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June 29, 2015

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Uganda: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

June 12, 2015

The following item is a Letter of Intent of the government of Uganda, which describes the policies that Uganda intends to implement in the context of its request for a policy support instrument from the IMF. The document, which is the property of Uganda, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

Letter of Intent

Kampala, Uganda,
June 12, 2015

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

Dear Madame Lagarde:

On behalf of the Government of Uganda, we would like to provide you with an update on the progress we have achieved under our economic program supported by the IMF's Policy Support Instrument (PSI). In FY2014/15 economic growth has been relatively high and expected to pick up led by our public investment program and a recovery in private sector activity supported by stronger credit growth. In the context of our inflation targeting framework, we have successfully kept inflation under control. Despite a slowdown in exports and the recent exchange rate depreciation, we have maintained our international reserves at adequate levels.

Performance under the PSI-supported program remains positive. In particular, we observed all of December 2014 quantitative assessment criteria and most indicative targets. Because our inflation was lower than the inner limit of the consultation clause, we conducted consultations with IMF staff. Inflation is now picking up, reflecting the depreciation pass-through, and will be contained within the target bands. The reduction in domestic arrears was lower than targeted in December, but we have speeded it up since then.

We are pleased to share with you that the indicative target on tax revenue was met with a substantial margin, helped by the implementation and strict enforcement of the strong revenue enhancing measures. We remain committed to further implementing tax policy and administration measures with a view to increasing tax revenue by at least ½percent of GDP per year in the medium term.

Reducing the infrastructure gap remains at the center of our growth and development strategy. This will boost growth, generate employment and address inequality in Uganda. We will ensure that our infrastructure plan is gradually and efficiently implemented, consistent with macroeconomic stability, debt sustainability and the absorption capacity of the economy.

For FY2015/16 we will make sure to adhere to the budget, and will keep the overall deficit and its composition of financing fully aligned with PSI understandings.

These and other important details of our economic program are set out in the attached Memorandum of Economic and Financial Policies (MEFP) and the Technical Memorandum of Understanding (TMU), which extend our commitments to end-March 2016. Consistent with our plan to add a few infrastructure projects to the agreed package, we request raising the non-concessional debt ceiling from $2.2 to $3.0 billion. Given that Uganda is a strong performer, the ceiling will be requested to be dropped at the time of the next review once the new debt limits policy comes in force. We also propose introducing an overall deficit ceiling in anticipation of the coming in force of the new policy.

In light of this satisfactory performance and our continued commitment to and ownership of the program, we request completion of the fourth review under our PSI-supported program. We also request modification of the June 2015 quantitative assessment criteria and indicative targets in line with recent developments.

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

Sincerely yours

/s/

Honorable Matia Kasaija
Minister of Finance, Planning, and
Economic Development

/s/

Louis Kasekende
For Prof. Emmanuel 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

A. Introduction

1. This Memorandum of Economic and Financial Policies complements the previously agreed policies under the June and December 2013 and the June and December 2014 Memoranda of Economic and Financial Policies. It presents an update on the economic performance in FY2013/14 and the first half of FY2014/15, and provides details of the policies Government intends to implement over the period ahead to preserve price stability and fiscal sustainability and, in general, to achieve Uganda's macroeconomic objectives. The memorandum requests extension of quantitative targets, structural benchmarks, and other reform commitments to end-March 2016.

B. Recent Economic and Policy Developments

2. Growth continues to be relatively high. According to rebased estimates released in November 2014, GDP in FY2009/10 was 17 percent higher than earlier thought. Real GDP growth was 4½ percent in FY2013/14 driven by construction, tourism, and telecommunications. On the expenditure side, public investment in infrastructure and human capital (education and health) was a major contributor of growth. There has also been an upturn in private investment supported by a rapid recovery in private sector credit. Improved business sentiment is evidenced by higher capital equipment imports and above-target revenue collections. Improved profitability of the banking sector was evident in the tax returns posted in December 2014. Economic activity seems to be picking up and is projected to improve further during the course of the year ending June 2015, led by higher construction and manufacturing activities.

3. Inflation remained subdued trending below the 5 percent Bank of Uganda's (BOU) average core inflation target. In December 2014, the 12-month average was 3.1 percent. Low inflation was largely on account of subdued food crop prices due to the good harvests and low import prices. Inflation seems to have bottomed out and the trend began to reverse in February 2015 due to increasing prices of food crops as well as the pass through of exchange rate depreciation.

4. The recent oil price decline lowered the import bill and gradually passed through to domestic fuel prices. This was partially offset by the global strengthening of the United States dollar, which led to a weakened shilling and consequently higher domestic prices for many imported goods.

5. The current account deficit including grants is projected to remain large at 8.5 percent of GDP in FY2014/15, owing mostly to subdued exports amidst strong import demand. The stock of reserves at the end of February 2015 amounted to $2,972.4 million, equivalent to 4.2 months of future imports of goods and services.

6. The financial system remained sound and well placed to support economic growth. The banking system is liquid and well capitalized with all banks meeting the regulatory capital adequacy

requirements. During the course of the financial year, notable growth was registered in commercial banks' balance sheets. Their total assets grew by 9.0 percent between June 2014 and March 2015. The banks' asset quality improved, with the ratio of nonperforming loans to total gross loans falling from 5.8 per cent in June 2014 to 4.2 per cent in March 2015.

7. On the legal framework of the financial sector, Government remains committed to address all deficiencies in Uganda's Anti-Money Laundering and Combating the Financing of Terrorism regime identified through the Financial Action Task Force (FATF) review. In this regard, the bill on the amendments to the Anti-Terrorism Act has been submitted to Parliament. Furthermore, proposed amendments to the Financial Institutions Act 2004 are currently before Cabinet and once passed will allow for Islamic banking and adoption of some of the Basel III recommendations including improving liquidity coverage and introducing additional capital buffers.

8. On the fiscal side, Government embarked on an ambitious revenue enhancing program. The strong package of tax measures included in the FY2014/15 budget eliminated many VAT and income tax exemptions and increased excise taxes on fuels, sugar and money transfers. The package has so far yielded revenue beyond expectations, and the PSI target to increase tax revenue by 0.5 percent of GDP during the fiscal year is likely to be significantly surpassed. On the expenditure side, Government has maintained its focus on infrastructure investment while improving the efficiency of recurrent spending, for example through payroll reforms that yielded significant savings. Government has kept total public debt significantly below standard sustainability thresholds. Our debt sustainability analysis shows that Uganda remains at low risk of debt distress.

9. Since January 2015, the BoU has had to respond to volatile foreign exchange rate movements by intervening in the foreign exchange market and to some extent allowing tight shilling liquidity conditions. The BoU is committed to avoiding excessive volatility in the exchange rate without impeding the real exchange rate from reflecting market conditions.

10. Over the medium term, Government plans to significantly advance the infrastructure program through projects that are necessary to improve the business environment, enhance regional integration, and develop Uganda's oil sector. Project financing is anticipated to rely mainly on external non-concessional borrowing, but also public-private partnerships, revenue enhancement and the use of government's savings.

C. Performance under the PSI

11. Performance under the PSI has been on track. Growth is high led by public investment and consumption; inflation has come down significantly; and international reserves remain at comfortable levels. All end-December 2014 quantitative assessment criteria (QACs) were met, although the lower inner limit of the band of the inflation consultation clause was breached, with average core inflation reaching 3.1 percent at end-December, against an inner band of 3.7 percent. The indicative target (IT) on tax revenue was met with a large margin. The target on the net change in the stock of domestic arrears was missed by a small margin; however, we expect the annual target

to be met, with a large reduction in FY2014/15 largely as a result of sustained efforts by Government to reduce arrears in line with the debt strategy.

12. Progress has been made on complying with structural benchmarks (SB).The planned recapitalization of the Bank of Uganda with marketable securities amounting to Shs.250 billion was done ahead of schedule (September 2014). The Ministry of Finance, Planning and Economic Development (MoFPED) published the report on the stock of unpaid bills of all government entities contained in the central government votes on May 15, 2015 for the quarter ending March 31, 2015. The Uganda Revenue Authority (URA) registered, assessed and collected revenue using the trading license regime in the municipalities of Arua, Gulu, Jinja, and Mukono meeting the structural benchmark target. The regime should be in effect in Kampala by the end of the fiscal year while Entebbe and Wakiso should be added next year. The municipalities of Hoima, Lira, Mbale, Mbarara and will follow. Amendments to the Bank of Uganda Act were not sent to parliament within the agreed timeline, but will be submitted by April 2016 (structural benchmark). The second phase of TSA was partially met, as the TSA was converted into a head and subaccount structure, but progress is ongoing regarding the elimination of movements of cash by giving votes appropriate level of spending authority within cash limits consistent with the macro-framework. Furthermore, there were delays in conducting the pilot exercise to include donor accounts due to extended discussions with development partners regarding the inclusion of their accounts, though work is in progress (requested to be rescheduled).

13. In light of recent low inflation outturns, we held consultations with staff in accordance to the rules governing the inflation consultation clause. Core inflation fell below the lower inner band of the consultation clause for the reasons described in paragraph 3. Nonetheless, the forecast points to an increase in average core inflation to 6.3 percent for FY2015/16, due to the upside risks posed by the pass-through of the exchange rate depreciation as well as the weak prospects for the external current account. On account of this inflation outlook, in April 2015 the BoU tightened monetary policy by raising the Central Bank Rate (CBR) to 12 percent from 11 percent, a level it had been at since June 2014.

D. Macroeconomic Outlook and Risks

14. The short-term outlook is favorable. Real GDP growth is projected at 5.3 percent for FY2014/15 and 5.8 percent for FY2015/16, driven by scaled-up public investment and a rebound in private demand. Consumer prices are anticipated to increase gradually reflecting the exchange rate pass-through and a strengthening of economic activity both at home and abroad. At about 3.5 percent and 6.3 percent for FY2014/15 and FY2015/16, respectively, average core inflation is projected to remain within the inner bands of the inflation consultation clause.

15. The current account deficit is projected to widen on account of higher non-oil private sector imports and public infrastructure related imports; lower personal transfers; and weak exports, on account of subdued global commodity prices and constrained aggregate demand from key trading partners. Against this background, international reserves are projected to decline somewhat in FY2014/15 to 4 months of the next year’s imports of goods and services. The ratio of reserve

adequacy will improve gradually from FY2015/16 to achieve 4.5 months of import of goods and services cover by FY2020/21 in line with the requirements of the East African Community Monetary Union Protocol.

16. The medium-term outlook assumes that the oil price decline will halt and gradually reverse. Prospects for the development of Uganda's oil sector remain positive. A number of companies whose exploration licenses expired have applied for renewal and new companies have applied for licenses. Notwithstanding this positive outlook, potential investments in Uganda's nascent oil and gas sector could be negatively affected if crude oil prices do not improve.

17. There are some risks to the outlook related to domestic, regional and global developments. Domestically, the country heads into an election in February 2016 when the presidential and parliamentary votes will be cast. Successful elections will boost investor confidence and reduce speculative damage to the economy. Geopolitical developments and conflicts within the region risk jeopardizing economic prospects of the countries concerned and spilling over to Uganda given the high level of regional economic integration. Uganda's trade and investment may also suffer if the recovery in advanced countries is less than expected or emerging markets slow down by more than projected.

E. Economic Policies

National Development Plan

18. The second five-year National Development Plan (NDP II) was presented to Parliament in April 2015 and will come into force in July 2015. The plan prioritizes investment in three key growth areas out of the nine areas identified in the Vision 2040. These are agriculture; tourism; and minerals, oil and gas. It has also prioritized two out of the six fundamentals: infrastructure, and human capital development. In light of the agreed strategic direction for the country's development agenda, the three prioritized growth areas and the two fundamentals for NDP II are justified based on the assessment of the achievements of NDP I and the regional and international development context. NDP II was the basis for the FY2015/16 budget.

Fiscal Policy

The Fiscal Stance

19. Higher revenue collection and savings arising from the payroll and cash management reforms will allow us to keep the FY2014/15 overall deficit within the budget limit and meet some unexpected spending needs. During the second half of the financial year, we issued a supplementary budget which was financed through the reallocation of expenditure savings and will not entail any additions to the projected domestic borrowing.

20. Spending on HPPs was lower than expected due to procedural delays in the disbursement of funds. Conditions for disbursement relating to the repayment mechanisms will be finalized this financial year.

21. For FY2015/16, we are projecting an increase in the overall fiscal deficit to 7 percent of GDP. The deficit expansion will mainly stem from the boost in public investment in infrastructure, partially offset by additional tax revenue gains. Development expenditure is budgeted to grow by more than 40 percent in FY2015/16, mainly driven by externally financed projects, while current spending excluding interest payments is expected to be flat as a share of GDP. PFM reforms in a number of areas will continue to enhance the efficiency of public expenditures. In addition we will ensure that the projected deficit expansion is contingent on the materialization of the planned infrastructure projects.

22. The deficit will largely be financed by external sources and, to a lesser extent, by issuance of domestic debt. Compared to previous years, a larger share of the deficit will be financed by external loans, allowing us to avoid an increase in relatively expensive domestic borrowing and reduce the fiscal burden of interest payments over the medium term. We will continue to pursue concessional loans as the preferred means of meeting our external financing requirements. Non-concessional external borrowing will be considered only for the financing of highly productive fixed capital investments. In addition, we will make sure to keep the current level of debt distress low while ensuring there is no crowding out of the private sector caused by excessive domestic government borrowing.

23. We will ensure that any needed modifications to the FY2015/16 budget, for technical or legal considerations, will keep the overall deficit and its composition of financing fully aligned with PSI understandings.

Boosting Tax Revenue

24. We plan to continue our efforts to further strengthen tax revenue mobilization. Successful implementation of the FY2015/16 tax package will yield an increase in the tax-to-GDP ratio of about ½ percent. This includes measures that focus on enhancing revenue mobilization and action to maintain the momentum witnessed during FY2014/15. The major tax policies include raising the excise duty on non-premium beers at 30 percent and spirits/wines at 80 percent; increasing excise duty on petroleum products by Shs.50; and introducing excise duty on furniture and confectioneries at 10 percent, and motor vehicle lubricants at 5 percent. In addition, Government has presented to Parliament proposed amendments under the Income Tax Act and the VAT Law to generate additional revenues. These include simplification of the presumptive tax regime and specification of the amount of tax payable by small businesses; denial of income tax deductions on expenses accrued from non-registered persons; limitation of carryover of losses in corporate reorganizations, requirement that all passenger service vehicles and goods motor vehicles pay income tax before renewal of annual license; compelling all regulators to make the Tax Identification Number a mandatory requirement for issuance of licenses or permits; and introduction of a 6 percent withholding tax on income of suppliers of agricultural produce and on the CIF value of all imports

except where the importers are tax compliant. Government has also made amendments to clarify VAT application in the oil, gas and mining industry to facilitate investments. Finally adjustments on fees and charges administered by Government Agencies were made, especially passport fees, visa fees and vehicle licensing to generate additional non-tax revenue.

25. We will pursue the following improvements in tax administration:

a) Strengthening and expanding the collaboration between government ministries, departments, and agencies to encourage registering and sharing of tax related information to bridge the compliance gap.

b) Creating an interface between customs and domestic taxes datasets to ensure comprehensive analysis on the activities of multinational firms and other large taxpayers so as to mitigate revenue eroding practices.

c) Sanctioning taxpayers who are registered but have not complied with issued assessments, which will consequently ensure enforcement of the penalties within the law and improve compliance.

d) Dedicating resources to the enforcement of motor vehicle registration, third party stamp duty, and renewal of third party for motor vehicles.

e) Enhancing the business analysis function by reviewing the debt management processes and procedures, ensuring real time analysis of data and real time segmentation to facilitate control and monitor lane performance.

f) Increasing the number of audits and also monitor vigorously the usage of duty remission schemes.

g) Increasing the goods that are cleared under the EAC Single Customs Territory Platform to include tyres, steel (coils, bars), bitumen, building glass, bulk paper, among others.

h) Expanding the implementation of the Automated Valuation Control to mitigate misclassification and undervaluation of goods. In addition, create a single central processing center for all customs clearances.

26. For the medium term, we plan to enhance revenue by strengthening enforcement and reviewing the management strategy and staffing levels of the URA to meet the increasing demands of the growing economy. Government will also build capacity of URA's staff to combat the challenges associated with international taxation. Sufficient resources will be provided to build a sustainable monitoring framework to ensure URA continues to meet its revenue collection targets. Tax laws will continuously be reviewed to identify and close loopholes that undermine revenue collection, and to further simplify the tax code to ease implementation and reduce the cost of compliance.

Containing Current Spending Growth

27. In order to accommodate the pressing needs in infrastructure investment contained in the budget, Government will strictly manage current spending while ensuring that poverty-reducing spending is preserved. Expenditure requirements related to the 2016 general election have been fully incorporated in the budget. Any unforeseen spending requirements will be accommodated within the Contingencies Fund established under the PFM Act (2015) or savings in other areas, without jeopardizing spending on social sectors. Consequently, the budgeted level of domestic debt issuances will be preserved.

Implementing Infrastructure Projects

28. Successful implementation of infrastructure investment projects is a key priority. We note that further delays in implementation will negatively impact our growth prospects. We also recognize that executing planned projects too fast could risk overheating the economy. Therefore we are committed to properly sequence the projects once their feasibility studies and commercial viability have been confirmed. We are also strengthening our capacity in project planning and implementation. A new Department within the Ministry of Finance has been established to analyze, appraise, monitor and evaluate public investment projects and facilitate the implementation of PPP initiatives. With technical assistance from the World Bank, we are in the process of developing Public Investment Management Guidelines to strengthen the capacity of Government agencies in the preparation of feasibility studies, project preparation and financing assessments (structural benchmark requested to be rescheduled for December 2015).

29. The non-concessional infrastructure projects that we will implement in FY2015/16 are 1) continuation of the construction of the Karuma and Isimba HPPs, with spending amounting to $733 million. The projects started in FY2014/15 using the government's share of financing, and are expected to proceed smoothly following the recent parliamentary approval of the loan agreements and the expected prompt finalization of the repayment mechanisms; 2) road construction using machinery acquired through a loan; 3) the upgrade of the Entebbe airport with a total value of $200 million, with $80 million expected to be spent in FY2015/16; 4) the Kabale-Mirama transmission line ($84 million); the construction of a small-sized HPP in Muzizi; and 5) the National Transmission Backbone ($15 million) to improve information and communication technology.

30. Other projects to commence over the medium term include the first stage of the Standard Gauge Railway; roads and an airport serving the Albertine region, which are necessary for oil development; and various other road projects and transmission lines. A feasibility study for the 680MW Ayago HPP is ongoing, but to ensure a smooth expansion of infrastructure investment within the economy's absorptive capacity, this project is not expected to begin until FY2020/21.

31. In addition, there are medium-term plans to advance PPP arrangements including for the construction of the Kampala-Jinja expressway and several other roads serving the Greater Kampala area (including Kibuye-Busega-Nabingo, the Kampala Southern bypass and the Kampala-Bombo expressway). The oil refinery is also being discussed and will be a PPP.

F. Monetary and Financial Sector Policies

32. BoU's monetary policy will continue to focus primarily on the inflation objective. The BoU will continue to carefully adapt the monetary policy stance to changing economic domestic and external developments with the aim of maintaining core inflation within its target. The BoU remains committed to limiting foreign exchange interventions to times of heightened volatility and fully sterilizing them to avoid conflict with monetary policy signals.

33. To preserve financial sector stability, the BoU will further strengthen its prudential oversight to guard against potential market, liquidity and operational risks, as well as vulnerabilities emerging from credit sector concentration and currency mismatches. Specifically, we plan to continue monitoring banks' foreign exchange exposure in relation to total capital and their liquidity coverage ratio, and ensure adequate provisioning for non-performing loans.

34. Compliance with the Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) international standards plays an important role in enhancing the financial system's integrity. Government is committed to addressing the recent Financial Action Task Force's concerns on the shortcomings in Uganda's AML/CFT. An action plan detailing steps to be taken will be developed by June 2015.The amendments bill to the Anti-Terrorism Act is currently before Parliament.

G. Policy Coordination and Communication with the Markets

35. The MoFPED and the BoU will upgrade their regular meetings to enhance information sharing and better coordinate economic and financial policies with the purpose of ensuring consistency and maintaining credibility of the policy mix.

36. The MoFPED and BoU will continue to strengthen communication with the market to keep economic agents and the general public aware of economic developments and provide efficient policy signaling. This will be essential to manage expectations in the current electoral environment.

37. The level of domestic financing received from the Bank of Uganda will not exceed amounts prescribed in the PSI which are Shs 1,140 billion and Shs.385 billion for FY2014/15 and FY2015/16, respectively. The MoFPED and BoU will institutionalize this arrangement within the next six months and will coordinate fiscal and monetary policies to anchor public expectations regarding economic management.

38. Given that the NSSF is a significant player in the market, the Ministry of Finance will coordinate with the NSSF the timing and the pace of its financial investments abroad to avoid undue

significant market volatility, while respecting their independent and market-based decision making.

H. Social Protection

39. Government is committed to further strengthening social protection to improve the quality of life of the most vulnerable segments of the population. A comprehensive social protection system will complement the significant progress made on poverty reduction and act as a shock-absorber, benefiting the wider local economy, and enhancing inclusive growth.

40. Government will review the national roll out plan for social protection in order to ensure that the requirements for the first years of the plan are accommodated within the available resources. The NDP II emphasizes interventions to reduce household poverty and increase access to child protection and basic education services. Future budgets will continue to make provisions for programs targeted at youth, women, elderly, disabled and other vulnerable groups, including the Youth Livelihood Programme (YLP), the Youth Venture Capital Fund and the Social Assistance Grant for the Elderly (SAGE). The development of regulatory and planning frameworks for social protection shall be accelerated, including the National Policy on Older Persons; the National Policy on Disability; and the regulations on elections of older persons.

I. Structural Reforms

41. Progress on PFM reforms has been significant. The new PFM Act (2015) incorporates good practices; prepares the economy for oil revenue management; and institutionalizes the preparation of a fiscal risks statement and a charter on fiscal responsibility. Government has prepared the PFM regulations, which will come into force in July 2015 (structural benchmark). A Charter of Fiscal Responsibility has also been developed, which presents Government's overall strategy on the formulation and implementation of fiscal policy, consistent with sustainable fiscal balance and debt paths over the medium term. The Charter shall be sent for Parliamentary approval (structural benchmark), in line with the timeline requirements of the PFM Act, and shall cover the period FY2016/17 to FY2020/21.

42. Efforts will be made towards the implementation of the next phase of the Treasury Single Account, including the setting up of the pilot project to integrate donor-supported projects in the TSA framework by March 2016 (structural benchmark).

43. Government is rolling out the national identification project to support efforts to strengthen revenue collection, promote unique identification of financial sector clients and combat money laundering and the financing of terrorism. We have already issued a total of 753,610 ID cards in Kampala and Wakiso and are on track to have issued a minimum of 3 million by July 2015 (structural benchmark). A total of about 5.7 million cards had been printed as of April 2015 and 15.9 million citizens have registered for cards.

44. To facilitate the control and reduction of domestic arrears, the MoFPED will continue to publish quarterly reports signed by the Permanent Secretary on the unpaid bills of all Government

entities contained under Central Government votes and an annual report on the stock of domestic arrears (structural benchmarks).

45. To further improve the inflation targeting regime, we seek to finalize the amendments to the BoU Act, which will be tabled before parliament by April 2016 (structural benchmark). Government will also continue to recapitalize the central bank with marketable securities to bring its capital to the statutory level until amendments to the Bank of Uganda Act come into force (structural benchmark). Continuous support from the IMF African and Research Departments on capacity building for modeling and forecasting will help improve monetary policy formulation and implementation.

46. Despite recent progress spurred by the growth in the mobile money business, a large share of the population and small and medium-sized businesses do not have access to financial services. To improve this situation, the BoU has included in the amendments to the Financial Institutions Act provisions for agent banking.

47. Strengthening the compilation and dissemination of statistics remains one of our critical objectives to help enhance economic management. On the real sector side, efforts to improve the quality and coverage of surveys will be made—including compiling GDP from the expenditure side and on a quarterly basis. In the fiscal area, there is a need to overcome the considerable coordination difficulties that prevent the straightforward collection and dissemination of arrears data.

48. Progress towards EAC regional integration will continue and economic policies and frameworks shall be oriented towards our integration agreements with other Partner States. Work is ongoing to establish regional institutions required for the successful functioning of the East African Community Monetary Union (EAMU) and to create a regional fiscal surveillance process. The EAMU Protocol requires each Partner State to develop a Medium Term Convergence Programme (MTCP) to facilitate attainment of the agreed convergence criteria. We have prepared the first annual MTCP which outlines the medium-term macroeconomic and fiscal objectives, strategies and policies to ensure that the Ugandan economy attains a high degree of monetary and economic convergence and compatibility with other EAC Partner States, and follows a stable and sound trajectory towards meeting the convergence criteria. Greater intra-regional trade among EAC Partner States will reduce the costs and increase the benefits of forming the single currency. Government is therefore introducing various measures to further reduce the costs of trade, such as the implementation of one stop border posts, joint infrastructure projects and integrated payment systems, and fast tracking of the Common Market Protocol.

J. Program Monitoring

49. Progress in the implementation of the policies under this program will be monitored through QAC, ITs, and SBs detailed in the attached Tables 1 and 2 and through semi-annual reviews. The net domestic financing and the net international reserves QACs are proposed to be modified for end–June 2015, and new QAC are proposed to be established for end-December 2015, to be monitored at the fifth and sixth PSI reviews, respectively. To be able to accommodate our planned investment projects, we request to increase the nonconcessional borrowing limit to $3.0 billion for end-June. ITs are proposed for September 2015 and March 2016. A new IT on the overall fiscal deficit of the central government is proposed to be established, which will comprehensively capture debt-creating activities and will be fully consistent with the implementation of the infrastructure plans. The fifth review is expected to be completed by end-December 2015 and the sixth by end-June 2016. The attached Technical Memorandum of Understanding—which is an integral part of this memorandum—contains the needed definitions.

Table I.1. Uganda: Quantitative Assessment Criteria and Indicative Targets for September 2014 - March 2016[1]

	September 30, 2014 [2]				December 31, 2014 [2]				March 31, 2015 [2] (Preliminary)				June 30, 2015 [2]		Sept 30, 2015 [3]		December 31, 2015 [3]		March 31, 2016 [2]
	Program	Adjusted Target	Outturn	Result	Program	Adjusted Target	Outturn	Result	Program	Adjusted Target	Outturn	Result	Program	Revised Program	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	1,539	1,323	1,355	Not met	2,461	2,081	1,632	Met	2,896	2,518	2,002	Met	2,832	2,526	353	647	937	921	1,280
										(Millions of US dollars)									
Ceiling on the stock of external payments arrears incurred by the public sector	0		0	Met	0		0	Met	0		0	Met	0	0	0	0	0	0	0
Ceiling on the contracting or guaranteeing of new nonconcessional external debt with maturities greater than one year by the public sector [4,5]	2,200		201	Met	2,200		201	Met	2,200		2,134	Met	2,200	3,000	2,200	3,000	2,200	3,000	3,000
Ceiling on new external debt with maturity up to one year contracted or guaranteed by the public sector [4, 6]	0		0	Met	0		0	Met	0		0	Met	0	0	0	0	0	0	0
Minimum increase in net international reserves of the Bank of Uganda (US$mn)[7]	-250	-248	-262	Not met	-275	-175	16	Met	-175	-77	-323	Not met	-236	-482	63	49	125	111	174
Share of oil revenue placed in the Petroleum Fund [8]	100		100	Met	100		100	Met	100		100	Met	100	100	100	100	100	100	100
										(Billions of Ugandan shillings)									
Indicative targets																			
Ceiling on the increase in base money liabilities of the Bank of Uganda	236		109	Met	n.a.		n.a.		n.a.		n.a.		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Ceiling on the overall deficit of the Central Government														3,371		1,682		3,215	4,479
Floor on tax revenue	2,078		2,035	Not Met	4,362		4,452	Met	6,576		6,749	Met	9,132	9,397	2,345	2,441	5,028	5,199	7,823
Expenditures on poverty alleviating sectors	701		782	Met	1,277		1,419	Met	2,141		2,231	Met	2,994	2,994	884	768	1,443	1,570	2,367
Ceiling on the issuance of guarantees by the Government/Bank of Uganda	0		0	Met	0		0	Met	0		0	Met	0	0	0	0	0	0	0
Net change in the stock of domestic arrears[9]	-20		-26	Met	-70		-58	Not met	-80		-96	Met	-80	-212	-20	-20	-40	-40	-60
Ceiling on withdrawals from energy and petroleum funds[10]	1,102		652	Met	1,230		899	Met	1,230		899	Met	1,230	1,096	0	70	0	95	120
										(Annual percentage change)									
Inflation consultation clause																			
Outer band (upper limit)	9.0				8.7				8.3				8.0	8.0	8.0	8.0	8.0	8.0	8.0
Inner band (upper limit)	8.0				7.7				7.3				7.0	7.0	7.0	7.0	7.0	7.0	7.0
Core inflation target [11]	6.0		4.2	Met	5.7		3.1	Not met	5.3		2.9	Not met	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Inner band (lower limit)	4.0				3.7				3.3				3.0	3.0	3.0	3.0	3.0	3.0	3.0
Outer band (lower limit)	3.0				2.7				2.3				2.0	2.0	2.0	2.0	2.0	2.0	2.0

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

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

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

[4] Continuous assessment criterion.

[5] Cumulative change from June 28, 2013. To be used exclusively for infrastructure investment projects. Two loans from the Islamic Development Bank were contracted in December 2013 and June 2014 to finance development projects, one of which was classified to be concessional at the time of the Third Review, but revealed to be non-concessional.

[6] Excluding normal import-related credits.

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

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

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

[10] September and December 2015 program targets were inadvertently shown as 1,230 at the Third Review without being reset to be zero at the beginning of FY2015/16.

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

Table I.2. Structural Benchmarks

Policy Measure	Macroeconomic Rationale	Date	Status
Ministry of Finance to submit to Parliament amendments to the Bank of Uganda Act including a provision for capital adequacy of BoU as an adequate percent of monetary liabilities, as well as other provisions to support implementation of inflation targeting in line with international best practices.	To enable monetary policy independence and credibility of the central bank.	April 2015 Proposed to be rescheduled to April 2016	Not met
Government to continue with annual recapitalizations of the Bank of Uganda with marketable securities to bring capital to the statutory level until amendments to the Bank of Uganda act come into force, on the basis of the BoU's commitment to implement its business plan to contain operational and administrative costs.	To enhance central bank efficiency. To enhance central bank discipline and monetary policy independence.	October 2014 October 2015	Met
Ministry of Finance to publish quarterly reports signed by the PS/ST on the stock of unpaid bills of all government entities contained in the central government votes.	To facilitate control and reduction of unpaid bills.	November 15, 2014 for quarter ending September 30, 2014. February 15, 2015 for quarter ending December 31, 2014. May 15, 2015 for quarter ending March 31, 2015. November 15, 2015 for quarter ending September 30, 2015. February 15, 2016 for quarter ending December 31, 2015. May 15, 2016 for quarter ending March 31, 2016.	Met Met Met

Table I.2. Structural Benchmarks (continued)

Ministry of Finance to publish a report signed by the PS/ST on the stock of domestic arrears of all government entities contained in the central government votes.	To facilitate control and reduction of expenditure arrears.	September 30, 2014 for the quarter ending June 30, 2014. September 30, 2015 for the quarter ending June 30, 2015	Not met. Published on October 24, 2014
Government to have issued a minimum of 3 million ID cards under the new national identification system.	To support efforts to strengthen revenue collection, promote the unique identification of financial sector clients, and combat money laundering and the financing of terrorism.	July 2015	
URA to register, assess, and collect revenue using the trading license regime in at least three municipalities.	To enhance revenue collections.	December 2014	Met
Ministry of Finance to complete the second phase of the TSA implementation and strengthen its design by converting to a TSA head and TSA sub-account structure. This would eliminate movements of cash by giving votes appropriate level of spending authority within cash limits consistent with the macro-framework.	Complete the process of improving cash management and controls.	May 2015	Not met The TSA was converted to a TSA head and TSA sub-account structure, but movements of cash remain.
Ministry of Finance to finalize regulations for implementation of the PFM Act.	Ensure efficient PFM implementation and oil revenue management by providing guidelines, clarifying and making specific those aspects that are general in the law.	May 2015	Met

Table I.2. Structural Benchmarks (concluded)			
Regulations for implementation of the PFM Act to become effective.	Ensure efficient PFM implementation and oil revenue management by providing guidelines, clarifying and making specific those aspects that are general in the law.	July 2015	
Ministry of Finance to finalize the charter of fiscal responsibility.	To improve fiscal and macroeconomic management.	May 2015	Met
Present to Parliament the charter of fiscal responsibility.	To improve fiscal and macroeconomic management.	April 2016	
Development of the Public Investment Management Guidelines and Procedures.	To strengthen the capacity of MDAs in the preparation of feasibility studies, project preparation, analysis and appraisal, and financing assessments.	June 2015 Proposed to be rescheduled to December 2015	
Ministry of Finance to conduct a pilot exercise aimed at including donor-supported projects in the TSA.	Provide a key milestone for full TSA implementation.	July 2015 Proposed to be rescheduled to March 2016	

Attachment I. Technical Memorandum of Understanding

A. Introduction

1. This memorandum defines the quarterly quantitative assessment criteria (QAC) and indicative targets (ITs) described in the Memorandum of Economic and Financial Policies (MEFP) for the economic program supported by the IMF Policy Support Instrument (PSI) over the period June 30, 2015—March 30, 2016, and sets forth the reporting requirements under the instrument. The stock of all foreign assets and liabilities will be converted into U.S. dollars at each test date using the cross exchange rates referred to in the table below for the various currencies and then converted into Uganda shillings using the program U.S. dollar-Uganda shilling exchange rate for end-March 2015, unless otherwise indicated in the text.

Program Exchange Rates (end-March 2015)	
US dollar (US$)	1.0
British pound/US$	0.7
Japanese yen/US$	120.1
SDR/US$	0.7
Kenyan shilling/US$	91.4
Tanzanian shillings/US$	1788.1
Euro/US$	0.9
Canadian dollar/US$	1.3
Australian dollar/US$	1.3
Ugandan shillings/US$	2970.6

B. 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 Text Table 1. The consultation bands specify the range of admissible CCPI inflation. Projected CCPI inflation for end-June 2015 and end-December 2015 will be subject to the consultation mechanism, while those for end-September 2015 and end-March 2016 are indicative targets.

Text Table 1. Inflation Targets				
	Jun. 2015	Sep. 2015	Dec. 2015	Mar. 2016
Outer band (upper limit)	8.0	8.0	8.0	8.0
Inner band (upper limit)	7.0	7.0	7.0	7.0
Core inflation target	5.0	5.0	5.0	5.0
Inner band (lower limit)	3.0	3.0	3.0	3.0
Outer band (lower limit)	2.0	2.0	2.0	2.0

3. Should the observed average CCPI inflation for the test date linked to a PSI program review (i.e., end-June 2015 for the fifth review and end-December 2015 for the sixth review) fall outside the outer band as specified in the above table, the authorities will complete a consultation with the Executive Board of the Fund on their proposed policy response before requesting completion of the review under the program. The authorities will not be able to request completing a review under the PSI-supported program if the average CCPI inflation has moved outside of the outer band as of the test date linked to such review, until the consultation with the Executive Board has taken place. In line with the accountability principles, the BoU will report to the public the reasons for any breach of the outer bands, and its policy response. In addition, the BoU will conduct discussions with the Fund staff when the observed average CCPI inflation falls outside the inner band as specified for the end of June 2015 and December 2015 in Text Table 1.

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

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

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

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

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

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

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

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

6. For program-monitoring purposes, reserve assets and short-term liabilities at the end of each test period will be calculated in U.S. dollars by converting the stock from their original currency denomination at program exchange rates (as specified in paragraph 1). The NIR limits are the cumulative changes of the NIR stock from July 1 of the respective fiscal year to the specified dates.

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

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

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

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

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

9. The purpose of this quantitative assessment criterion is to avoid a situation whereby petroleum revenues bypass the Ugandan budget framework. The 2015 PFM Act has established a petroleum fund; while it becomes operational, government has established a petroleum revenue account in the BoU. This QAC will be deemed satisfied if 100 percent of petroleum revenues are transferred to this account upon collection by URA. These resources may then be spent or saved as governed by the 2015 PFM Act.

H. Tax Revenue (IT)

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

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

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

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

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

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

14. The indicative target on the ceiling on withdrawals from the GoU deposits from the Petroleum Fund and the Energy Fund aims at channeling these resources to key infrastructure projects while ensuring coordination on accompanying impact on liquidity. A ceiling applies on withdrawals from the GoU deposits from the Petroleum Fund and the Energy Fund measured cumulatively from the beginning of the fiscal year. Withdrawals will be restricted to meet the following uses: (i) spending on Karuma and Isimba hydro-power projects and the associated industrial substations, specifically related to the loan agreement between the GoU and China Eximbank (the GoU's share adds up to US$413 million covering 15 percent of total costs of projects, loan insurance, and management fees); (ii) spending on land acquisition for Karuma and Isimba HPPs (Ush20 billion), and (iii) a maximum of the domestic currency equivalent of US$64 million to finance the government's share of these projects, as stated in paragraph 19 below.

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

K. Ceiling on Overall Deficit of the Central Government (IT)

15. The indicative target on the ceiling on the overall deficit of the Central Government is defined as the cumulative sum, from July 1 of the relevant fiscal year, of:

a. NDF as defined in section C;

b. net external financing (NEF), defined as the sum of the difference between disbursements and amortization of any loans (including budget support loans and project loans, both concessional and nonconcessional), internationally-issued bonds, and any other forms of liabilities by the Central Government to nonresidents, excluding nonresidents' holdings of domestically-issued government securities (which are covered under NDF), plus external exceptional financing; and

c. net proceeds from sales of non-financial assets including privatization receipts;

where any amounts in foreign currency are converted to Uganda shillings at the current exchange rate as of the date of the transaction.

Changes in NEF will be measured using external financing (net) provided in the monthly government financial statistics. These data, in turn, will be based on the reconciled donor disbursement figures obtained by the central bank and by MoFPED through the Debt Management and Financial Analysis System (DMFAS) and Aid Management System (AMS).

L. Adjusters

Adjustor related to budget support

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

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

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

	Jun-15	Sep-15	Dec-15	Mar-16
Cumulative from July 1 of the respective fiscal year budget support loans	113	16	36	45
Cumulative from July 1 of the respective fiscal year budget support grants	0	0	0	0

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

Adjustors related to the financing of the hydropower plants

Background on Hydropower Plant Projects and Energy and Petroleum Fund Stocks

18. The GoU is cofinancing the Karuma and Isimba hydropower plant projects (HPPs) and the associated industrial substations, in accordance to loan agreements with China's Eximbank. By the end of the second quarter of FY2013/14, the GoU had already spent US$338 million, coming from the Energy Fund and temporarily the Uganda Consolidated Fund —as bridge financing while the budget was approved and thus the Petroleum Fund could be used—with the stocks described in the table below. The foreign currency-denominated deposits of the Petroleum Fund do not constitute part of the BoU's international reserves and as such are recorded under other foreign assets of the BoU. Any further foreign currency denominated inflows to the Fund will continue to be recorded outside of the reserves and under other foreign assets of the BoU.

Stock of the Energy and Petroleum Funds at March 31, 2015
(Ush billions and USD millions)

	Ush	USD	
Energy Fund	92	0	(BoU reserves)
Petroleum Fund	1,368	0	(BoU other assets)

Adjustor on Expenditures on HPP

19. The ceilings on the cumulative increase in NDF, overall deficit, and the cumulative withdrawals from the GoU deposits from the Petroleum Fund and the Energy Fund will be adjusted downward (upwards) by the amount by which the domestic currency equivalent of the aforementioned spending—(i) and (ii) in paragraph 14—financed by withdrawals from the Petroleum Fund and the Energy Fund (using the market exchange rate) falls short of (exceeds) the projected amounts as set out in Schedule B. Any upward adjustment to meet higher-than-expected share will be capped at US$64 million. Spending on these projects financed by external borrowing are not included in this adjuster.

Schedule B: Expenditures on hydropower projects
(Ush billions)

	Jun-15	Sep-15	Dec-15	Mar-16
Cumulative from July 1 of the respective fiscal year				
Land acquisition for Karuma and Isimba HPPs	0	0	0	0
Government share associated with the China Eximbank loan	1,096	43	43	43

Adjustor on Inflows into the Petroleum Fund

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

Schedule C: Inflows into Petroleum Fund
(Ush billions)

	Jun-15	Sep-15	Dec-15	Mar-16
Cumulative from November 1, 2013	0	0	0	0

Adjustor on Foreign Currency Spending for HPPs

21. The floor on the change in NIR will be adjusted upward (downward) by the amount by which the GoU's spending in foreign currency to cofinance the hydropower projects in line with point (i) above in paragraph 14 (converted at the market exchange rate) falls short of (exceeds) the projected amounts set out in Schedule D. Any downward adjustment will be capped at US$64 million. The GoU will first withdraw the foreign currency denominated portion of its deposits once there are new foreign currency inflows to the Energy and Petroleum Funds.

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

	Jun-15	Sep-15	Dec-15	Mar-16
Cumulative from October 1, 2014 up to June 2015, and cumulative from July 1, 2015 afterward	61	14	14	14

Adjustor related to the Bank of Uganda recapitalization

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

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

	Jun-15	Sep-15	Dec-15	Mar-16
Cumulative from July 1 of the respective fiscal year	250	200	200	200

Adjustor related to externally financed projects

23. The ceiling on overall deficit will be adjusted downward by the amount by which (both concessional and nonconcessional) external financing tied to projects falls short of the projected amounts as set out in Schedule F.

Schedule F: External financing tied to projects
(Ush billions)

	Jun-15	Sep-15	Dec-15	Mar-16
Cumulative from July 1 of the respective fiscal year	1,093	1,128	2,480	3,455

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

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

25. The program includes a ceiling on new non-concessional borrowing with maturities greater than one year contracted or guaranteed by the public sector, measured cumulatively from June 28,

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

2013.[4] Non-concessional borrowing is defined as debt with a grant element of less than 35 percent. The discount rate used for this purpose is 5 percent. The ceiling on non-concessional external borrowing or guarantees is to be observed on a continuous basis. Therefore, the limits, increased with effect from end-June 2015, should be respected on a daily basis, until either lifted or modified by a new Executive Board decision. 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 the non-concessional borrowing of one state-owned bank, Housing Finance Bank, which poses limited fiscal risk and is in a position to borrow without a government guarantee.

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

> (a) For the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:
> (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more

[4] Contracting and guaranteeing is defined as approval by a resolution of Parliament as required in Section 36(5) and 39(1) of the Public Finance and Management Act, 2015.

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.

27. 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-December 2014. External debt payment arrears consist of external debt service obligations (reported by the Statistics Department of the BoU, the Macro Department of the Ministry of Finance) that have not been paid at the time they are due as specified in the contractual agreements but shall exclude arrears on obligations subject to rescheduling.

N. Monitoring and Reporting Requirements

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

Attachment II. Table 1. Summary of Reporting Requirements			
Reporting institution	**Report/Table**	**Submission Frequency**	**Submission Lag**
I. Bank of Uganda	Issuance of government securities, repurchase operations and reverse repurchase operations.	Weekly	5 working days
	Operations in the foreign exchange market.	Weekly	5 working days
	Interest rates (7 day interbank, commercial bank prime lending rate, government securities).	Weekly	5 working days
	Private sector credit growth by shilling and forex, and excess reserves of commercial banks.	Weekly	5 working days
	Disaggregated consumer price index.	Monthly	2 weeks
	Balance sheet of the BoU, consolidated accounts of the commercial banks, and depository corporations' survey.	Monthly	4 weeks
	Daily balances of net foreign assets, net domestic assets, and base money of the BoU.	Monthly	4 weeks
	Details on the government position at the central bank including deposits broken down by i) net public debt, ii) government project accounts, iii) Petroleum Fund (specifying the currency), iv) Energy Fund, v) government ministries accounts, and the remainder in vi) other deposits. In addition, liabilities broken down by i) appropriation account (UCF), ii) other drawdown accounts iii) government securities accounts and the remainder in iv) other liabilities. Detailed information about the recording of the recapitalization 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
	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

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

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

Attachment II. Table 1. Summary of Reporting Requirements (concluded)

Reporting institution	Report/Table	Submission Frequency	Submission Lag
	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 BoU during the period according to loan agreements. Parliament resolutions on any new loans.	Quarterly	6 weeks
	Updated national accounts statistics (real and nominal) according to UBOS and medium-term projections.	Quarterly	12 weeks
	Releases of domestic expenditures on wages and salaries in the Health, Education, Water and Environment and Agriculture sectors, as defined by the Government of Uganda's functional budget classification, with a breakdown based on financing (domestically financed or externally financed).	Quarterly	6 weeks