/13 but the trend was reversed during the first quarter of FY2013/14 owing to a drought in most parts of the country that affected food crop production. With improved weather conditions, core inflation declined from 7.4 percent in September to 7.2 percent in October, and is projected to remain within PSI program targets.

2. On the external front, the current account deficit improved markedly in FY2012/13 with lower-than-anticipated FDI-related imports and stronger remittances. Gross international reserves rose from US$2.6 billion in FY2011/12 to US$2.9 billion in FY2012/13 equivalent to 3.9 months of imports. Risks to the external outlook include potential adverse effects of weather conditions on agricultural exports, unfavorable global economic conditions, and oil price increases.

3. Fiscal performance during FY2012/13 was slightly more expansive than projected. The overall deficit was 4.1 percent of GDP, compared to 3.9 percent of GDP in the program. Total expenditures and net lending amounted to 18.9 percent of GDP compared to 18.6 percent of GDP in the program, on account of higher development spending. The fiscal deficit was largely financed from external sources (2.6 percent of GDP) compared to 1.3 percent of GDP of domestic financing, in line with the program target.

4. Monetary policy was eased on account of muted inflation developments and forecasts, with the central bank rate (CBR) reduced to 12 percent in December 2012 and to 11 percent in June 2013 from 23 percent in February 2012. In an environment of relatively low inflation coupled with declining upward risks to inflation, BoU's efforts were geared to supporting economic activity. However, as inflation increased owing to a drought-related food price spike, the CBR was raised by 100 basis points in September 2013, signaling Bank of Uganda's (BoU) strong commitment to the inflation target. Lending rates have declined during the fiscal year, from 26.9 percent in July 2012 to 22.9 percent in June 2013; and private sector credit continued to grow, albeit at a slow pace, largely on account of foreign-currency-denominated loans.

5. The banking sector performed well in FY2012/13. Capital adequacy levels remained strong, aided by high profits, improved liquidity and better funding conditions. However, lending stagnated, with banks reducing their risk-weighted assets and investing more in government securities. The low rate in credit growth, 6.4 percent at the end of June 2013, reflected lower demand for credit from leveraged corporations and households and reduced appetite for risk taking by banks. Asset quality is improving, with the system-wide ratio of NPLs to total lending at 4 percent in June 2013 from a peak of 4.7 percent in March. 2013. A financial sector systemic risk assessment shows that banks' resilience has improved. The BoU has taken several measures to strengthen the macro prudential framework. In May, measures to enhance minimum capital requirements, including the Basel III capital conservation buffer for all banks, were introduced. Liquidity risk assessment will improve with the planned introduction of a new liquidity coverage ratio to be introduced in 2014. Financial inclusion continues to grow strongly as mobile money usage is becoming widespread in all regions of the country.

6. Government remains committed to addressing constraints affecting the business climate by stepping up infrastructure development, mainly on energy and roads.

II. Performance Under the PSI

7. As at end-June 2013, all quantitative assessment criteria were observed, while structural benchmarks were broadly achieved. The indicative targets on tax revenues and expenditures on poverty alleviating sectors for end-June 2013 were not met by small margins. Government is undertaking remedial measures to improve revenue collection and tax administration as well as addressing implementation capacity of the Ministries, Departments and Agencies (MDAs).

8. Significant progress has been made on achieving the structural benchmarks set from July to December. Government carried out the first stage of recapitalization of the BoU with marketable securities in May. Government remains committed to improving the management of public finances. Although with some delay, there is ongoing work on the VAT gap analysis in consultation with FAD. All central government entities are now covered by the Integrated Personnel and Payroll System (IPPS). Test runs are being undertaken on the functionality of the system, and it is expected that payment of salaries will be run through the IPPS starting in April 2014. The benchmark on rolling out the Integrated Financial Management System (IFMS) to cover all central government votes has been achieved ahead of schedule. The first phase of implementation of the Treasury Single Account (TSA) was completed in October 2013 by consolidating the central government accounts. Next steps include establishing cash management and debt management units. However, the structural benchmark on submitting to cabinet regular quarterly reports on unpaid bills of nine ministries based on data for the previous quarter was delayed because a mechanism of clear sanctions/penalties was being put in place. This awaits passing of the new Public Financial Management Bill. This bill is being considered by parliament, and consultations with the relevant stakeholders and the public are ongoing.

III. Macroeconomic Outlook and Risks

9. The macroeconomic framework has been updated to reflect last year's better-than-expected economic performance. Growth is projected to reach 6.2 percent this fiscal year and 6.5 percent in 2014/15, supported by continued investments in infrastructure (particularly roads and energy) and improved agricultural production and productivity. To achieve the latter, government is stepping up provision of inputs (seedlings) and pest and disease control.

10. Core inflation is expected to decline on account of lower food prices, declining commodity prices, and the recent exchange rate appreciation, converging to the 5 percent medium-term target. Risks to the inflation outlook include possible increases of imported prices and exchange rate depreciation as the global economy recovers. The external current account is expected to worsen due to increased FDI-related imports of goods and services.

11. The economy remains vulnerable to shocks emerging from both domestic and external sources. On the domestic side, the unpredictable weather conditions could negatively impact agricultural production thereby affecting exports and inflation. On the external front, the slower-than-projected global recovery could hurt export earnings and remittances inflows.

IV. Economic Policies

Fiscal Policy

Budget FY2013/14

12. Government's fiscal policy in FY2013/14 and the medium term will aim at maintaining macroeconomic stability and accelerating the rate of economic growth, and will be focused on enhancing domestic revenue mobilization and budget efficiency. In order to complement achievement of these objectives, Government will continue strengthening the business climate and alleviating binding constraints to economic growth through targeted public investments, particularly in power and roads, agricultural production and productivity, and human capital. Domestic revenues are projected to increase as a share of GDP by about 0.5 percentage points as a result of new tax measures and strengthened tax administration. Any current expenditure pressures will be accommodated within the domestic financing for the FY2013/14 budget, in addition to conducting key investment projects described on paragraph 13. Excluding extraordinary investments, the fiscal stance will expand by 0.2 percent of GDP to support the growth recovery.

13. Inadequate power and road infrastructure are key impediments to private sector investment and growth. To address these constraints, Government will start construction of two large hydroelectric projects toward the end of this fiscal year. The Karuma and Isimba Hydropower Projects, together with associated transmission lines and substations, are identified as national core projects for development under the National Development Plan. Expected to more than double current production capacity, they will contribute to mitigating current and future energy supply shortages. Financing of these large projects amounts to US$ 2.2 billion in the next five years, and will require the use of government savings in the energy and oil funds and external borrowing. Given the challenges associated with identifying adequate financing from concessional sources, government intends to contract non-concessional loans in amounts consistent with debt sustainability and the absorptive capacity of Uganda. To this end, the government requests that the ceiling on non-concessional borrowing be adjusted to USD 2.2 billion during the program period.

Government does not intend to use future oil revenues as collateral and will ensure that on completion, these projects will generate sufficient returns to repay the costs of the investment through an appropriate policy on electricity tariffs.

14. Government will set up a special purpose vehicle to manage the hydropower dams and ensure that the revenue stream from the operation of the projects is separated from other transactions of the electricity companies and guarantee commercial viability of the projects.

Budget FY2014/15

15. The theme for the 2014/15 budget will be to promote growth and reduce poverty while maintaining macroeconomic stability and debt sustainability. The fiscal stance will be designed to be consistent with the objective of monetary policy of reducing core inflation to the medium term target of 5 percent.

16. With revenue gains from improved growth prospects and enhanced administrative reforms, total revenues and grants are projected to rise to 15.8 percent of GDP. Total expenditures and net lending are projected at about 21 percent of GDP and include among other items, wage increases to compensate civil servants for the decline in purchasing power of their salaries; election-related expenditures; and the continuation of spending on the two large-scale hydropower projects. Consequently, the overall deficit is projected at 5.1 percent of GDP. Financing of the deficit will rely on external sources (including non-concessional loans), which will account for about 3.9 percent of GDP, while up to 1.3 percent will be from domestic sources.

Monetary and Financial Policies

17. Monetary policy will be designed to ensure that core inflation over the medium term is as close to 5 percent as possible and that output is as close to potential as possible, consistent with the inflation objective.

18. The BoU continues to pursue a flexible exchange rate regime, and implement sterilized interventions in the foreign exchange market to dampen excessive exchange rate volatility or to accumulate reserves. To compensate for the loss of reserves from the planned use of government deposits to finance the infrastructure projects, the BoU has stepped up its announced program of daily dollar purchases in the market. This would allow international reserves to be maintained at 3.5 months of future imports during FY2013/14. Subsequently, international reserves will be raised to 4 months of imports.

19. The BoU continues to closely monitor risks that could emerge in the financial sector and is prepared to take any measure to mitigate these risks. In particular, the BoU will closely coordinate actions with the regulatory body (Uganda Communications Commission) and other relevant agencies to reduce the likelihood of any operational problems in the mobile money platforms. The BoU is also committed to upgrading its prudential measures and enforcement to mitigate risks that could emerge from foreign currency lending to unhedged borrowers.

V. EAC Integration

Customs Union

20. The government together with other East African Community (EAC) partner states continues to work towards strengthening regional integration. There are ongoing efforts aimed at consolidating the EAC into a Single Customs Territory, as a foundation for smooth implementation of the EAC Common Market Protocol and the subsequent EAC Monetary Union. This entails eliminating non-tariff barriers, a mechanism for clearance of goods at the first point of entry into the Community, adopting an EAC bond guarantee regime to avoid execution of multiple bonds in the movement of goods across the region; and implementing one-stop border post models to coordinate activities of various Government agencies involved in the regulation of trade. The use of information and communication technology to facilitate clearance of payment of taxes and cargo tracking, as well as exchange of trade statistics analysis for guidance in policy formulation is being stepped up.

Common Market

21. Implementation of the common market has been slow, with significant barriers to the free movement of goods and factors of production still in place across the region. The EAC developed a plan to guide the implementation of the Common Market Protocol, focusing on the six rights provided for under the common market. To deal with emerging challenges, partner states are committed to accelerating convergence of laws and policies and integrating EAC policies into their individual national plans.

Monetary Union

22. Uganda and the other EAC partner states have concluded negotiations on a Protocol for establishing an EAC Monetary Union. The Protocol sets out a 10-year road map for implementing a single currency, pre-requisites for macroeconomic convergence, and harmonizing policy and legal frameworks.

VI. Structural Reforms

Improving Public Financial Management

23. Government started implementing the TSA effective October 1st, 2013. The first phase of implementation involved i) introducing a structure of subaccounts to be swept daily into the consolidated fund, ii) closing most of the inactive accounts, iii) reconfiguring the IFMS to handle TSA operations, and iv) issuing operational guidelines to accounting officers. Looking forward, Government will further extend the coverage of the TSA by including salary accounts, holding accounts, non-donor funded project accounts and deposit accounts. Improvements to cash management planning will also require setting up a cash management planning unit to coordinate the timing of payments.

24. Government has broadened the coverage of IFMS to 68 central governments ministries and agencies, 14 local governments, 8 donor-financed projects, and 5 referral hospitals. The further rollout in central government will mainly target donor-financed projects, and remaining up-country referral hospitals. Further, government will enhance interfaces with other systems (Uganda Revenue Authority, Integrated Personnel and Payroll System, Debt Management and Financial Analysis System) and improve security of the system.

25. Government has revised its medium term debt strategy to take into account recent developments on borrowing. The strategy requires Government to undertake regular assessments of debt maturities (concessional and non-concessional) and associated risks (exchange rate, roll-over, etc). In line with the revised debt strategy in 2013, Government embarked on a restructuring of its debt management processes including its institutional framework.

Improving Tax Revenue

26. Government remains committed to raising tax revenue collections by continuously assessing tax exemptions from a cost-benefit perspective and amending the tax laws in cases where exemptions have outlived their usefulness. To this end, a VAT gap analysis is under way, with technical assistance from the IMF, to quantify the revenues foregone by statutory exemptions in the law. The results of this study will inform an action plan to be presented to Cabinet with the aim of implementing the recommendations in the FY2014/15 budget.

27. In addition, Government will send to Parliament the amendments to the Income Tax Act that were committed to at the time of the previous review but were delayed due to lack of consensus within cabinet. These include the amendment of the thin capitalization rule to limit excessive use of related party debt, the introduction of a capital gains tax on the disposal of commercial buildings by resident individuals, and the elimination of tax exemptions on income derived from agro processing and export businesses.

28. Further tax measures to strengthen revenues for next fiscal year's budget will include the termination of VAT exemptions on i) hotel accommodation, ii) the textile sector, iii) packaging materials, and iv) feeds for poultry and livestock.

29. Reforms in tax administration also feature prominently in Government's strategy to increase tax revenues in the medium term. To this end, efforts will be intensified to enforce compliance of the different types of taxpayers by improving risk profiles for different taxpayer segments and goods and sectors of operation. A particular focus will be on problematic industries, including wholesale and construction. Moreover, there will be a risk profile assessment of the top 216 importers, and top volume clearing agents, to identify, quantify, and channel their trade on the basis of evaluated risk levels. A National Targeting Centre will be created and provision to increase staff levels has also been made in the customs structure review.

30. Enforcement of the use of a unique tax identification number for all businesses who receive trading and other licenses and permits from the Kampala City Council Authority and local governments will be stepped up. Partnerships have also been further enhanced with specific Government institutions through the signing and monitoring of memoranda of understanding. The Uganda Revenue Authority (URA) plans to continue working closely with other ministries and agencies to identify and address the low levels of taxpayer compliance, especially among Government suppliers.

31. URA will also clean up the tax registers to ensure they contain solely those capable of filing monthly and paying. This exercise has been refocused to cover both the large and medium taxpayers' offices. Work is ongoing on the PAYE ledgers, whose system solution is already implemented. The development of a solution for the VAT ledgers is now at testing level. Current plans are to cover the larger taxpayers who bring in at least 90 percent of the revenue by June 2014 for PAYE and VAT.

Dealing with Arrears

32. Progress on the removal of arrears has proven challenging, but Government remains committed to eliminating them. To this end, an indicative target on the reduction in the stock of unpaid bills, as measured by the Accountant General through internal audits, will be introduced. Data on repayment of domestic arrears and the remaining previous year's stock of unpaid bills will be transmitted on a quarterly basis within six weeks of the end of each quarter to ensure timeliness and transparency.

Government's Support of Inflation Targeting

33. Government will amend the Bank of Uganda Act to include provisions that would enable the BoU to adapt its functions to the inflation targeting framework and bring its capital to an adequate ratio of its monetary liabilities.

34. Government will continue to annually recapitalize the BoU to meet statutory levels, subject to the implementation of the BoU's commitment to contain its non-monetary policy related operational and administrative costs. The undertakings of Government and BoU in support of these transactions are contained in a joint Memorandum of Understanding recently signed by both parties. The issuance of marketable government securities for this purpose will comprise diverse maturities so that the BoU can have appropriate instruments to conduct monetary policy under inflation targeting.

VII. Program Monitoring

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

Table 1. Uganda: Quantitative Assessment Criteria and Indicative Targets for June 2013–June 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]		June 30, 2014 [3]
	Program	Adjusted target	Outturn	Result	Program	Adjusted target	Outturn	Result	Program	Revised Program	Program	Revised Program	Program
	(Billions of Ugandan shillings)												
Assessment criteria													
Ceiling on the increase in net domestic financing of the central government	868	802	681	Met	257		n.a.		-421	736	-54	1,053	1,862
	(Millions of US dollars)												
Ceiling on the stock of external payments arrears incurred by the public sector [4]	0		0	Met	0		0	Met	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		0	Met	1,500		0	Met	1,500	2,200	1,500	2,200	2,200
Ceiling on new external debt with maturity up to one year contracted or guaranteed by the public sector [4, 6]	0	0	0	Met	0		0	Met	0	0	0	0	0
Minimum increase in net international reserves of the Bank of Uganda (US$mn)	361	358	392	Met	16		n.a.		52	42	107	2	-140
Share of oil revenue placed in the Petroleum Fund [7]	100	100	100	Met	100		100	Met	100	100	100	100	100
	(Billions of Ugandan shillings)												
Indicative targets													
Ceiling on the increase in base money liabilities of the Bank of Uganda	836		527	Met	239		109	Met	504	434	591	541	593
Floor on tax revenue	7,015		7,005	Not met	1,813		1,779	Not met	4,024	3,988	5,977	5,972	8,314
Expenditures on poverty alleviating sectors	2,498		2,448	Not met	607		n.a.		1,246	1,246	1,745	1,745	2,612
Ceiling on the issuance of guarantees by the Government/Bank of Uganda	0		0	Met	0		n.a.		0	0	0	0	0
Net change in the stock of domestic arrears										0		-24	-50
	(Annual percentage change)												
Inflation consultation clause													
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 [8]	6.8		6.6	Met	6.0		5.7	Met	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

Sources: Ugandan authorities; and IMF staff estimates and projections

[1] Defined in the Technical Memorandum of Understanding (TMU). Values for June 2013, December 2013 and June 2014 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	Status
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	Met
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.	Not met
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.	March 2014	
4. Government to complete the rollout of the IPPS to cover management of the payroll of all entities within central government.	To improve both governance and transparency of budget execution.	April 15, 2014	
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.	April 15, 2014	
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.	May 2014	
7. Government to start introducing a treasury single account for IFMS related transactions, including for the TGAs, salaries, and IFMIS projects.	To improve both governance and transparency of budget execution.	March 2014	
8. Government to present to cabinet within the budget framework paper an action plan to implement the recommendations on addressing tax exemptions that come out of the VAT gap analysis.	To improve tax efficiency.	May 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.	July 2014	
12. Government to continue with annual recapitalizations of the Bank of Uganda with marketable securities to bring capital to the statutory level until amendments to the Bank of Uganda act come into force, on the basis of the BoU's implementation of its commitment to contain operational and administrative costs.	To enhance central bank efficiency. To enhance central bank discipline and monetary policy independence.	June 2014 June 2015	

Attachment II. 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 December 30, 2013—June 30, 2014, and sets forth the reporting requirements under the instrument. For the first year of the PSI-supported program, the stock of all foreign assets and liabilities will be converted into U.S. dollars at each test date using the average cross exchange rates referred to in the table below for the various currencies and then converted into Uganda shillings using the program average U.S. dollar-Uganda shilling exchange rate for 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 1: Inflation Targets. Projected CCPI inflation for end-December 2013 and end-June 2014 will be subject to the consultation mechanism, while that for end-March 2014 is an indicative target.

Text Table 1. 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-December 2013 for the second review and end-June 2014 for the third review) fall outside the outer band as specified in text table 1, 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 limits for December 2013, March and June 2014 will be ceilings on the cumulative change from the monthly average based on daily data for June 2013 to the same monthly averages for December 2013, March and June 2014, respectively. Base money limits for December 2013, March 2014 and June 2014 will be indicative targets under the PSI-supported program.

IV. Ceiling on the Cumulative Increase in Net Domestic Financing of the Central Government[9]

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 deposit corporations, 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. NDF by deposit corporations will be calculated based on data from balance sheets of the monetary authority and deposit corporations as per the deposit corporations' survey.

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

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

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

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

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

7. For program-monitoring purposes, reserve assets and short-term liabilities at the end of each test period will be calculated in U.S. dollars by converting the stock from their original currency denomination at program exchange rates (as specified in paragraph 1). The NIR limits for December 2013, March and June 2014 will be floors on the change of the NIR stock from June 2013 to December 2013, March 2014 and June 2014, respectively. The NIR limit for December 2013 and June 2014 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

8. 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

9. 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 before July 1, 2012, but which are extended after June 30, 2012. This excludes guarantee programs that have explicit budget appropriations.

VIII. Share of Oil Revenue Placed in Petroleum Fund

10. 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 at 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

11. 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, 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. Domestic Arrears

12. Net change of domestic arrears of the central government: a ceiling applies to net change of domestic arrears of the government. The ceiling for each test date is measured cumulatively from July 1, 2013.

13. Definition. The net change of arrears is defined as the difference between the gross accumulation of new domestic arrears (defined as the difference in stock of unpaid bills, as measured by the Accountant General through internal audits) and gross repayment of any arrears outstanding since the beginning of the year under review (including repayment of older arrears).

14. Reporting requirement. Data on repayment of domestic arrears and the remaining previous year's stock of arrears will be transmitted on a quarterly basis within six weeks of the end of each quarter.

XI. Adjusters

15. 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 NDF target is based on program assumptions regarding automatic access by commercial banks to the BoU's rediscount and discount window facilities.

16. 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, exceeds (falls short of) the projected amounts.

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

	Sept-13	Dec-13	Mar-14	Jun-14
Cumulative from July 1, 2013	47	75	125	206

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

17. 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[10] 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 as (i) all debt service rescheduled under the HIPC Initiative; and (ii) payments falling due to all non-HIPC Initiative creditors not currently being serviced by the authorities (that is, gross new arrears being incurred).

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

	Sept-13	Dec-13	Mar-14	Jun-14
Cumulative from July 1, 2013	92	181	283	433

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

18. The ceiling on NDF will be adjusted upward (downward) by the amount by which the domestic currency equivalent of Government of Uganda share of spending on the Karuma and Isimba hydropower projects and the associated industrial substations through withdrawals from the Petroleum Fund and the Energy Fund (using the market exchange rate) exceeds (falls short of) the projected amounts as set out in Schedule C. Spending on these projects financed by external borrowing are not included in this adjustor.

Schedule C: Expenditures on hydropower projects
(Ush billions)

	Sept-13	Dec-13	Mar-14	Jun-14
Cumulative from July 1, 2013	0	0	0	1,102

19. 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.

[10] 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
(Ush billions)

	Dec-13	Mar-14	Jun-14
Cumulative change from November 1, 2013	0	0	0

20. The floor on the increase in NIR will be adjusted upward by the amount by which withdrawals from the Ush denominated deposits of the Government of Uganda in the Energy Fund and the Petroleum Fund (using the market exchange rate) to finance the Government of Uganda share of Karuma and Isimba hydropower plants (HPP) and the associated industrial substations falls short of the projected amounts as set out in Schedule E. The Government of Uganda will first withdraw the foreign currency denominated portion of its deposits in the BoU, including any new foreign currency inflows to the Petroleum Fund and the Energy Fund compared to the projected amounts as set out in Schedule D.

Schedule E: Withdrawals from the Energy and Petroleum Funds to Finance HPP
(US$ millions)

	Dec-13	Mar-14	Jun-14
Cumulative change from November 1, 2013	0	0	253

21. Underlying the above adjustor, the currency composition of the Energy Fund and the Petroleum Fund are given below. The foreign currency denominated deposits of the Petroleum Fund and the Energy Fund do not constitute part of the BoU's international reserves and as such are recorded under other foreign assets of the BoU. Any further foreign currency denominated inflows to these funds will continue to be recorded outside of the reserves and under other foreign assets of the BoU.

Stock of the Oil and Energy Fund by November 1, 2013
(Ush billions and USD millions)

	Ush	USD	
Energy Fund	301	181	(BoU reserves)
Petroleum Fund	1162	171	(BoU other assets)

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

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

	Sept-13	Dec-13	Mar-14	Jun-14
Cumulative from July 1, 2013	0	0	0	0

XII. Ceiling on the Contracting or Guaranteeing of New Non-concessional External Debt by the Public Sector, and Ceiling on the Stock of External Payments Arrears Incurred by the Public Sector[11]

23. The assessment criterion on short-term debt refers to contracting or guaranteeing external debt with an 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 25.

24. The program includes a ceiling on new non-concessional borrowing with maturities greater than one year contracted or guaranteed by the public sector.[12] Non-concessional borrowing is defined as loans with a grant element of less than 35 percent. The discount rates used for this purpose is 5 percent. The ceiling on non-concessional external borrowing or guarantees is to be observed on a continuous basis. The coverage of borrowing includes financial leases and other instruments giving rise to external liabilities, not only current as defined below, but also contingent, on non-concessional terms. External debt for the purpose of this assessment criterion means borrowing giving rise to liabilities to non-residents. Excluded from the limits are changes in indebtedness resulting from non-resident holdings of government securities and government promissory notes, refinancing credits and rescheduling operations, and credits extended by the IMF. For the purposes of the program, arrangements to pay over time obligations arising from judicial awards to external creditors that have not participated in the HIPC Initiative do not constitute non-concessional external borrowing. Excluded from these limits are also non-concessional borrowing within the limits specified in Table 1 of the MEFP. The ceiling also excludes non-concessional borrowing by one state-owned bank, Housing Finance Bank, which poses limited fiscal risk and is in a position to borrow without a government guarantee. The definition of debt, for the purposes of

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

[12] 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.

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.

25. 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.

26. The ceiling on the accumulation of new external payments arrears is zero. This limit, which is to be observed on a continuous basis, applies to the change in the stock of overdue payments on debt contracted or guaranteed by the public sector from their level at end-June 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.

XIII. Monitoring and Reporting Requirements

27. 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, government securities).	Weekly	5 working days
	Commercial bank prime lending rate.	Weekly	10 working days
	Excess reserves of commercial banks.	Weekly	5 working days
	Private sector credit growth by shilling and forex.	Weekly	10 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 non-concessional 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,[13] cash transfers to districts, and externally funded development expenditures. Expenditures on domestic interest will be recorded on an accrual basis and external debt service will be recorded on a commitment basis (i.e., when payment is due).	Monthly	4 weeks
	Summary of the stock of unpaid bills by central government MDAs, as measured by the Accountant General through internal audits.	Quarterly	6 weeks

[13] The budget records domestic interest payments on a cash-basis while for program purposes this entry is reported on an accrual basis.

Attachment II. Table 1. Summary of Reporting Requirements

Reporting Institution	Report/Table	Submission Frequency	Submission Lag
	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
	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) according to UBOS and medium-term projections.	Quarterly	12 weeks

INTERNATIONAL MONETARY FUND

UGANDA

December 3, 2013

FIRST REVIEW UNDER THE POLICY SUPPORT INSTRUMENT—INFORMATIONAL ANNEX

Prepared By The African Department

CONTENTS

FUND RELATIONS

Membership Status: Joined: September 27, 1963 Article VIII

General Resources Account:	**SDR Million**	**%Quota**
Quota	180.50	100.00
Fund holdings of currency (Exchange Rate)	180.51	100.00
Reserve Tranche Position	0.00	0.00

SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	173.06	100.00
Holdings	139.78	80.77

Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
ECF Arrangements	2.40	1.33

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 Millions; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2013	2014	2015	2016	2017
Principal		1.20	1.00	0.20	
Charges/Interest	0.01	0.03	0.03	0.03	0.03
Total	0.01	1.23	1.03	0.23	0.03

[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$ Millions) [1/]	347.00	656.00	
Of which: IMF assistance (US$ millions)	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 Millions)			
Assistance disbursed to the member	51.51	68.10	119.61
Interim assistance	--	8.20	8.20
Completion point balance	51.51	59.90	111.41
Additional disbursement of interest income [2/]	--	2.06	2.06
Total disbursements	51.51	70.16	121.67

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

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

Implementation of Multilateral Debt Relief Initiative (MDRI):

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

II. Debt Relief by Facility (SDR Millions)

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

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

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

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

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

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

Safeguards Assessments:

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

Exchange Rate Arrangement:

The official exchange rate is determined on the interbank market for foreign exchange. Uganda's de jure exchange rate arrangement is free floating, and its de facto is floating. As of end-October, 2013 the official exchange rate was USh 2524.04 per U.S. dollar. The exchange system is free of restrictions on the making of payments and transfers for current international transactions.

Article IV Consultation:

The Executive Board concluded the last Article IV consultation on June 28, 2013. The next Article IV consultation 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.[3] In the last months, FAD provided TA to the Uganda Revenue Authority (URA) in the areas of modernization to increase tax Compliance and improve revenue performance; and consolidating customs risk management practices and post clearance audit. Follow up missions for the the introduction of the Treasury Single Account and Cash Management also took place. A mission on Assessing Output Budgeting Tool was also conducted. A follow-up mission for the VAT gap analysis is planned for early 2014.

MCM also continued to provide TA to Uganda to refine monetary and foreign exchange operations and deepen markets in order to enhance the effectiveness of monetary policy implementation and support the move to an inflation targeting regime. Recent missions include assisting the BoU to implement stress testing as part of the broader financial stability analysis; improving the licensing framework for banks in Uganda; assisting the Bank of Uganda on National Payments System Oversight Capacity Building; and assisting in the Reform of the Primary Dealer System in Government Securities.

STA, with AFRITAC East, also continued to provide TA in the areas of price statistics and national accounts, providing assistance to the UBOs in the production of rebased GDP estimates and improved quarterly GDP estimates.

LEG is also supporting Uganda with a comprehensive review of the existing BoU Act.

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.

[3] For a description of technical assistance provided prior to June 2013, see the staff report for Uganda: 2013 Article IV Consultation and Sixth Review Under the Policy Support Instrument (IMF Country Report No. 13/215).

JOINT WORLD BANK-FUND WORK PROGRAM, JUNE 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 14 operations with net commitments of US$1.46 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. Recently approved projects include the Municipal Infrastructure Development Program, and the Competitiveness and Enterprise Development Project. The near future (FY14) pipeline includes the Albertine Region Sustainable Development Project, Second Kampala Infrastructure and Institutional Development Project, the North-eastern Corridor Road Asset Management, and the Additional.		
	PRSC 9 disbursement was disbursed in June 2013. These series had been 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 Bank has suspended PRSCs, but remains open to negotiating new modalities and approaches to delivering budget support.		

	Public Investment Management (with support with DFID trust fund).		Project became effective in July 2013 and is expected to have delivered some outputs by June 2014
	Economic Update series (FY14) Edition 3 - Special focus – decentralization Edition 4 - Special focus – pension reform (tbc)		December 2013 May 2014
	Country Economic Memorandum (FY14) focusing on Uganda's sources of growth accounting for the linkages of the new natural resources economy.	Concept note: November 2013	June 2014
2. Fund Work Program	First review of the PSI	October 2013	December 2013
	Second review of the PSI	May 2014	June 2014
	TA priorities: • VAT gap analysis; • Extractive Industries and general tax policy; • PFM reform implementation; • Monetary policy and transition to inflation targeting; Review of the BoU Act, Review of MoU between Bank of Uganda and the MoFPED, BoU recapitalization, foreign exchange intervention in the context of inflation targeting, refining macroeconomic forecasting model. • Enhancing macroeconomic statistics, including national accounts, BoP data, and GFS.	January 2014 TBD TBD February 2014	TBD TBD TBD TBD
3. Joint Work Program	• Joint DSA update • Joint DSA update	October 2013 May 2014	December 2013 June 2014

STATISTICAL ISSUES (AS OF OCTOBER 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 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. Following several TA missions, the Uganda Bureau of Statistics (UBOS) is currently disseminating improved quarterly constant price GDP estimates through its website. The next phase of this project is to produce current price quarterly GDP estimates, as part of the rebase exercise with an expected release around end-May 2014. UBOS has recently produced balanced supply and use tables (SUTs) that include preliminary product balances for 155 activities by 161 products, with the assistance of AFRITAC East and external consultants. The SUTs will enable UBOS to improve the base year estimates and will put the GDP rebased (2009/10) estimates on a firm footing. AFRITAC East has undertaken several missions over the past three years to assist UBOS with improving the data sources and compilation system for the rebased annual and quarterly national accounts. **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. In June 2013, AFRITAC East provided technical assistance for the redevelopment of the producer prices survey (PPS) and producer price index (PPI). Further TA to rebase, improve and expand the PPI will be provided during the next two years. In addition, TA is expected to be provided to quality assure the planned new CPI and to develop export and import price indices.
Government finance statistics: The Ministry of Finance, Planning and Economic Development (MoFPED) compiles fiscal statistics following the Government Finance Statistics Manual 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).	

Press Release No. 13/522
FOR IMMEDIATE RELEASE
December 18, 2013

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes First PSI Review for Uganda

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

The PSI was approved by the Executive Board on June 28, 2013 (see Press Release No. 13/78). 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. 02/145).

Uganda's economic recovery continues to gain momentum. Mainly driven by public investment, and supported by appropriate policies, GDP growth reached 5¾ percent in 2012/13. Supported by the recovery of private sector activity and significant public investment in the construction of two large hydropower plants and road projects, growth is expected to rise to 6¼ percent in 2013/14. Monetary policy responded to a recent drought-related food price shock in a timely manner, keeping inflation within the expected path toward the 5 percent medium-term target. Aided by an improvement in the current account deficit, international reserves remained at a level equivalent to 3.9 months of imports, maintaining a welcome buffer against the uncertain global environment.

Program performance was broadly satisfactory. All the end-June 2013 quantitative assessment criteria were met, and reforms on the structural front advanced. In particular, the first stage of the Bank of Uganda (BoU) recapitalization was completed, strengthening its balance sheet and reinforcing its independence. Actions were taken to improve public financial management practices, including the first phase of implementation of a treasury single account and the upgrading of key accounting systems. The Parliament is currently examining the Public Finance Management Bill, aimed at improving budget execution and credibility, and enhancing the reporting and accountability of public finances. However, progress on strengthening tax revenue collection has been slow. Further improvements are

[1] The Executive Board takes decisions under its lapse of time procedure when it is agreed by the Board that a proposal can be considered without convening formal discussions.

also required to avoid the accumulation of payment arrears and reduce the frequency of supplementary budgets.

Monetary policy, in the context of the BoU's inflation targeting framework, struck the right balance between signaling its commitment to low inflation, avoiding excessive exchange rate volatility, and ensuring consistency with the fiscal policy stance. Ongoing institutional reforms to strengthen central bank operations and consolidate its credibility will be critical.

Fiscal policy is expected to accommodate the envisaged scaling up of public investment in infrastructure, while supporting low inflation and avoiding crowding out of private sector activity. In this context, it will be important to resist pressures for additional current spending through a strict adherence to the approved budget and financing.

The construction of two hydropower plants, Karuma and Isimba, will more than double current electricity production and address a critical structural bottleneck to growth. The increase in the non-concessional borrowing ceiling under the PSI to finance these projects is consistent with debt sustainability, and the risk of external debt distress is expected to remain low. Going forward, to minimize risks it will be important to ensure timely implementation of the projects, transparent and efficient management and an adequate cost recovery strategy.