International Monetary Fund

Uganda and the IMF

Press Release:
Press Release: IMF Executive Board Completes Sixth PSI Review for Uganda and Approves One-Year Extension of the Program
June 6, 2016

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

May 18, 2016

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 financial support 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,
May 18, 2016

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 FY2015/16 economic growth was supported by our program of public investments. Despite a challenging environment, our decisive policies improved market confidence helping to preserve low inflation and stabilize the exchange rate. Fiscal performance was in line with the budget, and international reserves remain adequate.

Performance under the PSI-supported program was satisfactory. In particular, we observed all end-December 2015 quantitative assessment criteria with one exception, namely the ceiling on the overall deficit target, on the grounds that the slippage was minor. We also observed most indicative targets and we made progress on the structural reform agenda. As it became apparent that the exchange rate was stronger and El Nino-related weather-developments were proving less severe than earlier anticipated, we decided not to cut spending as planned during the Fifth review.

The FY2016/17 budget is fully aligned with our priorities, strengthening revenue performance by boosting tax administration efforts, and restraining non-priority expenditures to allow sufficient fiscal space for poverty-alleviating and growth-enhancing capital expenditures. The sound implementation of infrastructure investments remains a central pillar of our strategy and we plan to disseminate public investment management guidelines across all public implementing agencies. The inflation-targeting regime has served us well. We remain committed to calibrate monetary policy to ensure core inflation remains within the target bands. On the financial sector, our main priority is to implement the recommendations made by the Financial Action Task Force (FATF) Plenary Meeting in February 2016 to address identified deficiencies in our money laundering and counter-terrorism framework to ensure prompt exit of the FATF "gray list". We also support policies to deepen the financial sector and increase financial inclusion. At the same time, we will continue to supervise and enforce macro-prudential requirements to ensure financial stability. We are confident that these actions will help us achieve our main objectives of high and inclusive growth with low and stable inflation.

Implementing our new Public Financial Management framework remains the main focus of our structural reform agenda. We will strive to make more progress on addressing the challenges related to the accumulation of arrears and are updating our strategy to address this issue thoroughly. We will also shortly finalize the charter of fiscal responsibility and the amendments to the Bank of Uganda Act to strengthen central bank independence. These and other details of our economic program are set out in the attached Memorandum of Economic and Financial Policies (MEFP) and the Technical Memorandum of Understanding (TMU).

In light of the satisfactory performance and our continued commitment to and ownership of the program, we request completion of the sixth review under our PSI-supported program. On the basis of our strong track record, and to allow sufficient time to complete ongoing reforms, we also request a one-year extension of the PSI-supported program. Thus, we request an extension of the current PSI to end-June 2017 by setting quantitative assessment criteria and indicative targets in line with recent developments and policies.

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 sixth review under the PSI.

Sincerely yours,

/s/

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

/s/

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

A. Introduction

1. This Memorandum of Economic and Financial Policies complements the agreed policies under the 2013, 2014 and 2015 Memoranda of Economic and Financial Policies. It presents an update on the economic performance in the FY2015/16, and describes the policies Government intends to implement over the period ahead to achieve Uganda's macroeconomic objectives, and proposes extension of quantitative targets, structural benchmarks, and other reform commitments to end-June 2017.

B. Recent Economic and Policy Developments

2. Presidential and parliamentary elections were conducted on February 18, 2016, resulting in a mandate for President Museveni and the ruling National Resistance Movement. The new parliament and president will be sworn in May. The elections created market uncertainty which, combined with the global strengthening of the dollar, posed challenges for macroeconomic management. However, these concerns proved unfounded and market conditions are now stabilizing. Looking ahead, the key priorities in the new five-year term remain focused on the structural change agenda, particularly improving productivity in key sectors such as agriculture, manufacturing, and tourism.

3. Despite difficult global conditions, economic growth is expected to reach 5 percent in 2015/16 supported by the ongoing public hydropower investments and strengthened private demand. Strong performance in manufacturing has continued, while tourism and telecommunications have recovered from recent headwinds.

4. The shilling depreciated 21 percent from end May to September 2015, mainly reflecting the adjustment warranted by external and domestic fundamentals, although non-fundamental factors, including noise, expectations and speculative activity may have caused the exchange rate to overshoot its long-run equilibrium. More recently, the exchange rate appreciated and stabilized, supported by the proactive monetary policy stance, which constrained domestic demand and consequently impacted on demand for imports, and the correction of the overshooting.

5. Inflation rose in 2015 reflecting the pass through of the sharp exchange rate depreciation and supply side shocks, which drove up food crop prices and the adjustment of electricity tariffs. Annual core inflation reached 6.9 percent in March 2016, down from 7.6 percent in February 2016. The impact of El Niño on food prices has been mild so far. This, coupled with lower oil prices owing to lower global oil prices, has helped maintain inflation at a stable rate despite the depreciation pressures. The short-term inflation outlook is expected to improve slightly, mainly due to exchange rate and food price developments.

6. With the objective of curbing inflationary pressures, the Bank of Uganda (BOU) increased the Central Bank Rate (CBR) by 600 basis points in 2015, helping anchor inflationary expectations to ensure that annual core inflation remains around BoU's target of 5 percent over the medium term. The interbank money market rate rose, as did Treasury bill, lending and deposit rates, remaining broadly consistent with the monetary policy stance.

7. Credit to the private sector declined to around 11.4 percent in February from 14.2 percent in January 2016, driven by a weakening demand for credit due to rising interest rates. The slowdown in credit growth was reflected across sectors with the exception of lending to Mining & Quarrying, Transport & Communication and Community, Social and other services sectors. Substitution of private sector credit from domestic to external currency remains subdued. Year-on-year growth in Shilling lending declined to 8.9 percent in February from 10.7 percent in January 2016 , while the annual growth in foreign currency-denominated credit to the private sector contracted.

8. The financial sector remains sound and profitable. Non-performing loans (NPLs) rose to 6.5 percent in December 2015 from 3.8 percent in September 2015. This was largely on account of the increase in forex NPLs from 3.7 percent percent to 5.6 percent. Nevertheless stress tests show that the system remains resilient.

9. The current account deficit widened to 11.5 percent of GDP in Q4-2015 (annualized), compared to 8.8 percent of GDP in Q3-2015, owing to a larger trade deficit, a higher dividend income outflow, and lower remittances; while the services account improved driven by lower payments for other business services. Export earnings remain sluggish, reflecting the difficult external environment for our trading partners, reaching USD 598 million, equivalent to 9.8 per cent of GDP in Q4-2015. Imports of the government increased due to infrastructure-related projects but private sector imports remain subdued on account of the sustained decline in oil imports. On the capital and financial accounts, FDI amounted to USD 249.6 million and portfolio flows reached a net outflow of USD 28.2 million. The rebound helped improve market confidence. The international reserve position continues to be adequate at USD2.87 billion, equivalent to 3.9 months of future imports of goods and services.

10. The FY2015/16 budget incorporated large infrastructure investments. In the face of external pressures and acute exchange rate volatility, some fiscal tightening was envisaged in late 2015, reflected in tighter PSI targets for end-December. In the event, the economy stabilized more rapidly than expected and we reverted to the original budget targets, resulting in narrowly missing the end-December overall deficit target. More specifically:

a. Revenue collections were higher than projected until December, reaching Shs. 5,310 billion, supported by strong compliance and enforcement actions. Key areas include international trade taxes and direct taxes. However in January and

February there was a revenue shortfall in relation with the PSI targets of about Shs. 102.9 billion due to the following factors: (i) the impact of the depreciated shilling in the first half of 2015/16, that reduced the volume of imported goods and services thus negatively impacting on customs tax; (ii) a slowdown in business activities associated with the general elections and; (iii) the annual China holiday (end January and early February, 2016) that affected businesses that deal in Chinese products.

b. Current spending increased as a result of the election preparation needs, security, and road repairs —the latter affected by weather-related shocks. Capital spending was reduced.

c. On the financing side, we faced unfavourable domestic debt market conditions during the first half of FY2015/16 characterized by prohibitively high yields on securities and under subscriptions in the face of tight liquidity. However, more recently the yields have edged down on account of easing liquidity conditions.

11. We have used the temporary advance from BOU and are repaying it, with full payment anticipated by year-end as required under the PFM Act 2015. We plan to stay within the limits agreed by the PFM Act and minimize the use of advances, limiting them to 10 percent of projected revenue and ensuring intra-year repayment.

12. The implementation of key infrastructure projects is ongoing, the major ones being Karuma and Isimba Hydro Power Plants and the Kampala-Entebbe express highway. China Exim Bank is financing the Karuma and Isimba projects on non-concessional terms and by the end of February 2016, disbursements of USD 117.1 million and USD 195.6 million had been made. Total disbursements or USD 214 million and USD 380 million are expected in 2015/16.

13. With the coming into force of the new PFM Act, the Oil Fund was closed and the balances transferred to the Uganda Consolidated Fund (UCF). A new Petroleum Fund was established, to receive all oil-related revenues. The Petroleum Fund balance currently stands at USD 36,058,501, coming from a settlement of a dispute between Government of Uganda and Tullow Oil Company with respect to disposal of a transfer in a license. Whereas the funds on the oil account had been ring-fenced to fund investments in the energy sector, upon enactment of the PFM Act and the transfer to the UCF funding for the key infrastructure projects will be drawn from the UCF.

C. Performance under the PSI

14. The end-December 2015 quantitative assessment criterion (QAC) on the overall deficit was not met because we reverted to the approved budget, yet this target was set on the premise of fiscal tightening. The indicative target on poverty-reducing expenditure was also not met due to the need to ensure additional budgetary resources for security agencies, including the police, in a complex electoral environment. We also had difficulties complying with the reduction in the stock of arrears and the reporting requirements. However, progress is being made on their verification, reconciliation and in strengthening processes to avoid their reoccurrence. On the positive side, the NIR target was met, and the inflation consultation clause was respected, with average core inflation reaching 5.6 percent in December. The remaining indicative targets were also met, namely; the floor of tax revenue and the ceiling on the withdrawals from the energy fund.

15. On the structural front, work continues to progress. We advanced on the development of public investment guidelines and procedures. The extension of the Treasury Single Account to Local Governments performed over and above the benchmark. Although the Ministry had finalized the development of the PFM Regulations, further consultation with Development partners including the IMF and Civil Society yielded additional comments which necessitated review to incorporate them. We plan to have a first quality set of regulations available by June 2016 (Structural Benchmark). The Ministry of Finance Planning & Economic Development has prepared a draft Cabinet Memo on the Principles for Amending the BoU Act which will be presented to Cabinet and thereafter, a BoU Amendment Bill will be submitted to Parliament by September (Structural Benchmark). The PFM Act 2015 amendments incorporate new rules and controls in intra-year use of balances of the consolidated fund. These rules will also be included in more detail in the Memorandum of Understanding between MOFPED and BOU which is under revision. Moving forward, we request an extension of the PSI, currently scheduled to expire in June 2016, until June 2017, to ensure policy continuity and sufficient time for the implementation of structural reforms and designing of the policies that could be supported by a new 3-year PSI.

D. Macroeconomic Outlook and Risks

16. Real GDP growth is projected at 5 percent for FY2015/16 and 5.5 percent for FY2016/17, driven by public investment and private sector demand. Together with BoU´s determined action to increase the CBR, inflation seems to have peaked. Consumer prices are anticipated to decrease somewhat bringing the average annual headline inflation for FY 2015/16 to (7.3) percent and that for FY 2016/17 down to 5.5 percent, hence reflecting the prudent monetary policy at the BOU. At about 6.8 percent and 5.1 percent for end FY2015/16 and FY2016/17, respectively, average core inflation is projected to remain within the PSI consultation band.

17. The current account deficit is projected at 9.7 percent of GDP including grants in FY2015/16 resulting from lower exports due to declining international commodity prices and softer global demand as well as lower than programmed infrastructure-related imports. This should be financed mostly by FDI and other loans. International reserve coverage in FY2015/16 would be higher than programmed during the Fifth PSI review at 3.9 months of the next year's imports. The current account deficit is expected to widen to 10.7 percent of GDP (including grants) in FY2016/17, reflecting continued weak export performance. The medium-term outlook is for the current account deficit to deteriorate to 11.2 percent of GDP by 2018/19, owing to the impact of higher imports on account of improved economic activity, and a resumption of government infrastructure projects.

18. There are risks to the outlook related to declining international commodity prices, the ensuing tighter global financial conditions, likely delays in implementing export led government programs, and lower growth in other EMEs including China. Low oil prices are not expected to significantly delay the development of Uganda's petroleum sector. However, the economy could be further affected indirectly by lower demand from South Sudan – a major oil producer and Uganda's largest export market. On the positive side, the growing importance of inter-regional trade is helping to diversify Uganda's export demand and reduce external vulnerabilities.

E. Economic Policies

Fiscal Policy

The Fiscal Stance

19. The fiscal deficit for 2015/16 is expected to be 6.3 percent of GDP. This is lower than the 6.6 percent projected at the 5th review, mainly because appreciation of the shilling has made import-intensive infrastructure projects more affordable in shilling terms. Stabilization of the domestic market has also removed the need for the budget cuts planned at the time of the 5th review. However, a revenue shortfall is expected due to some disruption over the election period.

- Despite catching up on the January/February revenue shortfalls, the revenue shortfall compared to PSI targets for FY 2015/16 is estimated at Ush 100 billion. These lower revenues are mostly a consequence of weaknesses in tax compliance. We plan to step up tax administrative efforts to try to reduce the shortfall by mainly strengthening collection, analysis and utilization of data to manage compliance coupled with various enforcement mechanisms

- Expenditure is likely to be higher for the whole year than anticipated due to unexpected expenditure requirements for security and election-related needs. We have used supplementary budgets to reallocate expenditure from some less-pressing categories to the ones more in need of financing. Critical expenditure for infrastructure and Poverty Action Fund are being protected in line with the theme of the budget for FY2016/17. This will ensure provision of key infrastructure and delivery of critical public services. However, despite the reallocations that will accommodate the bulk of the supplementary expenditure, Ush 100 bn from new expenditure requires new financing. In this process, we have strived to avoid the creation of new arrears by protecting payment of certificates that are due, rent, utilities as well as salaries and pension obligations.

- As a result, planned domestic borrowing has increased to 1.1 trillion shillings, Ushs 200 billion higher than the level expected in January. This however remains below the 1.4 trillion shillings planned in the budget, as revenue has performed better than anticipated.

20. Government requested a line of credit of USD 200 million from the Eastern and Southern African Trade and Development Bank (PTA Bank). The three year revolving facility has terms that are deemed more beneficial than those prevailing in the domestic markets at the current juncture and near future, so we plan to use these resources in FY2016/17 and FY 2017/18 to finance our deficits. Therefore, these resources will replace existing, more costly domestic financing, rather than expanding the available envelope. We will not use the loan in FY2015/16.

21. The FY2016/17 budget is currently before Parliament. It envisages an overall deficit of 6.2 percent of GDP, mainly stemming from continued high levels of public investment, partially offset by additional tax revenue gains and current spending savings. The fiscal position excluding large infrastructure projects will continue to be consolidated. The strong package of revenue measures included in the 2016/17 budget is expected to significantly increase the tax-to-GDP ratio, while the one-off expenditures incurred this election year will not be repeated. We will continue to ensure that the projected deficit is contingent on the disbursement of external loans tied to the planned infrastructure projects. The deficit will largely be financed by external sources, the majority on highly concessional terms. China Eximbank will remain the most important source of non-concessional external financing. We plan to issue Ushs 612 bn new domestic debt. We also plan to access $100 million (Shs. 347 billion) of the PTA Bank loan to replace domestic financing sources. We intend to continue a shift in the composition of financing over the medium term towards lower debt to reduce our debt servicing costs, help balance our foreign exchange requirements and ensure healthy private sector credit growth.

Continuing our efforts to boost Tax Revenue

22. *We plan to continue our efforts to further* strengthen tax revenue. New measures introduced in the FY2016/17 tax package are expected to yield an increase in the tax to GDP ratio of about ½ percent of GDP. The tax package includes the following measures:

a) Increase excise duty on ready to drink spirits from 70 percent to 80 percent.

b) Increase Excise Duty on petrol from Shs. 1000 to Shs. 1100 and for diesel from Shs. 680 to Shs. 780.

c) Increase excise duty on cigarettes (Soft cap from Shs. 45,000 to Shs. 50,000 per 1000 sticks and Hinge lid from Shs. 75,000 to Shs. 80,000 per 1000 sticks).

d) Increase excise duty on motor vehicle lubricants from 5 percent to 10 percent.

e) Increase excise duty on cement from Shs. 500 to Shs. 1,000 per 50 Kg bag.

f) Increase excise duty on sugar from Shs. 50 per kg to Shs. 100 per kg.

g) Increase excise duty on confectionaries (chewing gum, sweets and chocolates) from 10 percent to 20 percent.

h) Increase stamp duty on land transfer from 1 percent to 2 percent.

i) Impose VAT on bulbs other than compact fluorescent bulbs.

j) Increase various fees under the Mining Act 2003.

k) Impose import duty on high value consumer products from the COMESA region.

l) Increase environmental levy on used clothing from 15 percent to 20 percent.

m) Introduce a 5 year driving permit and increase driving permit fees.

23. In FY 2016/17, the following tax administrative measures will also be implemented:

a) Intensification of data mining and matching focusing on customs and Domestic tax filings to enhance compliance. This measure is expected to generate UGX 5 Billion.

b) Strengthening risk assessment of VAT offset claims and refunds. This measure is expected to generate UGX 10 Billion.

c) Expanding the scope of the single customs territory to cover more goods and to strengthen the related enforcement processes. This measure is expected to generate UGX 10 Billion.

d) Implement a sector focused taxpayer education strategy with emphasis on AEO clients, enforcement procedures, VAT threshold, preferential trading regimes, withholding tax (WHT) and presumptive tax regimes. This measure is expected to generate UGX 5 Billion.

e) Strengthening risk based audit processes to enhance detection of non-compliance. This measure is expected to generate UGX 165 Billion.

f) Implement Tax payer Register Expansion Project (TREP) which aims at expanding the tax base and enforcing the recently simplified presumptive regime in all major urban centers. This measure is expected to generate UGX 62 Billion.

g) Expand and strengthen the international taxation office through attachment, training and purchase of equipment.

h) Decentralize the Large Taxpayer Office and Medium Taxpayer Office. This measure is expected to generate UGX 50 Billion.

Containing Current Spending Growth and *Implementing Infrastructure Projects*

24. In order to accommodate the pressing needs from infrastructure investments, Government's management of current spending is to ensure completion of ongoing projects and take on new ones on a replacement basis while ensuring that poverty reducing spending is preserved.

25. We remain committed to proper and timely implementation of infrastructure projects. We continue to work on addressing implementation constraints, by undertaking public investment reforms. The gate keeping role is being enhanced to ensure that only projects that are ready for implementation are included in the PIP. Working with the World Bank, we are currently progressing on a number of measures aimed at addressing implementation constraints and these include: a) developing the Public Investment Management Systems (PIMS) Guidelines and Procedures that will henceforth guide sectors on project identification, appraisal, implementation, monitoring and evaluation criteria, and b) developing the PIMS diagnostic study reports on the current practises, challenges, and recommendations for improvement, which is due for publication. Going forward, we also intend to develop the Integrated Bank of Projects (IBP); finalize, publish and disseminate the Appraisal User Manual to all Ministries, Departments, and Agencies by December 2016 (new Structural Benchmark); and revise the guidelines for the Development Committee (DC) drawing from both the diagnostics study and the manual by December 2016 (new Structural Benchmark). We also intend to embark on building capacity across Government on the use of the Public Investment Management Systems. Furthermore, we will make sure to keep the level of debt distress low while preserving private sector financing.

26. The major projects that we will implement in FY2016/17 include the Karuma and Isimba hydropower plants, the standard-gauge railway (SGR) connecting Kampala to the Kenyan border, the rehabilitation of Entebbe airport, the Kampala-Entebbe expressway and significant infrastructure improvements within the greater Kampala area. Construction of the SGR is expected to begin with financing from domestic sources while the loan arrangement is finalised. Most of the road and flyover projects in the Kampala metropolitan area will be financed through concessional loans. Resources are also being provided for the resettlement action plan (RAP) implementation for the industrial substations.

27. Other projects that will be undertaken over the medium term, include the oil refinery and the Kampala-Jinja expressway, both under PPP arrangements and the Kibuye-Busega-Nabbingo road with financing from the ADB. On the refinery, we are working with the lead investor to conclude the following agreements: shareholders agreement, project framework agreement, and implementation agreement. Signing of the agreements is expected by May 2016.

Enhancing Social protection

28. Allocations to the Poverty Action Fund will increase from Ushs. 4.33 trillion in FY 2015/16 to Ushs. 4.81 trillion in FY 2016/17, an increase of 11 percent. Government is committed to protecting the funds allocated to PAF during the budget execution of FY 2016/17. Releases to the four sectors that form the basis of the PSI indicative target on spending on poverty alleviating sectors (Agriculture, Education, Health, Water and Environment) will increase from Shs. 3 trillion in FY2014/15 to Shs. 3.7 trillion in FY2016/17. In addition, Government has allocated an additional Shs. 90 billion as a specific fund for women and youth with a view of empowering them and enhancing job creation especially among the youth.

29. The Social protection policy was approved in November 2015 and provides the framework for enhancing social protection in Uganda. In regard to the progress on the Social Assistance programs, Government has committed to deepening the intervention in existing districts as well as expanding to new ones gradually by providing Ushs 149bn over the medium to long term.

Monetary and Financial Sector Policies

30. The direction of the monetary policy stance will continue to be guided by the inflation forecast and a careful assessment of both domestic and external risks. The BoU will continue to adjust the monetary policy stance accordingly to ensure that the core inflation target of 5 per cent in the medium term is achieved.

31. After tightening, BoU now sees scope to start a gradual and carefully timed easing cycle. Thus, in the Monetary Policy Committee April meeting the BoU reduced the CBR to 16 percent from 17 percent in February 2016. The key factors behind this decision include improved inflation outlook and weaker domestic demand.

32. The BoU is committed to avoiding excessive volatility in the exchange rate without impeding the real exchange rate from reflecting market conditions.

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 implement certain aspects of post crisis regulation measures like the capital conservation buffer, capital charge for systemically important banks and liquidity coverage ratio. The recently amended FIA Act will give BoU powers to implement additional capital buffers. BOU will also conduct macroprudential regulation to identify and assess potential systemic risks to the structure and functioning of the Ugandan financial system and, develop measures to reduce or mitigate those risks.

34. BoU continues to implement financial inclusion activities under the four pillars namely: financial literacy, financial consumer protection, Financial Innovations, and Data and Measurement. The Bank collects data on a set of financial inclusion indicators as provided by the Alliance for Financial Inclusion. The Bank also actively participates in the FINSCOPE surveys; so far three surveys have been undertaken.

35. Mobile money is transforming economic relations. The total value of transactions made by mobile phones in 2015 was around US$10 billion, about 38 percent of GDP. This success is reshaping Uganda's banking and telecom sectors, and enhancing financial inclusion. The proliferation of mobile money services has raised the need for the BOU and telecom regulators to cooperate to ensure the proper functioning of these mobile platforms . In this context, the government is developing a comprehensive legal framework to support the development of the mobile money industry while ensuring financial stability. As mobile money services continue to expand, more proactive policies will be required to ensure that the market can continue to grow and serve local consumers. Government is in advanced stages of having the Tier 4 Microfinance and Money Lenders Bill passed by Parliament and thereafter establish a regulatory framework which will pave way for the establishment of an autonomous institution to license, regulate and supervise Tier 4 Microfinance institutions. The Microfinance policy 2008-2015 will be reviewed to address the continued role of Government in the provision of a conducive environment for increasing outreach particularly in the underserved areas; importance of reducing the cost of borrowing; increasing the range of products; development of an appropriate policy and regulatory framework for the microfinance industry; integration of microfinance into the broader financial sector; establishing a coordination mechanism for the players in the industry; and incorporating the new innovations into the policy.

Compliance with the Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT).

36. Government is committed to address the recent Financial Action Task Force's (FATF) concerns on Uganda's strategic AML/CFT deficiencies with the objective of ensuring that Uganda is removed from the grey list as soon as possible. The Anti-Money Laundering (Amendment) Bill, 2015, and the Insurance (Amendment) Bill, 2011, have been tabled in Parliament for first reading and committed to the Finance Committee. Measures to ensure that is the Bills are expedited are in place through coordination with Parliament and relevant stakeholders. In terms of remaining steps, we have prepared the amendments of the laws to provide for the following: (i) a risk-based approach to combat Money Laundering and Terrorist Financing in accordance with FATF; (ii) adequate risk assessment and due diligence; (iii) strengthened record keeping provisions; (iv) empowerment of Financial Intelligence Authority (FIA) to impose sanctions for non-compliance. These measures would help ensure Uganda's prompt exit from the FATF "gray list" (new Structural Benchmark).

37. The Money Laundering/Terrorist Financing (ML/TF) National Risk Assessment (NRA) process of identifying and evaluating the money laundering and terrorist financing risks in the country is underway. The country is using the World Bank Tool and so far preparation for phase I was concluded and actual assessment (Phase II) is underway and envisaged to be completed in 2 years. An increasing importance is being placed by FATF on the assessment of ML/TF risks since national strategies, policy decisions and actions must correspond to the risks faced by each jurisdiction. This support efforts to effectively implement FATF recommendations.

F. Structural Reforms

38. The new PFM Act was enacted on 6th March 2015 and amended in November. The key amendments include Section 25, 26, 28, 36 and 82 and their objective was to provide for financing of supplementary estimates, Contingencies Fund, financing of Treasury operations and to provide for guarantees and advances by BoU. The PFM regulations are being finalized (expected to be completed by June 2016). The government is committed to ensure the Regulations address the necessary details to ensure a smooth implementation of the PMF Act.

Work to finalize the charter of fiscal responsibility (CFR) is ongoing, with clauses covering government's measurable objectives for fiscal policy over the next five years, an explanation of the methodology to be used to measure the performance of Government against the fiscal objectives, a list of sources of data to be used to report on developments against the fiscal objectives and a demonstration of how the fiscal objectives are consistent with the principles set out in Section 4(2) of the PFM Act. The CFR will be submitted to Parliament by September 2016 (Structural Benchmark).

39. The MoFPED and the BoU commit to continue to improve their policy coordination and communication with the markets. Besides holding regular meetings, a memorandum of Understanding has been drawn to ensure smooth and coordinated operations between the two institutions. The memorandum will be revised to take into account the new PFM Act (particularly in areas like petroleum fund management, public debt, CFR); the amendments to the BoU Act once enacted, and the new EAMU Protocol.

40. The implementation of the Treasury Single Account is well ahead of target and will continue to extend the TSA framework depending on infrastructure readiness. So far, 56 local governments have been included against a target of 30 entities. This has improved aggregate GoU cash management and absorption of funds. Plans to include donor accounts in the future depends on donor acceptability and policy agreement, we continue to engage our development partners on this. This structural benchmark was therefore reformulated in line with extension of TSA to local government.

41. We remain committed to strengthening the procedures to ensure timely reporting and avoid reoccurrence of domestic arrears. In this context, we propose that the publication of the reports on unpaid bills signed by the PS/ST contained in the central government votes be changed from quarterly to semi-annual, effective in June 2016 (Structural Benchmark). At the same time, we will continue to publish the annual report on the stock of domestic arrears in June 2016 (Structural Benchmark). On procedures, we are making progress in the reconciliation of data from Internal Audit and Accountant General, and particularly in concluding verification before the financial statements are prepared at vote level and consolidated by Accountant General. It has been resolved that only verified arrears shall be considered for payment and that a reconciled set of figures for FY2013/14, FY2014/15 and December 2015 will be shared with the Fund by May 6, 2016 in accordance to the template provided by the IMF. Going forward, strict sanctions will be applied to accounting officers who accumulate new arrears and we will publish the list of accounting officers who are not reappointed. In addition, we intend to ensure better utilization of the Integrated Financial Management and Information System (IFMIS) so that no obligations are committed outside of IFMIS.

42. Tracking arrears from SOEs and local governments is essential. In the new PFM Act, 2015, local Governments and SOEs shall be required to report on arrears stock on a half-year basis, in line with the financial reporting requirements. This information will inform preparation of the

Fiscal Risks statement. Further automation of IFMIS to Local Governments is ongoing, although subject to available funding.

43. The Financial Institutions (Amendment) Act, 2016 was passed by Parliament and assented to by H.E. the President on 19th January, 2016. The Act provides for, among others issues: introduction of Islamic Banking; Reforming the Deposit Protection Fund; introduction of Agent Banking; and introduction of Bancassurance. The draft Cabinet Memo on the Principles for Amending the BOU Act has been prepared and will soon be presented to Cabinet. Thereafter a BOU Amendment Bill will be submitted to Parliament by September 2016.

44. Progress towards EAC regional integration will continue. We prepared a medium term convergence program that will guide our transition to the convergence criteria. The program outlines: the medium-term macroeconomic and fiscal objectives; and 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 agreed Performance Convergence Criteria by 2021. The MTCP will be presented for discussion in the meeting of the EAC Sectoral Council on Finance and Economic Affairs (SCFEA) which will be held in May 2016.

G. Program Monitoring

45. Progress in the implementation of the policies under this program will be monitored through quantitative assessment criteria (QAC), indicative targets (ITs), and structural benchmarks (SBs) detailed in the attached Tables 1 and 2 and through semi-annual reviews. The seventh review is expected to be completed by end-December 2016 and the eighth by end-June 2017. The attached Technical Memorandum of Understanding—which is an integral part of this memorandum—contains the needed definitions.

Table 1.1. Uganda: Quantitative Assessment Criteria and Indicative Targets for September 2014–March 2017[1]

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

	September 30, 2015 [2]				December 31, 2015 [2]				March 31, 2016 [2]	June 30, 2016 [2]	September 30, 2016 [3]	December 31, 2016 [3]	March 31, 2017 [3]
	Program	Adjusted Target	Outturn	Result	Program	Adjusted Target	Outturn	Result	Program	Proposed Program	Proposed Program	Proposed Program	Proposed Program
							(Billions of Ugandan shillings)						
Assessment criteria													
Ceiling on the overall deficit of the Central Government	1,682	1,150	1,143	Met	2,346	2,113	2,325	Not met	3,814	5,382	1,590	3,983	4,988
							(Millions of US dollars)						
Ceiling on the stock of external payment arrears incurred by the public sector	0		0	Met	0		0	Met	0	0	0	0	0
Minimum increase in net international reserves of the Bank of Uganda (US$mn)[4]	49	50	-140	Not Met	-225	-262	31	Met	-281	-150	41	83	124
							(Percent)						
Share of oil revenue placed in the Petroleum Fund	100		100	Met	100		100	Met	100	100	100	100	100
Indicative targets							(Billions of Ugandan shillings)						
Ceiling on cumulative changes in temporary advances from Bank of Uganda to the central government[5]	n.a.				268		182	Met	118	0	n.a.	n.a.	n.a.
Floor on tax revenue	2,441		2,364	Not Met	5,282		5,310	Met	7,997	11,040	2,756	6,008	9,084
Expenditures on poverty alleviating sectors	768		782	Met	1,570		1,488	Not met	2,367	3,032	893	1,824	2,782
Ceiling on the issuance of guarantees by the Government/Bank of Uganda	0		0	Met	0		0	Met	0	0	0	0	0
Net change in the stock of domestic arrears[6]	-20		n.a.	Not met	-39		n.a.	Not met	-80	-80	n.a.	-62	n.a.
Ceiling on withdrawals from energy and petroleum funds	70	149	122	Met	173	140	140	Met	253	n.a.	n.a.	n.a.	n.a.
							(Annual percentage change)						
Inflation consultation clause													
Outer band (upper limit)	8.0				8.0				8.0	8.0	8.0	8.0	8.0
Inner band (upper limit)	7.0				7.0				7.0	7.0	7.0	7.0	7.0
Core inflation target[7]	5.0		4.1	Met	5.0		5.2	Met	5.0	5.0	5.0	5.0	5.0
Inner band (lower limit)	3.0				3.0				3.0	3.0	3.0	3.0	3.0
Outer band (lower limit)	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 31, 2015, June 30, 2016, and December 31, 2016 are quantitative assessment criteria except as marked. Values for other dates are indicative targets.
[2] Proposed targets are measured as the change from June 2015, except as marked.
[3] Proposed targets are measured as the change from June 2016, except as marked.
[4] The NIR outturn is assessed using program exchange rates.
[5] As the issues regarding this target have been addressed by the Amendments to the PFM Act (2015), the target is set up until June 2016. This target is expected to be dropped in the next review.
[6] The outturns are not available because a reconcilation process has not been completed yet. This target will be measured semiannually for quarters ending June 30 and December 31 since the seventh review.
[7] Annual percentage change, twelve-month period average core inflation.

Table 1.2. Structural Benchmarks				
Policy Measure	**Macroeconomic Rationale**	**Date[1]**	**Status**	**Proposed Revised date**
Ministry of Finance to submit to Parliament amendments to the Bank of Uganda Act containing provisions to support implementation of inflation targeting in line with international best practices, including establishing the capital of the BoU as an adequate percent of monetary liabilities, and limiting the size of intra-year advances to the government to 10 percent of tax revenues of the previous year.	To strengthen monetary policy independence and credibility of the central bank.	April 2016	Not met. Draft Cabinet Memo on the Principles for Amending the BoU Act to be presented to Cabinet, thereafter, Bill to Parliament	September 2016
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.	November 2015	Met. However, information on progress on the implementation of the plan of the BoU to contain operational and administrative costs is lacking.	NA
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, 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.	Not met; work was ongoing on the reconciliation of the stocks	Proposed to change to semi-annual reports

Table 1.2. Structural Benchmarks (continued)

Policy Measure	Macroeconomic Rationale	Date[1]	Status	Proposed Revised date
Ministry of Finance to publish a semi-annual report 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.			June 2016 March 2017
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.	December 2015	Not met. Government working on reconciliation of figures	June 2016
Regulations for implementation of the PFM Act in line with international best practice 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.	March 2016	Not met. The content of the initial set of Regulations was not in line with international practices	June 2016
Ministry of Finance to send to Parliament the charter of fiscal responsibility.	To improve fiscal and macroeconomic management.	April 2016	Not met. Current draft under internal discussion.	September 2016
Ministry of Finance to develop 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.	December 2015	Met	NA
Ministry of Finance to include 30 local governments in the TSA structure.	Provide a key milestone for full TSA implementation.	March 2016	Met	NA
Ministry of Finance to introduce specific rules and controls on the intra-year use and balances of the Uganda Consolidated Fund (UCF) and UCF/TSA and institutionalize those rules in a framework agreement with	To improve fiscal and macroeconomic management.	April 2016	Not met. However, new rules and controls on the intra –year use and balances	

Table 1.2. Structural Benchmarks (concluded)				
Policy Measure	**Macroeconomic Rationale**	**Date[1]**	**Status**	**Proposed Revised date**
the BOU and in the Charter of Fiscal Responsibility.			of the Uganda consolidation fund are specified in the PFM Act 2015 and Amendments	
Proposed new structural benchmarks				
The Ministry of Finance to strengthen the AML/CFT framework in line with the international standard, and to liaise with Parliament to ensure the following: (i) amending the AML Act to give the FIA the sole authority to appoint its own staff, and enable the FIA and supervisory bodies to provide international cooperation to their foreign counterparts; (ii) amending the Capital Markets Authority Act and Insurance Regulatory Act to give regulators adequate supervisory powers to monitor compliance with AML/CFT obligations; and (iii) providing the legal basis and procedural mechanisms for the freezing of terrorist assets under UNSCR 1267 and 1373.	To strengthen the financial system safeguards			June 2016
The Ministry of Finance should finalize, publish and disseminate the Appraisal User Manual to all Ministries, Departments and Agencies.	To provide guidelines and procedures for undertaking a project through each stage of the project cycle.			December 2016
The Ministry of Finance should update and publish Development Committee guidelines to ensure compliance with the Appraisal User Manual.	To promote compliance with the Appraisal User Manual.			December 2016

[1] All dates refer to the end of the month, unless otherwise specified.

Attachment II. Technical Memorandum of Understanding

A. Introduction

1. This memorandum defines the quarterly quantitative assessment criteria (QAC) and indicative targets (ITs) described in the Memorandum of Economic and Financial Policies (MEFP) for the economic program supported by the IMF Policy Support Instrument (PSI) over the period of June 30, 2016—March 31, 2017, 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 text table 1 below for the various currencies, and then converted into Uganda shillings using the program U.S. dollar-Uganda shilling exchange rate for end-June 2015, unless otherwise indicated in the text.

Text Table 1. Program Exchange Rates (end-June 2015)[1]

US Dollar (US$)	1.0
British Pound/US$	0.636213
Japanese Yen/US$	122.45
SDR/US$	0.711039
Kenyan Shilling/US$	98.6394
Tanzania Shillings/US$	2,020.35
Euro/US$	0.893735
Canadian dollar/US$	1.2474
Australian dollar/US$	1.302083
Ugandan Shillings/US$	3,301.80

[1] For the currencies not listed in this table, the cross exchange rates to the U.S. dollar at end-June 2015 will be applied.

B. Consultation Mechanism on Inflation (QAC)

2. The quarterly consultation bands for the twelve-month average rate of consumer price inflation (as measured by the core consumer price index (CCPI) published by the Uganda Bureau of Statistics (UBOS)) are specified in Text Table 2. The consultation bands specify the range of admissible CCPI inflation. Observed CCPI inflation for end-June 2016 and end-December 2016 will be subject to the consultation mechanism, while the CCPI inflation for end-September 2016 and end-March 2017 will be indicative targets.

Text Table 2. Inflation Targets

	Jun. 2016	Sep. 2016	Dec. 2016	Mar. 2017
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 2016 for the seventh review and end-December 2016 for the eighth 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 Fund staff when the observed average CCPI inflation falls outside the inner band, as specified for June 2016 and December 2016 in Text Table 2.

C. Ceiling on Overall Deficit of the Central Government[1] (QAC)

4. The QAC on the ceiling on the overall deficit of the central government is defined as the cumulative sum, from the beginning of the relevant fiscal year, of:

a. net domestic financing (NDF) as defined below;

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 non-concessional), 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.

5. The NDF of the central government 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, excluding deposits in the Energy and Petroleum Funds and project accounts with the banking system and the central bank. Credits comprise bank loans and advances to the government and holdings of government securities and promissory notes.

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

b. *the change in net claims on the central government of domestic nonbank institutions and households*: net claims on the central government of domestic nonbank institutions and households are defined as treasury bills, bonds or other government securities held by nonbank institutions and households (including nonresident individuals 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. NDF will be calculated based on data from balance sheets of the monetary authority and deposit corporations and government liabilities to nonbank institutions and households as per the deposit corporations' survey (DCS).

6. 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 Ministry of Finance, Planning, and Economic Development (MoFPED) through the Debt Management and Financial Analysis System (DMFAS) and Aid Management System (AMS).

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

7. Net international reserves (NIR) of the Bank of Uganda 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.

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

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

9. The purpose of this QAC is to avoid a situation whereby petroleum revenues bypass the Ugandan budget framework. The 2015 PFM Act has established a petroleum fund, and government has established a petroleum revenue account in the BoU. This QAC will be deemed satisfied if 100 percent of any kind of petroleum-related revenues (even before the start of oil production) is transferred to this account upon collection by URA. These resources may then be spent or saved as governed by the 2015 PFM Act.

F. Ceiling on Cumulative Changes in Temporary Advances from the Bank of Uganda to the Central Government (IT)

Background on temporary advances from the Bank of Uganda to the central government

10. The Government of Uganda (GoU) may receive "temporary advances" from the Bank of Uganda (BoU) to cover temporary deficiencies of recurrent revenue, up to 18 percent of recurrent revenues over the fiscal year, according to Section 33 of the 2000 BoU Act. The 2000 BoU Act does not specify when the "temporary advances" are to be fully repaid nor does it define how the advance amounts are to be measured. The use of such advances should be limited for cash flow management and should be temporary, with a requirement of full repayment within the respective fiscal year. The ambiguity of the 2000 BoU Act may lead to a situation where an extensive use of this non-programmed financing could replace financing from the domestic financial market, posing a risk of monetization of fiscal deficits. This issue has been addressed by the Amendments to the 2015 PFM Act, requiring full repayment within the respective fiscal year and reducing the cap to 10 percent of recurrent revenues. The envisaged amendments to the BoU Act, expected to be submitted to Parliament in September, 2016, will also address this issue.

11. At the beginning of FY2015/16, the GoU requested from the BoU access to temporary advances up to about Ush 2,000 billion, with the commitment of fully repaying them by the end of the fiscal year. The GoU intends to utilize this access periodically for cash flow management.

Purpose, definition, and measurement of this indicative target

12. The purpose of the new indicative target on the ceiling on cumulative changes in temporary advances from the BoU to the central government is to help define and monitor the balance of outstanding temporary advances and ensure their prompt repayment. This should help reduce the likelihood of a situation where the temporary advances are used in order to bypass issuances of treasury securities in the domestic financial market, resulting in monetization of fiscal deficits and potential inflationary pressures. The ceiling is set only up to the end of FY2015/16 and is expected to be removed afterward, because the Amendments to the PFM Act, which supersede the BoU Act, have addressed the issue that motivates this ceiling.

13. The cumulative change in temporary advances from the BoU to the central government is defined as the cumulative change, from the beginning of the respective fiscal year, in adjusted net claims on the central government by the BoU. The adjusted net claims on the central government by the BoU is defined as the difference between the outstanding amount of BoU credit to the central government and the central government's deposits, excluding deposits in administered accounts (including the energy and petroleum funds), project accounts with the central bank, and net recapitalization securities (recapitalization securities provided to the central bank less those used for monetary policy purposes). Credits comprise BoU loans and advances to the government and holdings of government securities and promissory notes.

14. The cumulative change in temporary advances from the BoU to the central government will be calculated based on data from balance sheets of the monetary authority as per the DCS.

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

15. 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 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.

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

16. 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). This excludes guarantee programs which have explicit budget appropriations.

I. Tax Revenue (IT)

17. A floor applies on tax revenue of the 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.

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

18. A ceiling applies to net accumulation of domestic arrears of the central government as an indicative target. A negative target thus represents a floor on net repayment. The ceiling for each test date is measured cumulatively from the beginning of the respective fiscal year.

19. 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.

20. This indicative target will be observed on a semi-annual basis. For the quarter ending December 31, the net change in the stock of unpaid bills as reported in the semi-annual report on domestic arrears will be used as the indicative target. For the quarter ending in June 30, the change in the total stock of arrears as reported in the consolidated financial statements of the GoU will be used as the indicative target.

K. Adjustors

21. The NIR and the overall deficit targets are based on program assumptions regarding: (A) budget support excluding assistance provided under the Heavily Indebted Poor Countries (HIPC) Initiative and the MDRI; (B) net inflows into the Petroleum Fund; (C) recapitalization of the BoU; (D) external financing tied to projects; and (E) GoU's contingent reimbursement under the Hoima refinery project.

Adjustor related to budget support

22. 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 the beginning of the relevant fiscal year is presented under Schedule A. 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; cumulative from the beginning of the respective fiscal year)

	Jun-16	Sep-16	Dec-16	Mar-17
Budget support grants	110	4	19	47
Budget support loans	0	0	0	261

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

Adjustor on Inflows into the Petroleum Fund

23. The ceilings on the cumulative increase in 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 B.

Schedule B: Inflows into Petroleum Fund

(Ush billions; cumulative from the beginning of the respective fiscal year)

Jun-16	Sep-16	Dec-16	Mar-17
125	0	0	0

24. The ceilings on 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 C.

Schedule C: Recapitalization of the Bank of Uganda

(Ush billions; cumulative from the beginning of the respective fiscal year)

Jun-16	Sep-16	Dec-16	Mar-17
200	350	350	350

Adjustor related to externally financed projects

25. The ceiling on overall deficit will be adjusted downward (upward) by the amount by which (both concessional and non-concessional) external financing tied to projects falls short of (exceeds) the projected amounts as set out in Schedule D. Any upward adjustment will be capped by 10 percent of the amounts set out in Schedule D.

Schedule D: External Financing Tied to Projects

(Ush billions; cumulative from the beginning of the respective fiscal year)

Jun-16	Sep-16	Dec-16	Mar-17
4,356	1,018	3,297	3,888

Adjustor related to contingent reimbursement under the Hoima refinery project

26. Under the Hoima refinery project, the GoU guarantees to reimburse the private partner's construction costs of USD136 million (including financing costs) in the contingency that there is no Crude Supply Agreement in place by October 2017. The floor on the change in NIR will be adjusted downward (upward) by the amount by which the GoU's spending in foreign currency due to the contingent reimbursement under the Hoima refinery project exceeds (falls short of) the projected amounts set out in Schedule E, measured at the U.S. dollar equivalent at program exchange rates (Text Table 1). Any downward adjustment will be capped by USD136 million.

Schedule E: GoU's Contingent Reimbursements under the Hoima Refinery Project

(USD millions[1]; cumulative from the beginning of the respective fiscal year)

Jun-16	Sep-16	Dec-16	Mar-17
0	0	0	0

[1] Evaluated at the program exchange rates (Text Table 1).

L. Ceiling on the Accumulation of New External Payments Arrears Incurred by the Public Sector[2]

27. The definition of debt, for the purposes of the limit, is set out in point 8 of the Guidelines on Public Debt Conditionality in Fund Arrangements (Executive Board Decision No. 6230-(79/140), as amended by Decision No. 15688-(14/107), effective June 30, 2015). It not only applies to the debt as defined in point 8 of the Executive Board decision, but also to commitments contracted or guaranteed for which value has not been received.[3] The definition of debt set forth in point 8 of the Guidelines on Public Debt Conditionality 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

[2] 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.

[3] 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.

excluding those payments that cover the operation, repair, or maintenance of the property.

(b) Under the definition of debt set out in point 8(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.

28. 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 2015. External debt payment arrears consist of external debt service obligations (reported by the Statistics Department of the BoU, the Macro Department of the Ministry of Finance) that have not been paid at the time they are due as specified in the contractual agreements but shall exclude arrears on obligations subject to rescheduling.

M. Monitoring and Reporting Requirements

29. 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 Table II.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 and the level of the BoU's international reserves.	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.	Monthly	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
	Monthly balances of net foreign assets, net domestic assets, and base money of the BoU.	Monthly	4 weeks

Attachment Table II.1. Summary of Reporting Requirements (continued)			
Reporting institution	**Report/Table**	**Submission Frequency**	**Submission Lag**
	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
	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

Attachment Table II.1. Summary of Reporting Requirements (concluded)			
Reporting institution	**Report/Table**	**Submission Frequency**	**Submission Lag**
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[4], 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 arrears (or unpaid bills) by government entities contained in the central government votes as reported by the Accountant General and signed by the PS/ST.	Semi-annually	3 months
	Summary of contingent liabilities of the central government and the BoU. For the purpose of the program, contingent liabilities include all borrowings by statutory bodies, government guarantees, claims against the government in court cases that are pending, or court awards that the government has appealed.	Quarterly	6 weeks
	Detailed monthly central government account of disbursed budget support and project grants and loans (less change in the stock of project accounts held at the BoU and commercial banks), HIPC support, and external debt service due and paid.	Quarterly	4 weeks
	Detailed central government account of disbursed donor project support grants and loans.	Monthly	6 weeks
	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

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