INTERNATIONAL MONETARY FUND

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UGANDA

November 2015

FIFTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT AND REQUEST FOR WAIVER OF AN ASSESSMENT CRITERION AND MODIFICATION OF ASSESSMENT CRITERIA—PRESS RELEASE; AND STAFF REPORT

In the context of the Fifth Review Under the Policy Support Instrument and Request for Waiver of an Assessment Criterion and Modification of Assessment Criteria, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on October 2, 2015, with the officials of Uganda on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 3, 2015.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.

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

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

*Also included in Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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INTERNATIONAL MONETARY FUND

Press Release No. 15/525
FOR IMMEDIATE RELEASE
November, 18, 2015

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Fifth PSI Review for Uganda

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

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

In the context of global and regional challenges, compounded by election-related uncertainties, the shilling depreciated sharply, driving an increase in inflation. Annual core inflation reached 6.3 percent in October and is expected to rise somewhat before converging to the medium-target of 5 percent due to monetary tightening. The external current account deficit widened in FY2014/15 and is expected to expand further as a result of high infrastructure-related imports, stagnant exports, and weak tourism receipts stemming from the difficulties in neighboring countries. Nonetheless, international reserves remain at comfortable levels. Supported by public investment, real GDP growth reached 5 percent in FY2014/15 and is expected to remain at that level in FY2015/16—below initial projections reflecting tight credit conditions and a smaller-than-expected fiscal stimulus.

Performance under the PSI has been positive. All end-June quantitative assessment criteria were observed, and so were most continuous assessment criteria. Average core inflation remained within the bands of the PSI consultation clause. The indicative targets on the overall fiscal deficit and withdrawals from the energy and petroleum funds were missed by a small margin. Significant progress is however needed on consistently determining the stock of domestic arrears—for which an audit is ongoing. Importantly, the structural reform agenda, including public financial management (PFM) reform, central bank independence, and financial sector enhancements, needs to be reinvigorated.

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

In response to rising inflation, the authorities are rightfully tightening policies. The Bank of Uganda has since April increased the central bank rate by 600 basis points, bringing it to 17 percent, and also improved the modality of foreign exchange purchases in the market. As a result, inflation expectations and pressures in the foreign exchange market are subsiding. The central bank also continues to monitor the financial system, which remains sound despite increased vulnerabilities.

On the fiscal front, the authorities have decided to reduce by 0.55 percent the budgeted fiscal expansion through spending cuts. The revised overall deficit, projected at 6.5 percent of GDP compared to 7 percent in the budget, is expected to contribute to price stability and policy credibility; and together with tax administration improvements, will lower the size and cost of domestic security issuances. To ensure that debt remains at low risk of distress, the authorities have re-profiled medium-term infrastructure projects by postponing investments. Strong fiscal-monetary policy coordination and effective communication remain essential to boost policy efficacy and credibility.

Over the medium term, achievement of inclusive growth critically depends on enhancing tax collections—still low by international standards—diversifying exports through gains in productivity and competitiveness, pursuing financial deepening to improve access to credit, improving governance, and strengthening social protection.

INTERNATIONAL MONETARY FUND

UGANDA

November 3, 2015

FIFTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT AND REQUEST FOR WAIVER OF AN ASSESSMENT CRITERION AND MODIFICATION OF ASSESSMENT CRITERIA

KEY ISSUES

The economy has fared well in a difficult environment. A large exchange rate depreciation fueled inflation prospects and prompted sharp monetary tightening. Credit deceleration and weakened confidence linked to the proximity of the election slowed private activity, but growth was supported by dynamic public investment. International reserves remained comfortable.

Program performance under the PSI was generally positive. All end-June and continuous quantitative assessment criteria (QAC) were observed, with one exception, and so were most indicative targets (ITs). Inflation remained within the bands of the consultation clause. An unprecedented increase in tax revenue was a key achievement. However, further progress on structural reforms is needed.

The authorities are rightly adjusting the policy mix. A less ambitious fiscal expansion—which will require resisting election spending—is set to support the anti-inflationary effort and reduce borrowing needs. Monetary policy is expected to swiftly adapt to changes in the inflation outlook. A temporary use of part of the comfortable reserve buffer is anticipated.

The policy mix needs to be supported by strong fiscal-monetary coordination and transparent communication. There is a need to boost policy credibility to anchor inflation expectations by dissipating market anxieties over excessive spending prior to the elections.

While short-term downside risks are significant, longer-term prospects are favorable. Global uncertainty and an active political campaign pose challenges to the achievement of the short-term growth and inflation objectives. Approaching oil production, growing regional integration, and improving infrastructure suggest a strong medium-term outlook.

Staff recommends completing the fifth review under the PSI. It supports the authorities' request to eliminate the QACs on limits to short-term external debt and non-concessional external debt in line with the new debt limits policy, and to upgrade the overall deficit IT to a quantitative assessment criterion. Staff also supports the request for a waiver of the nonobservance of the continuous assessment criterion on introducing a multiple currency practice (MCP), the modification of two end-December QACs to reflect updates, and the introduction of a new IT to cap cumulative changes in advances from the Bank of Uganda (BoU) to the government.

Approved By

Roger Nord (AFR) and Masato Miyazaki (SPR)

IMF team: A. L. Coronel (head, senior resident representative), A. Aisen and C. Mira (all AFR), J. Danforth (FAD) and F. Narita (SPR). C. Ntumwa (local office economist) supported the mission, and G. Gasasira-Manzi (OED) attended official meetings.
Discussions: Held in Kampala during September 24-October 2, 2015. The mission met with economic authorities, senior government officials and representatives of the financial, business and international communities, civil society and the media.

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CONTEXT AND RECENT DEVELOPMENTS

1. **The proximity of the February 2016 presidential and parliamentary elections has created uncertainty.** After 30 years in power, President Museveni is running for another 5-year term. His main contenders are Mr. Besigye, the opposition candidate who had unsuccessfully competed in three previous elections, and Mr. Mbabazi, a ruling party member who was a close ally of the president. An active political campaign has generated market nervousness and speculative behavior that are challenging economic management.

2. **Economic developments in FY2014/15 were heavily influenced by a large exchange rate depreciation.** The shilling declined by 27 percent vis-à-vis the US dollar over the course of the fiscal year (through June), a sharper depreciation than in other countries in the EAC region. Global liquidity concerns, negative shocks in neighboring countries and trading partners, and election-related nervousness drove the depreciation (Annex 1). In real terms, the shilling lost about 10 percent against the currencies of its main partners. The real effective exchange rate is now estimated to be somewhat undervalued.

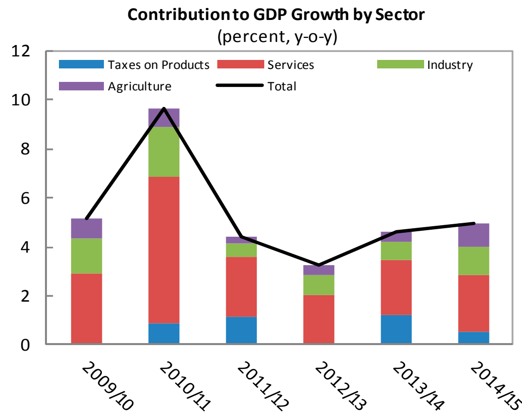
3. **Notwithstanding market volatility, economic performance was satisfactory.** Although exports remained sluggish and private sector activity was lower than envisaged, real GDP growth reached 5 percent in FY2014/15, slightly below projections (5¼ percent), driven by public investment. Manufacturing (mainly in the informal sector) and dynamic activity in the service sector and agriculture drove growth. At 4.9 percent, annual headline and core inflation at end-June remained under control, but started to reflect the depreciation pass-through, estimated at 40-50 percent.

4. **At 9¼ percent of GDP, the external current account deficit widened somewhat.** The benefits of cheaper oil imports, stronger remittances, and more generous grants were offset by high infrastructure-related service imports; stagnant exports, affected by weak commodity prices and depressed demand; strong profit repatriation; and weak tourism receipts. Capital and financial inflows shrunk, reflecting declining oil-related foreign direct investment (FDI), and net portfolio outflows possibly in response to deteriorating market confidence. Foreign exchange reserves fell mainly reflecting the government's contribution to the ongoing hydropower plants (HPPs) projects, but their coverage remained high at 4.3 months of imports.

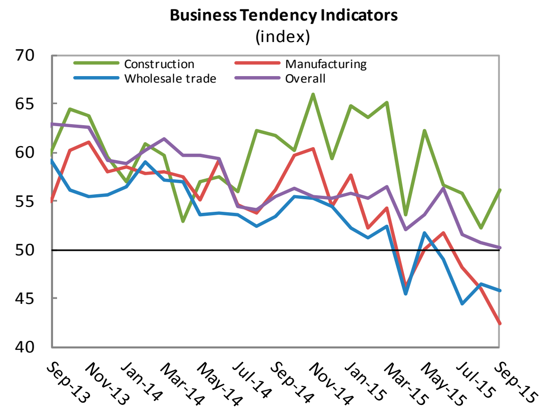
5. **Developments over the first quarter of FY2015/16 were characterized by persistent shilling depreciation and rising inflation.** An additional 12 percent depreciation pushed up domestic prices and exacerbated market nervousness. Deteriorating business confidence, postponement of investment and credit decisions, and low tax collection point to weaker-than previously expected growth. Reflecting the exchange rate pass-through and a recent increase in food prices, annual headline and core inflation rose to 7.2 and 6.7 percent, respectively, in September, with price increases disseminating across several CPI basket sub-groups.

Figure 1. Real Sector Developments

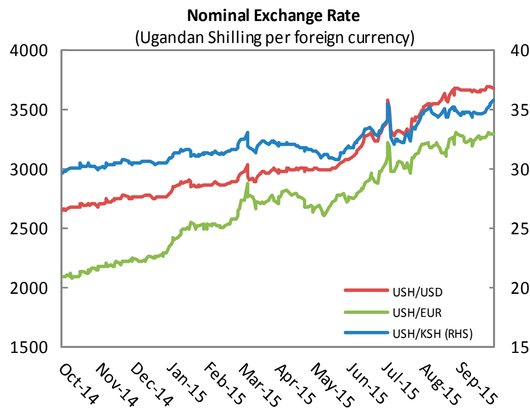
Economic growth has been moderate, led by the service and industrial sectors…



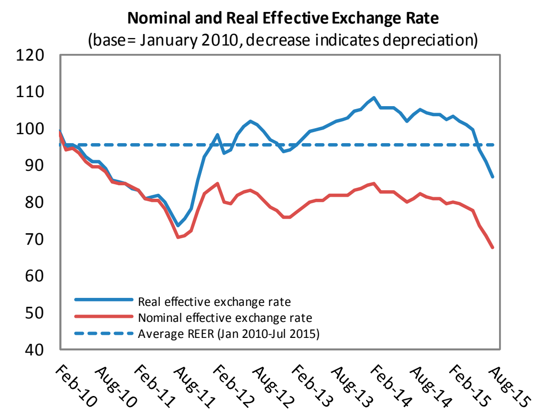
…but business tendency indicators have recently declined.



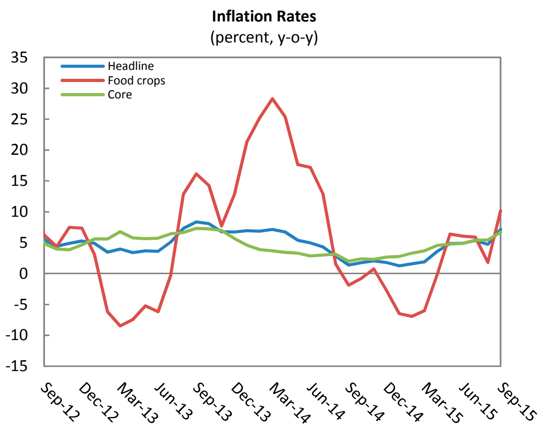
The shilling has significantly depreciated in nominal terms…



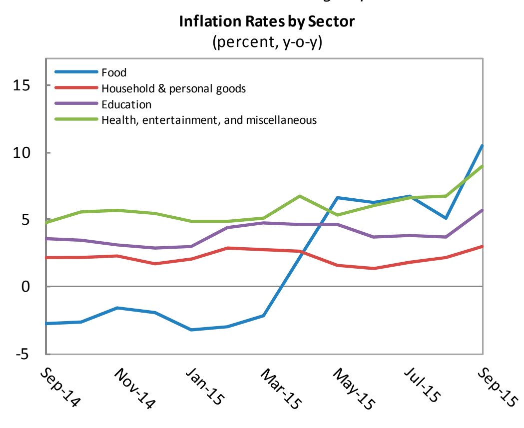
…and also in effective terms…



…fueling a rebound in inflation…



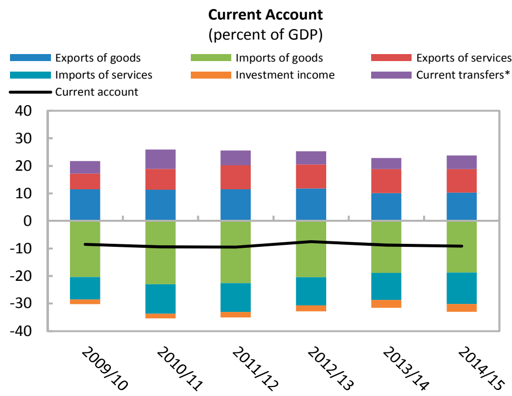
…with price increases starting to disseminate across several CPI sub-groups.



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

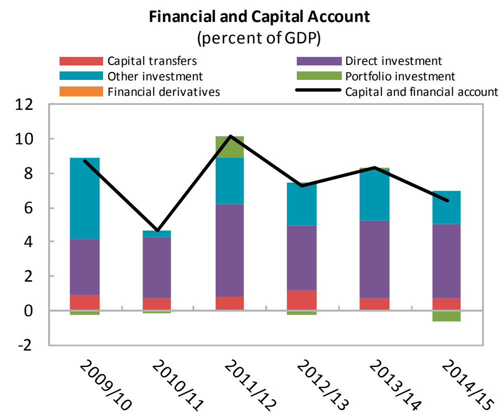
Figure 2. External Sector Developments

With sluggish exports, the current account deficit remains large…

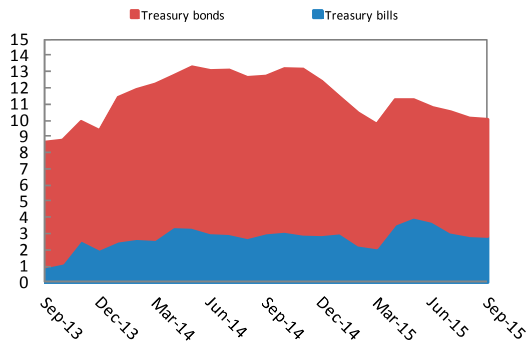


*Includes official grants, worker's remittances, private sector transfers, and other transfers.

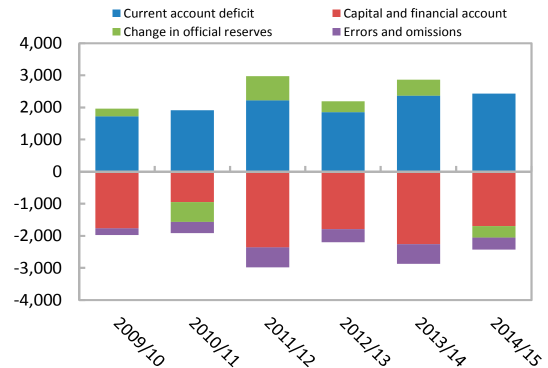
…and net inflows have declined…



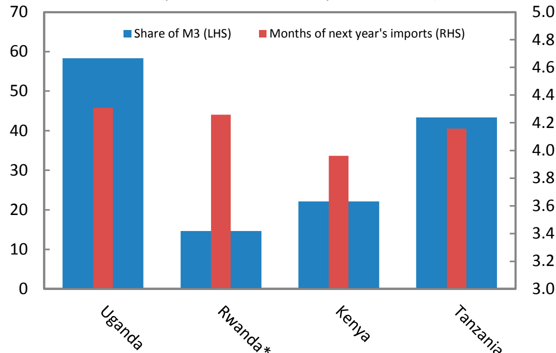
…in line with somewhat lower foreign investors' appetite.



International reserves declined as the government financed its share of the infrastructure projects…

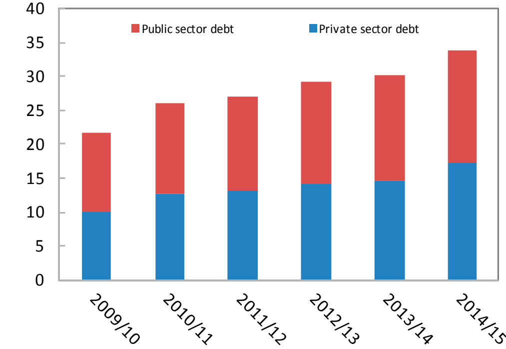


…but reserve coverage is adequate…



*FY 2014/15 for Rwanda was calculated by averaging across CY2014 and CY2015

…and external debt remains sustainable.



Sources: Bank of Uganda and IMF staff calculations.

AUTHORITIES' POLICIES

6. **The authorities proactively tightened the monetary stance to keep inflation under control.** With an increasing inflation forecast following the sharp exchange rate depreciation, the Bank of Uganda (BoU) raised the central bank rate (CBR) by 100 bps in June, 150 bps in July (in an unscheduled meeting), 150 bps in August, and 100 bps in October driving it up to 17 percent. The BoU also temporarily widened the interest rate corridor to +/- 3 percent allowing more room for 7-day interbank rate fluctuations. Lending rates for shilling denominated loans responded quickly by picking up significantly. Although rates for dollar denominated credits declined somewhat, the depreciation led to a stronger preference for shilling loans. Similarly, to protect the value of deposits, the preference to save in dollars increased and contributed to a sharp rise in shilling deposit rates. The upsurge in T-bill rates was significant (about 450 bps between June and September), and would have been higher if full price discovery had been allowed.

Text Table 1. Key Interest Rates
(percent)

	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15
Central Bank Rate	11.0	11.0	11.0	13.0	16.0
7-day interbank market	11.0	11.0	14.1	13.3	18.1
Time deposit (shillings)[1]	10.0	10.5	9.8	10.4	13.1
Lending (shillings)[1]	21.2	20.7	20.1	22.3	23.5
Time deposit (USD)[1]		4.2	4.2	4.0	3.9
Lending (USD)[1]	9.7	10.8	10.4	9.9	8.7
Treasury bill					
91-day	10.0	11.3	12.3	13.4	16.7
182-day	10.9	13.6	13.5	14.5	17.7
364-day	11.3	13.8	13.8	14.8	17.7

1/ Data from August- 15 used when September-15 unavailable.
Source: Bank of Uganda.

7. **BoU's interventions in the foreign exchange market posed challenges.** The decision to keep the program of fixed-quantity dollar purchases to build up reserves while the shilling was persistently declining exacerbated depreciation pressures. The fast shilling decline, in turn, prompted stepped-up sales from the central bank. The BoU, therefore, did not succeed in mitigating exchange rate volatility or building-up reserves, and the ambiguous market signaling generated by the intervention modality allegedly intensified speculative behavior. In September, the BoU replaced the pre-determined purchase system—open only to some banks—by an auction-based mechanism that allows all banks to sell foreign exchange to the central bank. Subsequently, exchange rate pressures have dissipated.

8. **At 4½ percent of GDP, the FY2014/15 fiscal deficit was in line with projections, with higher revenue providing room for additional expenditure.** A better yield of the tax package introduced at the start of the fiscal year, higher import taxes due to the shilling depreciation, and

windfall proceeds from a tax settlement boosted tax revenues. Together with higher grants, this allowed for an accelerated pace of spending, mainly on development spending but also on wages and other current outlays. The long-awaited Karuma and Isimba HPPs got underway, and the BoU recapitalization program resumed, pushing up net lending and investment by 1¾ percent of GDP. Financing modalities were also aligned with expectations, with security issuance in the domestic market amounting to 2 percent of GDP, use of government savings reaching 1½ percent of GDP, and external borrowing—mostly on concessional terms—accounting for about 1 percent of GDP.

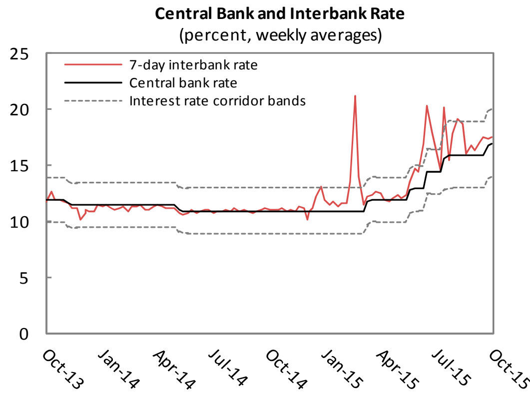
9. **In the first quarter of FY2015/16, however, revenue fell short of expectations, and the composition of spending and deficit financing was altered.** A revenue shortfall—partly seasonal—was observed in most tax categories in the June-September period. Loan insurance and commitment fees for HPPs, originally thought to have been paid last fiscal year, were paid in the first quarter of the current year. At the same time, tight liquidity conditions, the preference to invest in dollars, and general market uneasiness lowered investors' appetite for government securities and significantly raised the demanded yields, particularly on longer-term paper, prompting the authorities to postpone issuances and use a temporary advance from the BoU to finance operations. The higher-than-anticipated HPP spending increased the use of the oil and energy funds held at the central bank. Together, these changes drove a higher-than-planned share of net domestic financing from the central bank in the first quarter of the fiscal year.

10. **The supervisory authorities are monitoring the impact of the declining shilling and rising interest rates on banks' portfolios.** Based on past experience, banks tightened lending standards, driving a slowdown in credit growth (to 9 percent year on year, excluding currency valuation effects). Nonetheless, some banks have been affected by the increase in interbank and deposit rates, and most expect non-performing loans (NPLs), which declined until June, to increase. The BoU updated its stress test analysis; engaged in an exercise—with other EAC countries—to assess effects of global liquidity tightening, declines in commodity prices, and weakening confidence on banks' balance sheets; and completed a crisis management plan that outlines procedures for problem detection and bank resolution. The BoU acted swiftly taking over the management of a bank whose Kenyan parent had been placed on receivership.

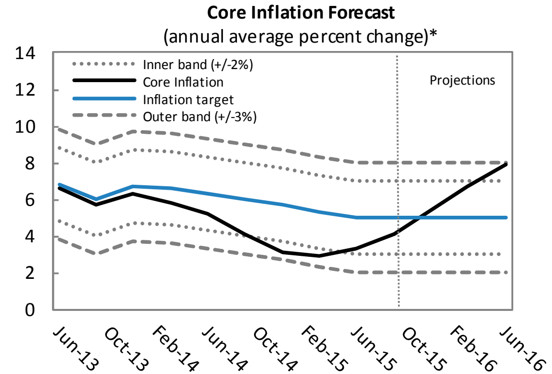
11. **Structural reforms are proceeding, but governance issues and weak institutions continue to pose challenges.** Work on regulations to implement the PFM Act and prepare a charter of fiscal responsibility is underway. However, implementation of the law has been challenged by delays in regulating details on oil revenue management and by the upfront allocation by parliament of the new contingency reserve to non-essential spending. The latter prompted amendments to the PFM Act, now under parliamentary consideration, that could eventually compromise key principles of the law. Weak institutions and governance continue to limit public sector efficiency and affect the business climate. A long-time gray-listing of Uganda by the Financial Action Task Force (FATF), and a recent downgrade in the World Bank's Country Policy and Institutional Assessment (CPIA) rating are some of the consequences. On a positive note, a new social protection policy under cabinet consideration sets the basis for sustainable pensions, expanded social security services to the informal sector, affordable health insurance schemes, and direct income support to vulnerable groups in the future.

Figure 3. Monetary Sector Developments

The interbank rate increased in reaction to the monetary tightening...

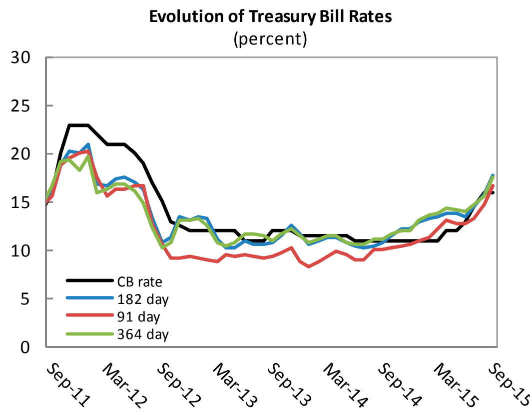


...following a rise in the inflation forecast.

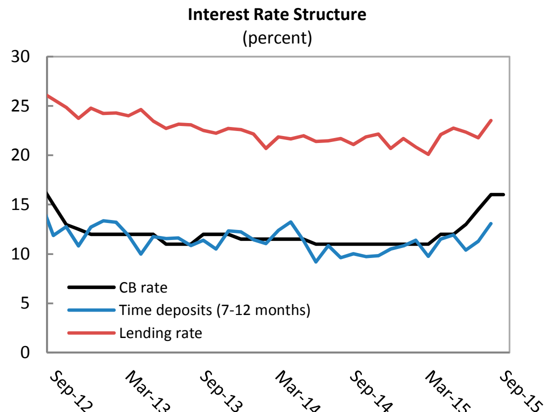


*This is calculated as the 12-month average of the y-o-y percent change of Core CPI.

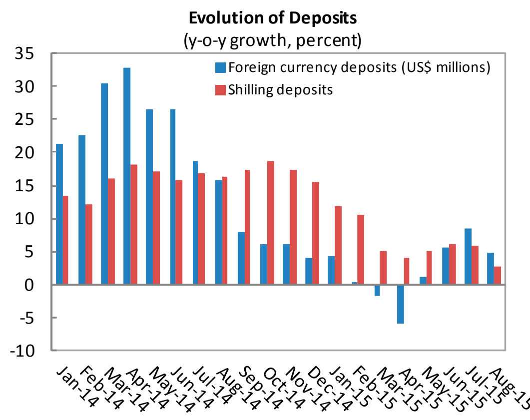
Treasury bill rates have increased...



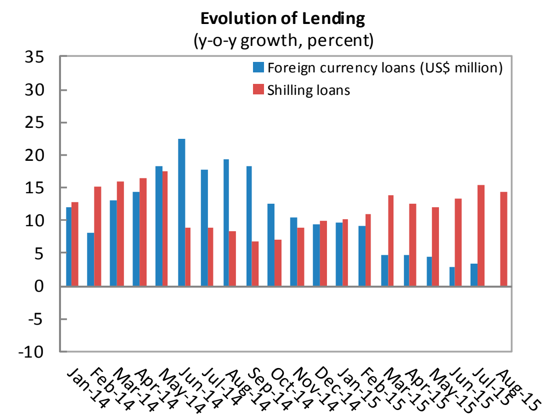
...and the transmission to lending rates is materializing.



Deposit growth has decelerated...



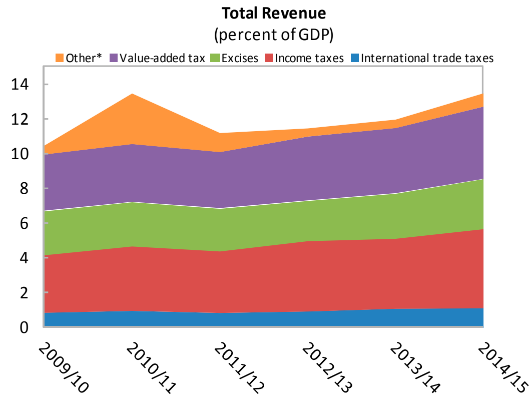
...as has growth in private sector credit.



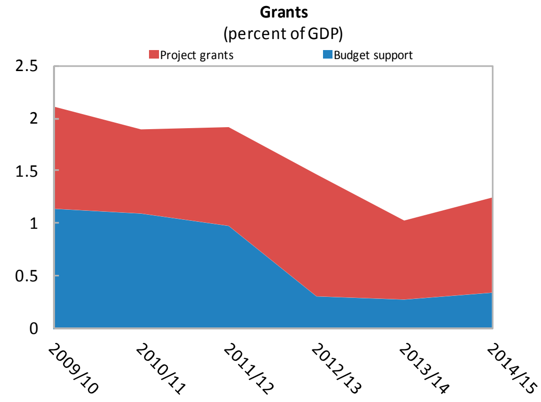
Sources: Bank of Uganda and IMF staff calculations.

Figure 4. Fiscal Sector Developments

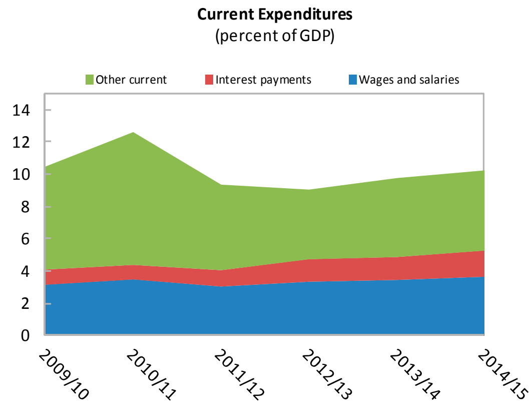
Tax revenues significantly picked up…



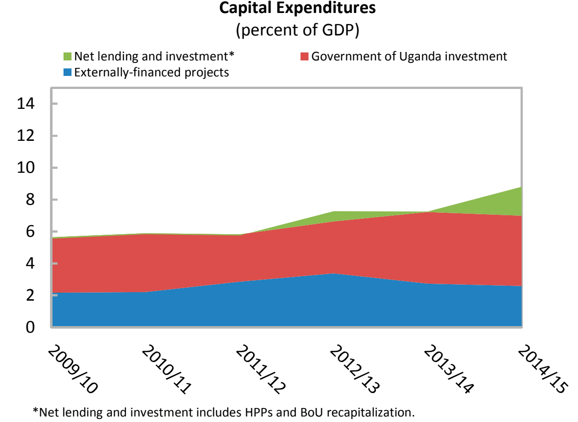
…and grants recovered somewhat but remain low.



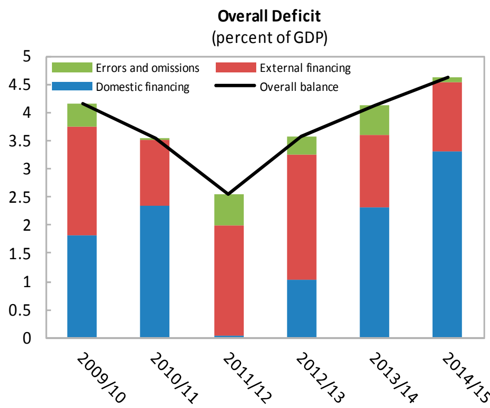
Current expenditures increased mildly…



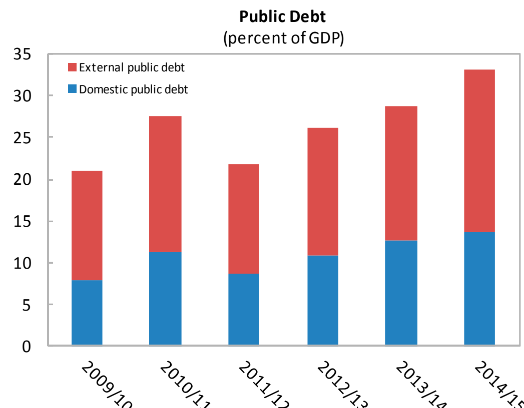
…while capital expenditures were boosted by investment in hydropower projects…



…leading to an expansion in the overall deficit…



…and some increase in public debt.



Sources: Bank of Uganda and IMF staff calculations.

PERFORMANCE UNDER THE PSI

12. **Program performance at end-June 2015 was positive.** Average core inflation reached 3¼ percent in June 2015—well below the central target of the PSI inflation consultation clause. All other end-June and most continuous QACs were observed, with the exception of an unintentional introduction of an MCP when a new auction-based system for foreign exchange purchases was implemented. While the facto spreads in excess of 2 percent did not materialize, the system could have potentially resulted in such deviations. The ITs on the overall fiscal deficit and on withdrawals from the energy and petroleum funds were missed by a small margin. Preliminary data suggests that the reduction in domestic arrears may have exceeded the target, but that the stock itself was larger than previously thought, reflecting obligations vis-à-vis road contractors, court awards, and government taxes.

13. **Progress on structural reforms has been less satisfactory.** The structural benchmark (SB) on the issuance of national ID cards was met, and the FY2015/16 budget appropriated the necessary funds for BoU recapitalization, although the actual recapitalization is deemed to be slightly delayed (SB for October 2015, now set for November 2015). The regulations for implementing the PFM Act have not become effective yet, and the current draft needs significant improvement.[1] Progress to finalize the charter of fiscal responsibility continued, and the draft amendments to the BoU Act, to be submitted to parliament in April 2016, need refinements.

OUTLOOK AND RISKS

14. **Reflecting global and domestic developments, the short and medium-term economic outlook has deteriorated somewhat, but remains satisfactory.**

- ***Growth*** is expected to be lower (5 vs. 5¾ percent projected earlier) in FY2015/16 supported by significant public investment but less dynamic private demand amid tighter monetary and credit conditions and a smaller-than-expected fiscal stimulus (see below). Medium-term growth is set to accelerate albeit by less than previously projected reflecting global concerns and a planned slowdown of public investment to avoid debt sustainability risks.
- Average ***inflation*** is projected at 7.7 percent in FY2015/16 as the effects of the sharp monetary tightening and the lagged exchange rate pass-through interact. Average core inflation would increase to 7.9 percent (within the outer band of the inflation consultation clause) in FY2015/16 and then converge steadily back to the 5 percent medium-term target.
- The ***external current account deficit*** is projected to widen to 9.6 percent of GDP as infrastructure-related imports increase, amid a recovery in exports and contained private imports reflecting the shilling depreciation and low oil prices. With cautious FDI and portfolio

[1] Although in May 2015 staff assessed this SB as met because the draft was finished at the technical level, subsequent rounds of revisions, including from the Solicitor General, have followed.

inflow projections, loan disbursements and use of international reserves—expected to decline to 3.6 months of imports—are projected to finance the deficit. The level of reserves will thereafter gradually recover to an average of 4 months of imports.

Text Table 2. Macroeconomic Outlook

	FY 2012/13	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17
			(Percent)		
Real GDP growth	3.3	4.6	5.0	5.0	5.8
Headline CPI inflation, period average	5.8	6.7	2.7	7.7	6.3
Core CPI inflation, period average	6.6	5.2	3.3	7.9	6.6
			(Percent of GDP, unless otherwise specified)		
External current account balance	-7.5	-8.8	-9.2	-9.6	-10.6
International reserves (stock, months of imports)	4.5	5.1	4.3	3.6	3.8
Overall balance	-3.6	-4.1	-4.6	-6.6	-6.6
Overall deficit excluding large infrastructure projects financed by non-concessional external borrowing and BoU recapitalization[1]	-2.9	-4.1	-3.0	-2.0	-3.0
Policy rate (end of period)	11.0	11.0	13.0		
Credit to the private sector (annual growth, percent)	6.4	13.9	20.4	19.4	15.4

[1] The authorities follow this definition to better assess the impact of the fiscal stance on domestic demand.

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

15. **Risks to the outlook are significant.** Although Uganda has buffers to shield the economy, including adequate international reserves, a sound financial system, and relatively low government debt, it is not immune to the difficult environment that affects the world. Tight global financial conditions, changes in the growth model in China and its potential spillover effects on important trading partners, and the regional geopolitical situation could take an additional toll on Uganda's trade and foreign exchange inflows, and could even affect the pace of disbursement of infrastructure loans. The outlook is also marred by concerns of declining export prices. The election environment could hurt stability and worsen market sentiment.

KEEPING INFLATION IN CHECK

16. **Timely monetary action was successful in limiting the increase in inflation, but further coordination and communication efforts are needed to anchor expectations.** The forecasting capacities of the BoU under the inflation targeting regime proved sound. By starting a sharp monetary tightening well before the rise in inflation, the BoU's forward-looking policy successfully aligned the lags of the depreciation pass-through with the lags in monetary transmission, and signaled its commitment to control inflation. Lending and deposit rates promptly reacted to the increase in the CBR. Supported by the BoU's short-term liquidity provision, banks adapted their business plans swiftly to tighter conditions. The authorities were less successful, however, in anchoring expectations and dissipating market anxieties over excessive spending prior to the elections. BoU's monetary policy statements and fiscal policy intentions were not necessarily well coordinated and understood by the public. Looking forward, the authorities intend to boost fiscal-monetary coordination and communication efforts to complement policies designed to

gradually move core inflation to its 5 percent medium-term target. To further improve the monetary transmission mechanism, the authorities are encouraged to narrow the interest rate corridor as soon as feasible.

17. **A use of foreign exchange reserves will partially finance the shock.** BoU officials expressed concern about the declining reserve trend, as maintaining an average 4½ months of import coverage over the last 4 years helped build credibility. While explaining that the purpose of the foreign exchange purchases was to serve the government's foreign exchange needs and build the reserve buffer, the authorities recognized that the fixed-quantity modality may have exacerbated depreciation pressures. Staff shared its reserve adequacy analysis, which shows that 3½–4 months of import coverage is sufficient for Uganda; analyzed with the authorities the impact of projected government imports on the BoU's foreign exchange cash flow; and advised against fast reserve accumulation amid depressed foreign exchange supply (Annex 2). The authorities were confident that the new foreign exchange auctions will help keep reserves adequate while avoiding volatility and speculation. Requesting a waiver for the temporary non-observance of the MCP continuous assessment criterion, the authorities introduced a mechanism to ensure that purchase prices of foreign exchange will not differ by more than 1 percent among each other and with respect to the interbank rate. They also reaffirmed their commitment to limiting foreign exchange sales to smooth excessive volatility.

ADAPTING FISCAL POLICY TO CHANGING CIRCUMSTANCES

18. **As programmed, fiscal policy continued to support growth in FY2014/15.** Staff welcomed the unprecedented positive tax performance, with revenue surpassing by a large margin the original expectations of an increase of ½ percent of GDP and the revised projections of a 1 percent of GDP surge. Staff enquired, however, whether the approach of spending all additional revenues and grants was a missed opportunity to contribute to the anti-inflationary effort. The authorities explained that expenditure pressures—mainly to conclude public works and pay arrears—intensified in the last quarter of the year. They noted, however, their determination to resist election-related spending to the maximum extent possible, and to adhere to the investment program to avoid undue pressures on inflation or the exchange rate.

19. **Looking forward, the authorities intend to cut spending with respect to the approved budget.** They explained that they plan to contribute to price stability and policy credibility by limiting the fiscal expansion. They also intend to lower domestic financing costs, which have increased as a result of the monetary tightening and nervousness in the market. Avoiding across-the-board cuts, often deemed inefficient, the authorities identified a comprehensive list of sector-specific budget savings, amounting to about ½ percent of GDP. Wages, health, education, development projects that had already begun, and sectors deemed necessary for national security are not being affected. Staff noted that the mix of cuts was more heavily weighted towards development than would be preferred (Annex 3). The authorities indicated that the expenditure

review must be aligned to its political feasibility, especially in an election year, and assured staff that the cuts are credible and will be made without increasing arrears.

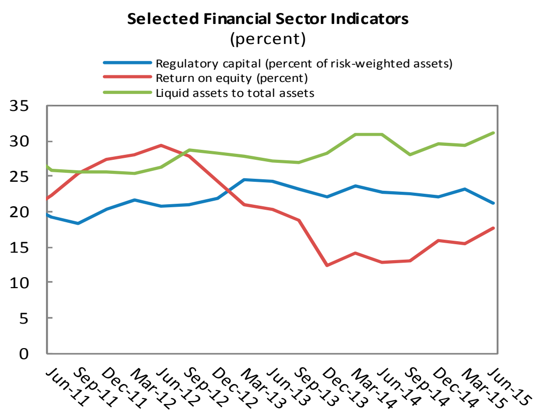
20. **Combined with enhanced tax administration, the planned expenditure cuts should reduce domestic borrowing considerably in FY2015/16.** The overall fiscal deficit is expected to widen by 2 percent of GDP to about 6½ percent (7 percent in the budget). Given that external non-concessional financing of infrastructure is projected at 4 percent of GDP, and that concessional financing of 1¼ percent is expected, the domestically financed deficit would be limited to 1¼ percent of GDP, with security issuances cut to almost one-third of the amount anticipated in the approved budget.[2] Additional grants and the impact of the depreciation on trade taxes should push revenues above nominal budget targets (albeit with a lower yield in percent of GDP), helping achieve the planned domestic financing reduction. Staff emphasized the need to improve tax compliance through better VAT collection on government projects, enhanced audits of high-risk medium and large taxpayers, and upgrades in the automated valuation control system, to complement the recent increase in excise taxes and stamp duties and help reverse the underperformance recorded in the first quarter of the fiscal year. This will require strong efforts by the revenue authority that may be particularly difficult given the upcoming election.

21. **The new financing strategy should also help gradually pay back the temporary advance from the BoU.** Staff expressed concern about the higher-than-usual use of the advance during the first quarter of the year to compensate for insufficient issuances of government paper. The approved advance is aligned to the legal ceiling of 18 percent of revenues (high by international standards, pending the amendments to the BoU Act), and about 30 percent of this amount was used in the first quarter. Confident that the lower financing needs will allow a steady pick up in security issuances, the authorities deem the advance temporary, and proposed to add an IT to limit the quarterly size of the advance, and a SB to set rules and controls in the use of the advance in the charter of fiscal responsibility. Staff recommended avoiding to the extent possible shortening the average maturity of domestic debt to prevent rollover and interest rate risks.

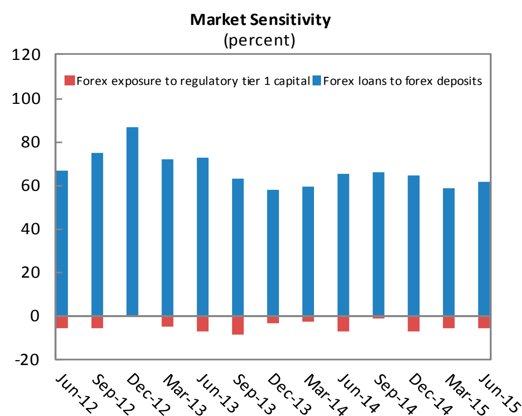
[2] Note that the depreciation increases the shilling value of external project loans and grants, increasing the share of external financing for a given deficit.

Figure 5. Financial Sector Developments

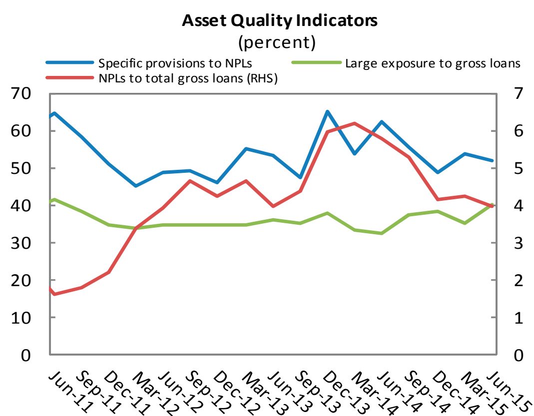
The financial sector remains sound...



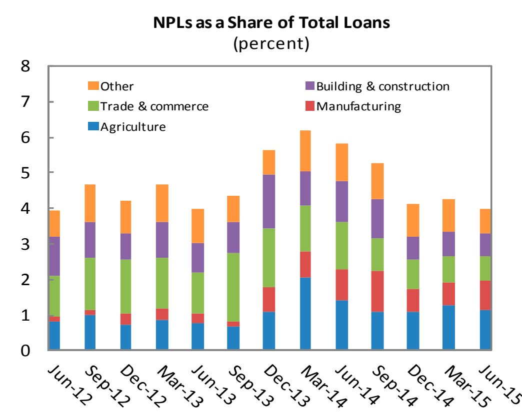
...with foreign exchange exposures contained.



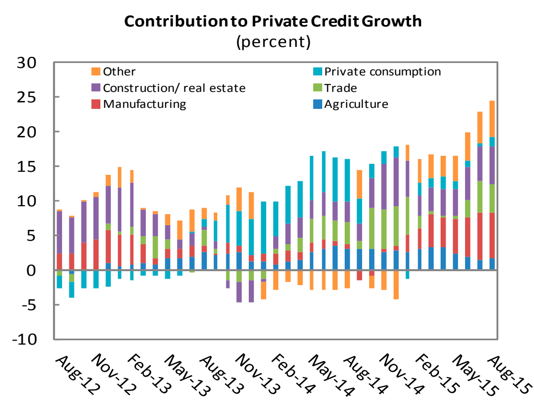
Large exposures concentration increased somewhat, while bad loans declined...



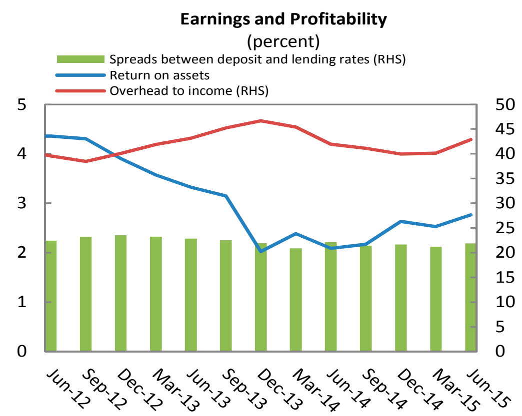
...across various sectors.



The credit portfolio is diversified...



...but spreads between deposit and lending rates remain high.



Sources: Bank of Uganda and IMF staff calculations.

LIMITING FINANCIAL SECTOR RISKS

22. **The declining shilling and rising interest rates made the financial system more vulnerable.** The authorities considered that risks of spillovers from the real to the financial sector are well contained, but agreed to monitor developments closely and keep the crisis management plan active.

- Aware of increased **credit risk** from banks' possible exposure to sectors hurt by the shilling decline (e.g. retail, construction, imports) and to borrowers subject to increasing adjustable lending rates, the BoU is beefing up on-site inspections to enforce regulations. The authorities trust that banks' tight lending standards will result in only moderate increases in NPLs that will be adequately provided for. Their analysis shows that a shock that would raise the NPL ratio to the industry's highest level in the past 10 years would not lead to bank capital shortfalls.
- On **foreign exchange risk,** the authorities' stress tests confirmed that all banks would keep their net open position in foreign currency within required levels even if a depreciation of 100 percent (from the June level) were to occur.
- Banks' **liquidity** is threatened by eventual capital outflows—particularly cross-border related ones—and by domestic liquidity tightening. The authorities' analysis shows that a sudden withdrawal of funds held by offshore clients would keep the system's liquidity well above the threshold of 20 percent.

23. **The BoU continues to make progress in promoting financial inclusion and financial deepening.** Efforts on financial literacy centered on running a pilot tool targeting the youth; continuing the media campaigns in various languages; and rolling out an e-learning facility in partnership with banks. Regarding consumer protection, the BoU continues to enforce compliance with the guidelines. In close coordination with the Uganda Communications Commission, the BoU is making progress on ensuring adequate surveillance of the growing mobile banking activities.

REVISING THE MEDIUM-TERM FISCAL FRAMEWORK

24. **With the objective of ensuring debt sustainability, medium-term investment projects were appropriately re-profiled.** The exchange rate depreciation—which increases external debt denominated in shillings—together with the CPIA downgrade from strong to medium performer—which sets more stringent debt sustainability thresholds—raised Uganda's debt burden. In response, the authorities reduced the programmed medium-term deficits by an average of 0.4 percent of GDP per year over FY2016/17 to FY2019/20, by postponing the start of infrastructure and PPP projects and choosing concessional over non-concessional debt to the extent possible. Noting that the planned scaling-up of investment over the medium term remains significant, despite the project re-phasing, staff restated the need for sound investment decisions—based on technical grounds and not on political considerations—particularly by carefully assessing contingent risks on PPP arrangements.

25. **External debt remains at low risk of distress.** The authorities regard the maintenance of debt sustainability as a key component of their set of buffers and an important credential for the assessment of the economy by creditors and investors. Accordingly, the revised fiscal framework keeps nominal external debt below 36 percent of GDP at all times, with its peak (in present value terms) at 27 percent (see Debt Sustainability Analysis).

26. **Tax revenue gains remain a priority to finance the medium-term investment scale-up.** The authorities plan to raise tax revenues by a minimum of ½ percent of GDP per year over the medium term through a combination of policy and administration measures. Staff recommended resuming tax policy improvements—including the removal of taxpayer-specific exemptions—soon after the election; improving the use of compliance data; deepening action to instate a culture where citizens pay taxes voluntarily knowing they receive good public services in return; and using effective methods to enforce tax compliance. Staff's interaction with multiple counterparts confirmed that taxpayers largely favor a system free of corruption that would be accompanied by visible improvements in the quality of spending.

27. **The authorities intend to protect safeguards for the poor.** The government committed to preserving poverty-reducing spending despite the budget cuts. Noting that the temporary rise in inflation will disproportionally affect the poor, staff welcomed this approach as well as the new social protection policy expected to be approved by cabinet before the end of the fiscal year. The new policy signals an improved strategy to deal with the most vulnerable by allocating budgetary funds to supplement those already provided by development partners, and ensuring predictable financing for this cause over the medium term.

OVERHAULING STRUCTURAL REFORMS

28. **The structural reform agenda will benefit from decisions on the following fronts:**

- ***Preserving the principles of the PFM Act and completing regulations to facilitate its implementation.*** Staff recommended revising the amendments to the PMF Act to clarify that BoU advances should not extend beyond the fiscal year, avoid excessive discretion by the executive on budget decisions, and keep the rationale for the contingency reserve. Regulations should address the existing gaps in the PFM Act, especially in the area of resource revenue management. The authorities indicated that the principles of the PFM Act will be retained.
- ***Auditing domestic arrears to reconcile differences between the stocks and the flows.*** Information that the FY2013/14 stock of arrears may have been higher than previously reported is a matter of concern, particularly because, as stated by the Auditor General, accumulation of arrears could reflect governance weaknesses. The authorities explained that arrears management proved harder than anticipated because of the difficulty of differentiating legitimate from illegitimate payments; were confident that the ongoing special audit—based on strict instructions to accounting officers—will yield positive results; and committed to promptly publish its results.

- ***Approving and implementing public investment guidelines.*** The emphasis on public investment calls for detailed guidelines on project appraisal, selection and impact. With World Bank support and a revamped organizational structure in the Ministry of Finance, the authorities are preparing these guidelines.
- ***Making progress on the implementation of the Treasury Single Account (TSA).*** Donors' hesitation to agree on a common disbursement method amid limited capacity of the systems to track project accounts has delayed the implementation of the pilot program for donor account integration. Meanwhile, officials have shifted their focus to incorporating local governments into the TSA system. Fourteen local governments have been added, with plans to increase this amount to 30 by March 2016.
- ***Ensuring that the amendments to the BoU contribute to enhancing its independence.*** The amendments under discussion are set to address threats from fiscal dominance, including provisions to set the BoU's capital as a share of its monetary liabilities (as opposed to the current fixed amount), and improve its governance structure.
- ***Speeding up the approval of the amendments to the Financial Institutions Act.*** The bill, now with parliament, revises capital requirements in line with Basel III (capital conservation, countercyclical buffers, and higher capital requirements for systemically important banks); introduces agent and Islamic banking practices; and reforms the deposit protection fund.
- ***Streamlining the operational and administrative costs of the BoU.*** Tighter control of these outlays will build credibility of the inflation targeting central bank and reinforce support for the ongoing recapitalization. A memorandum of understanding between the BoU and the Ministry of Finance to this end is yet to be agreed upon.
- ***Making further progress on AML/CFT commitments agreed with the FATF.*** Uganda continues to be gray-listed by the FATF due to strategic AML/CFT deficiencies. Key outstanding actions include the criminalization of individual terrorists, expansion of scope of records required, and greater exchange of information with foreign counterparts. The authorities are also encouraged to establish a legal framework for freezing terrorist assets, and ensure adequate AML/CFT supervision of the financial sector.

STAFF APPRAISAL

29. **Economic developments have withstood global and regional challenges, and election-related uncertainties; and program performance has been generally favorable.** End-June fiscal, external, and inflation targets were achieved, and progress was made on the structural front. In response to the worsening inflation outlook induced by the shilling depreciation, the authorities are rightly tightening policies. Continuing to adapt monetary policy to the inflation forecast resulting from price, exchange rate, and output developments; reducing the fiscal expansion and borrowing needs; and financing part of the shock through the use of reserves are expected to preserve program objectives and calm the markets. The authorities are urged to strengthen fiscal-monetary coordination; build credibility by clearly communicating to the public

the rationale for their policies; strengthen buffers when possible; and stand ready to adjust policies further if downward risks to the outlook materialize.

30. **The BoU's proactive monetary tightening has been successful.** Timely monetary action by the BoU showcased its ability to conduct forward–looking monetary policy and its determination to control inflation. The transmission of the policy rate to market rates is working well, reflecting recent improvements. The new market-determined auction-based foreign exchange purchase system is expected to help improve market signaling, mitigate excessive exchange rate volatility, and build reserves gradually. The BoU is encouraged to deepen action to ensure financial sector soundness in the face of adverse shocks by closely assessing banks' risks, frequently monitoring the quality of banks' lending portfolio, and strictly enforcing provisioning.

31. **Building on recent revenue gains and resisting election-related spending pressures remains essential.** The impressive tax revenue performance in FY2014/15 is welcome, and the authorities are strongly encouraged to further enhance tax compliance and enforcement. They are also advised to avoid resorting to supplementary budgets, refrain from further reallocations from development to current spending, and protect social outlays to contribute to poverty reduction. Staff urges strict adherence to the reduced fiscal expansion and prompt resumption of security issuances at market rates. This would facilitate timely repayment of the BoU's advance to the government to avoid hampering the functioning of the inflation targeting regime, and would deter the risk of crowding out credit to the private sector.

32. **The medium-term outlook is auspicious supported by revenue gains, oil production, regional integration, and infrastructure investment.** There is a need to raise the tax-to-GDP ratio to move it closer to international standards, close tax loopholes by eliminating the remaining tax-specific exemptions, and seriously enforce tax payments. Future oil revenues should only complement a broad tax base, and not become indispensable. Progress on regional integration should be aligned to the accomplishment of program objectives. The authorities are encouraged to select, assess, and sequence infrastructure projects appropriately, mobilize the best possible financing terms, and ensure consistency of the investment plan with fiscal and debt sustainability. Contingent liabilities should be properly assessed and government guarantees must be avoided.

33. **The authorities are urged to make progress on structural reforms.** To avoid setbacks in PFM reform and facilitate its implementation, it is imperative that the authorities revise any amendments that would weaken the original provisions, and strengthen the regulations under preparation. The contingency reserve should be used solely for unforeseen events, and resort to central bank financing should be limited for temporary cash flow gaps. An exhaustive audit of domestic arrears is essential to allow for proper fiscal policy assessment and strengthened governance. The completion of the charter of fiscal responsibility and further improvements in the use of the TSA are critical steps for enhancing public sector efficiency. The amendments to the BoU Act to strengthen BoU's independence, a tightening of the BoU's administrative costs, and the plans to further comply with AML/CFT requirements should be promptly implemented.

34. **Staff recommends completing the fifth review of the PSI-supported program**. The attached MEFP outlines the macroeconomic objectives and policies for the period ahead and

proposes rescheduling some structural benchmarks to take account of ongoing progress. Staff supports the authorities' requested changes to the program and the waiver of the nonobservance of the continuous assessment criterion on the introduction of an MCP. In line with the new debt limits policy, the QACs on limits to short-term external debt and on non-concessional external debt with maturities greater than one year are proposed to be eliminated while modifying the treatment of the overall deficit from an IT to a QAC. The QAC on net domestic financing is proposed to be eliminated, and replaced by an IT on the ceiling on cumulative changes in temporary advances from the BoU to the central government, which is now deemed more important to achieve the stability objectives. End-December 2015 and end-March 2016 overall deficit targets are proposed to be revised downwards to reflect the projected less expansionary fiscal stance. End-December 2015 and end-March 2016 targets on reserve accumulation are proposed to be lowered as reserves are expected to be partly used to finance the shocks.

Table 1. Uganda: Selected Economic and Financial Indicators, FY2011/12–2019/20 [1,2]

	2011/12	2012/13	2013/14	2014/15		2015/16		2016/17	2017/18	2018/19	2019/20
				4th Rev	Prel.	4th Rev	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)										
Output, prices, and exchange rate											
Real GDP	4.4	3.3	4.6	5.3	5.0	5.8	5.0	5.8	6.1	6.3	6.5
GDP deflator	20.9	4.1	2.3	4.4	4.2	5.1	8.2	4.0	3.2	3.8	4.0
CPI (period average)	23.5	5.8	6.7	2.7	2.7	5.5	7.7	6.3	5.0	5.0	5.0
CPI (end of period)	18.0	3.6	5.0	5.6	4.9	6.4	8.0	5.6	5.0	5.0	5.0
Core inflation (end of period)	19.6	5.7	2.9	6.1	4.9	6.7	7.7	5.7	5.0	5.0	5.0
Core inflation (period average)	24.6	6.6	5.2	3.5	3.3	6.3	7.9	6.6	5.0	5.0	5.0
Terms of trade (deterioration, -)	3.5	-8.2	2.5	3.3	5.9	0.9	1.2	-2.7	-1.7	-1.3	-0.9
Exchange Rate (Ugandan Shilling/US$)	10.1	1.3	-2.0	...	11.4	...	...	...	...	...	...
Real effective exchange rate (depreciation, -)	-19.9	2.2	-2.4	...	-9.4	...	...	...	...	...	...
Money and credit											
Broad money (M3)	7.2	6.6	17.4	14.2	15.9	16.3	14.0	15.0	15.7	16.0	14.6
Credit to non-government sector	11.5	6.4	13.9	15.7	20.4	15.0	19.4	15.4	15.6	15.2	15.2
Bank of Uganda policy rate [3]	20.0	11.0	11.0	...	13.0	...	...	...	...	...	...
M3/GDP (percent)	19.0	18.9	20.7	21.5	21.9	22.5	22.0	23.0	24.3	25.5	26.4
NPLs (percent of total loans)	3.9	4.0	5.8	...	4.0	...	...	...	...	...	...
	(Percent of GDP, unless otherwise indicated)										
Central government budget											
Revenue and grants	13.1	12.9	13.0	14.1	14.8	15.1	15.7	15.8	15.8	16.0	16.5
Of which: grants	1.9	1.5	1.0	1.1	1.2	1.6	1.9	1.6	1.0	0.7	0.6
Expenditure	15.6	16.5	17.1	18.6	19.4	22.1	22.3	22.4	22.0	21.9	21.1
Current	9.4	9.1	9.8	10.0	10.3	10.4	10.3	10.2	10.2	10.5	10.6
Capital [4]	5.8	6.6	7.3	7.9	8.5	11.3	11.7	11.5	11.2	10.8	10.0
Primary balance	-1.5	-2.2	-2.7	-2.9	-3.0	-5.0	-4.5	-4.4	-3.8	-3.3	-2.0
Overall balance	-2.5	-3.6	-4.1	-4.5	-4.6	-7.0	-6.6	-6.6	-6.2	-5.9	-4.7
Excluding grants	-4.5	-5.0	-5.1	-5.6	-5.9	-8.6	-8.6	-8.1	-7.2	-6.6	-5.3
Net domestic borrowing	0.0	1.0	2.3	3.4	3.3	2.0	1.3	1.4	0.6	0.7	0.6
Public debt											
Public gross nominal debt	22.0	26.2	28.9	31.9	33.1	36.0	38.8	38.7	42.0	44.5	45.6
of which: external public debt	13.2	15.2	16.1	18.2	19.3	21.8	25.8	25.5	29.3	32.4	34.0
Investment and savings	10.5	7.8	9.1	9.3	9.6	11.2	10.0	10.9	10.7	12.4	13.5
Investment	28.2	29.5	29.0	31.4	31.5	35.3	34.3	35.4	36.1	36.5	36.9
Public	6.7	7.0	5.8	6.3	6.7	9.1	9.4	9.3	9.1	8.8	8.2
Private	21.5	22.5	23.1	25.1	24.8	26.2	25.0	26.0	27.0	27.7	28.7
Savings	17.7	21.7	19.9	22.1	21.9	24.1	24.3	24.4	25.4	24.2	23.4
Public	2.4	3.1	1.4	1.4	1.5	1.8	2.2	2.4	2.6	2.7	3.3
Private	15.3	18.6	18.5	20.7	20.4	22.3	22.1	22.0	22.8	21.5	20.1
External sector											
Exports (goods and services)	20.2	20.5	18.8	19.7	18.8	20.5	23.1	21.8	20.8	21.5	21.7
Imports (goods and services)	33.1	30.7	28.8	29.8	30.1	32.1	35.4	34.2	32.4	34.4	35.7
Current account balance (including grants)	-9.5	-7.5	-8.8	-8.9	-9.2	-11.0	-9.6	-10.6	-10.4	-12.1	-13.3
Current account balance (excluding grants)	-10.5	-7.8	-9.1	-9.3	-9.6	-11.3	-10.0	-10.9	-10.7	-12.4	-13.5
Gross international reserves											
In billions of US$	2.6	2.9	3.4	2.9	2.9	3.2	2.6	3.0	3.6	4.2	4.6
In months of next year imports	4.2	4.5	5.1	4.0	4.3	3.9	3.6	3.8	4.0	4.1	4.4
Memorandum items:											
GDP at current market prices											
Billion of Ugandan shillings	59,420	63,905	68,371	75,183	74,765	83,596	84,984	93,473	102,407	113,001	125,168
US$ million	23,237	24,663	26,939	...	26,441	...	...	...	...	...	...
GDP per capita (Nominal US$)	640	656	696	682	663	668	555	617	679	715	753
Population (million)	36.3	37.6	38.7	...	39.9	...	...	...	...	...	...
Share of population below poverty line (percent)	...	19.7	...	...	...	...	...	...	...	...	...

Sources: Ugandan authorities and IMF staff estimates and projections.

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

[2] All figures are based on the 2009/10 rebased GDP released in November 2014.

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

[4] Capital expenditures include net lending and investment on hydropower projects, and excludes BoU recapitalization and other spending.

Table 2a. Uganda: Fiscal Operations of the Central Government, FY2011/12–2019/20 [1,2]

(Billions of Ugandan Shillings)

	2011/12	2012/13	2013/14	2014/15		2015/16		2016/17	2017/18	2018/19	2019/20
				4th Rev	Prel.	4th Rev	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	7,771	8,245	8,868	10,618	11,045	12,631	13,306	14,811	16,170	18,132	20,602
Revenue	6,634	7,309	8,165	9,799	10,114	11,333	11,659	13,345	15,172	17,330	19,793
Tax	5,983	7,005	7,831	9,397	9,542	10,814	11,106	12,705	14,431	16,515	18,895
International trade taxes	503	599	747	879	838	1,073	1,165	1,435	1,637	2,030	2,431
Income taxes	2,112	2,588	2,756	3,314	3,402	3,719	3,629	4,199	4,840	5,370	6,094
Excises	1,446	1,466	1,757	2,025	2,128	2,397	2,575	2,896	3,279	3,657	4,077
Value-added tax	1,921	2,353	2,570	3,118	3,117	3,556	3,664	4,096	4,592	5,355	6,173
Infrastructure levy	...	...	...	60	57	68	72	79	83	102	120
Nontax	259	304	334	402	452	519	553	639	741	815	899
Oil revenue	392	0	0	0	120	0	0	0	0	0	0
Grants	1,137	936	702	819	931	1,299	1,647	1,467	998	802	809
Budget support[3]	581	199	191	260	258	253	392	310	267	289	297
Project grants	556	738	511	559	673	1,046	1,255	1,156	731	513	512
Expenditures and net lending[4]	9,281	10,523	11,684	13,988	14,494	18,503	18,943	20,942	22,514	24,780	26,439
Current expenditures	5,584	5,813	6,706	7,550	7,689	8,681	8,757	9,536	10,486	11,908	13,258
Wages and salaries	1,832	2,160	2,385	2,668	2,759	2,894	2,894	3,190	3,445	3,919	4,358
Interest payments	603	890	970	1,199	1,213	1,688	1,804	2,062	2,480	2,905	3,272
Other current	3,150	2,763	3,351	3,682	3,717	4,099	4,059	4,284	4,562	5,085	5,628
Development expenditures	3,458	4,237	4,937	4,881	5,230	7,177	7,373	8,956	9,270	11,307	12,461
Externally-financed projects	1,701	2,163	1,871	1,652	1,933	3,361	3,917	4,323	4,804	5,957	6,145
Of which: Non-concessional borrowing						989	1,236	1,156	2,788	3,223	3,608
Government of Uganda investment	1,756	2,074	3,066	3,229	3,296	3,816	3,456	4,633	4,465	5,350	6,316
Net lending and investment	-39	409	21	1,346	1,350	2,472	2,734	2,130	2,253	1,010	90
Hydro-power projects	0	0	21	1,096	1,100	2,272	2,534	1,780	2,153	910	90
Of which: Non-concessional borrowing	0	0	0	0	0	2,229	2,290	1,763	2,153	910	90
Bank of Uganda recapitalization[5]	0	410	0	250	250	200	200	350	100	100	0
Other spending	278	63	20	212	225	173	80	320	505	555	630
Clearance of domestic arrears	278	63	20	212	225	80	80	80	80	80	80
Contingency	0	0	0	0	0	93	0	240	425	475	550
Overall balance	-1,510	-2,277	-2,816	-3,371	-3,449	-5,872	-5,637	-6,130	-6,343	-6,647	-5,837
Financing	1,191	2,084	2,463	3,371	3,398	5,872	5,637	6,130	6,343	6,647	5,837
External financing (net)	1,171	1,418	887	845	919	4,203	4,555	4,789	5,769	5,852	5,126
Disbursement	1,374	1,628	1,128	1,093	1,177	4,545	4,952	5,199	6,225	6,354	5,723
Budget support	126	324	0	0	0	0	0	269	0	0	0
Concessional project loans	1,056	1,303	1,128	1,093	1,177	1,326	1,426	2,011	1,285	2,221	2,025
Non-concessional borrowing	192	0	0	0	0	3,219	3,526	2,919	4,940	4,133	3,698
Amortization (–)	-193	-200	-212	-235	-244	-327	-389	-415	-459	-504	-616
Exceptional financing	-10	-10	-30	-13	-14	-15	-8	6	2	3	18
Domestic financing (net)	20	666	1,576	2,526	2,479	1,669	1,083	1,341	574	795	711
Bank financing	-1,242	508	647	1,526	1,284	982	819	667	225	315	200
Bank of Uganda[6]	-1,182	-77	-198	1,140	1,060	284	556	367	100	100	0
Of which: Petroleum fund withdrawals	0	-21	-2	347	422	43	166	215	0	0	0
Of which: Energy fund withdrawals	88	-466	26	748	558	0	190	0	0	0	0
Of which: Government Securities[5]	0	410	0	250	250	200	200	350	100	100	0
Commercial banks	-60	585	845	386	224	698	263	300	125	215	200
Nonbank financing	1,262	158	930	1,000	1,195	687	264	674	349	481	511
Errors and omissions/financing gap (- is gap, + is surplus)	-319	-193	-352	0	-51	0	0	0	0	0	0
Memorandum Items:											
Overall deficit excluding large infrastructure projects financed by non-concessional external borrowing and BoU recapitalization	-1,942	-1,868	-2,795	-2,025	-2,219	-2,410	-1,668	-2,844	-1,303	-2,414	-2,139
Petroleum Fund (end period stock)	1,585	1,606	1,608	1,261	1,186	1,218	1,020	1,003	1,003	1,003	1,003
Energy fund (end period stock)	308	775	748	0	190	0	0	0	0	0	0
Public domestic debt[7]	5,206	7,033	8,798	10,288	10,321	11,872	11,048	12,372	12,946	13,741	14,452

Sources: Ugandan authorities and IMF staff estimates and projections.

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

[2] All figures are based on the 2009/10 rebased GDP released in November 2014.

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

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

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

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

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

Table 2b. Uganda: Fiscal Operations of the Central Government, FY2011/12–2019/20 [1,2]

(Percent of GDP)

	2011/12	2012/13	2013/14	2014/15		2015/16		2016/17	2017/18	2018/19	2019/20
				4th Rev	Prel.	4th Rev	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	13.1	12.9	13.0	14.1	14.8	15.1	15.7	15.8	15.8	16.0	16.5
Revenue	11.2	11.4	11.9	13.0	13.5	13.6	13.7	14.3	14.8	15.3	15.8
Tax	10.1	11.0	11.5	12.5	12.8	12.9	13.1	13.6	14.1	14.6	15.1
International trade taxes	0.8	0.9	1.1	1.2	1.1	1.3	1.4	1.5	1.6	1.8	1.9
Income taxes	3.6	4.0	4.0	4.4	4.5	4.4	4.3	4.5	4.7	4.8	4.9
Excises	2.4	2.3	2.6	2.7	2.8	2.9	3.0	3.1	3.2	3.2	3.3
Value-added tax	3.2	3.7	3.8	4.1	4.2	4.3	4.3	4.4	4.5	4.7	4.9
Infrastructure levy	…	…	…	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Nontax	0.4	0.5	0.5	0.5	0.6	0.6	0.7	0.7	0.7	0.7	0.7
Oil revenue	0.7	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Grants	1.9	1.5	1.0	1.1	1.2	1.6	1.9	1.6	1.0	0.7	0.6
Budget support[3]	1.0	0.3	0.3	0.3	0.3	0.3	0.5	0.3	0.3	0.3	0.2
Project grants	0.9	1.2	0.7	0.7	0.9	1.3	1.5	1.2	0.7	0.5	0.4
Expenditures and net lending[4]	15.6	16.5	17.1	18.6	19.4	22.1	22.3	22.4	22.0	21.9	21.1
Current expenditures	9.4	9.1	9.8	10.0	10.3	10.4	10.3	10.2	10.2	10.5	10.6
Wages and salaries	3.1	3.4	3.5	3.5	3.7	3.5	3.4	3.4	3.4	3.5	3.5
Interest payments	1.0	1.4	1.4	1.6	1.6	2.0	2.1	2.2	2.4	2.6	2.6
Other current	5.3	4.3	4.9	4.9	5.0	4.9	4.8	4.6	4.5	4.5	4.5
Development expenditures	5.8	6.6	7.2	6.5	7.0	8.6	8.7	9.6	9.1	10.0	10.0
Externally-financed projects	2.9	3.4	2.7	2.2	2.6	4.0	4.6	4.6	4.7	5.3	4.9
Of which: Non-concessional borrowing						1.2	1.5	1.2	2.7	2.9	2.9
Government of Uganda investment	3.0	3.2	4.5	4.3	4.4	4.6	4.1	5.0	4.4	4.7	5.0
Net lending and investment	-0.1	0.6	0.0	1.8	1.8	3.0	3.2	2.3	2.2	0.9	0.1
Hydro-power projects	0.0	0.0	0.0	1.5	1.5	2.7	3.0	1.9	2.1	0.8	0.1
Of which: Non-concessional borrowing	0.0	0.0	0.0	0.0	0.0	2.7	2.7	1.9	2.1	0.8	0.1
Bank of Uganda recapitalization[5]	0.0	0.6	0.0	0.3	0.3	0.2	0.2	0.4	0.1	0.1	0.0
Other spending	0.5	0.1	0.0	0.3	0.3	0.2	0.1	0.3	0.5	0.5	0.5
Clearance of domestic arrears	0.5	0.1	0.0	0.3	0.3	0.1	0.1	0.1	0.1	0.1	0.1
Contingency	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.3	0.4	0.4	0.4
Overall balance	-2.5	-3.6	-4.1	-4.5	-4.6	-7.0	-6.6	-6.6	-6.2	-5.9	-4.7
Financing	2.0	3.3	3.6	4.5	4.5	7.0	6.6	6.6	6.2	5.9	4.7
External financing (net)	2.0	2.2	1.3	1.1	1.2	5.0	5.4	5.1	5.6	5.2	4.1
Disbursement	2.3	2.5	1.7	1.5	1.6	5.4	5.8	5.6	6.1	5.6	4.6
Budget support	0.2	0.5	0.0	0.0	0.0	0.0	0.0	0.3	0.0	0.0	0.0
Concessional project loans	1.8	2.0	1.7	1.5	1.6	1.6	1.7	2.2	1.3	2.0	1.6
Non-concessional borrowing	0.3	0.0	0.0	0.0	0.0	3.9	4.1	3.1	4.8	3.7	3.0
Amortization (–)	-0.3	-0.3	-0.3	-0.3	-0.3	-0.4	-0.5	-0.4	-0.4	-0.4	-0.5
Exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing (net)	0.0	1.0	2.3	3.4	3.3	2.0	1.3	1.4	0.6	0.7	0.6
Bank financing	-2.1	0.8	0.9	2.0	1.7	1.2	1.0	0.7	0.2	0.3	0.2
Bank of Uganda[6]	-2.0	-0.1	-0.3	1.5	1.4	0.3	0.7	0.4	0.1	0.1	0.0
Of which: Petroleum fund withdrawals	0.0	0.0	0.0	0.5	0.6	0.1	0.2	0.2	0.0	0.0	0.0
Of which: Energy fund withdrawals	0.1	-0.7	0.0	1.0	0.7	0.0	0.2	0.0	0.0	0.0	0.0
Of which: Government Securities[5]	0.0	0.6	0.0	0.3	0.3	0.2	0.2	0.4	0.1	0.1	0.0
Commercial banks	-0.1	0.9	1.2	0.5	0.3	0.8	0.3	0.3	0.1	0.2	0.2
Nonbank financing	2.1	0.2	1.4	1.3	1.6	0.8	0.3	0.7	0.3	0.4	0.4
Errors and omissions/financing gap (- is gap, + is surplus)	-0.5	-0.3	-0.5	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items:											
Overall deficit excluding large infrastructure projects financed by non-concessional external borrowing and BoU recapitalization	-3.3	-2.9	-4.1	-2.7	-3.0	-2.9	-2.0	-3.0	-1.3	-2.1	-1.7
Petroleum Fund (end period stock)	2.7	2.5	2.4	1.7	1.6	1.5	1.2	1.1	1.0	0.9	0.8
Energy fund (end period stock)	0.5	1.2	1.1	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Public domestic debt[7]	8.8	11.0	12.9	13.7	13.8	14.2	13.0	13.2	12.6	12.2	11.5

Sources: Ugandan authorities and IMF staff estimates and projections.

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

[2] All figures are based on the 2009/10 rebased GDP released in November 2014.

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

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

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

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

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

Table 2c. Uganda: Quarterly Fiscal Operations of the Central Government, FY 2014/15–2015-16 [1,2]

(Billions of Ugandan Shillings)

	2014/15					2015/16				
	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual
	Prel.	Prel.	Prel.	Prel.	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	2,413	2,895	2,567	3,170	11,045	2,837	3,752	3,097	3,620	13,306
Revenue	2,156	2,555	2,416	2,987	10,114	2,515	3,030	2,838	3,276	11,659
Tax	2,048	2,434	2,311	2,750	9,542	2,392	2,890	2,715	3,109	11,106
International trade taxes	195	219	205	219	838	310	323	293	239	1,165
Income taxes	648	925	722	1,106	3,402	610	962	901	1,156	3,629
Excises	475	519	545	590	2,128	568	715	680	612	2,575
Value-added tax	717	755	825	820	3,117	886	872	823	1,083	3,664
Infrastructure levy	13	15	14	15	57	18	18	18	18	72
Nontax	108	121	105	118	452	123	140	123	167	553
Oil revenue	0	0	0	120	120	0	0	0	0	0
Grants	257	340	152	182	931	322	722	259	344	1,647
Budget support[3]	63	104	53	38	258	158	72	92	70	392
Project grants	193	236	99	145	673	164	650	167	274	1,255
Expenditures and net lending	4,163	3,185	2,945	4,201	14,494	3,853	5,082	4,565	5,443	18,943
Current expenditures	1,689	1,888	1,852	2,261	7,689	1,939	2,106	2,182	2,530	8,757
Wages and salaries	642	681	685	750	2,759	706	714	717	757	2,894
Interest payments	279	299	306	329	1,213	437	459	443	465	1,804
Other current	768	908	860	1,181	3,717	796	933	1,022	1,308	4,059
Development expenditures	1,326	1,207	1,028	1,669	5,230	1,293	2,053	1,901	2,126	7,373
Externally-financed projects	528	480	342	583	1,933	546	1,048	461	626	3,917
Of which: Non-concessional borrowing						0	260	450	526	1,236
Government of Uganda investment	798	726	687	1,085	3,296	747	745	990	974	3,456
Net lending and investment	1,135	15	17	183	1,350	601	904	441	788	2,734
Other spending	13	75	48	88	225	20	19	41	0	80
Overall balance	-1,750	-289	-378	-1,032	-3,449	-1,016	-1,330	-1,468	-1,823	-5,637
Financing	1,623	467	537	771	3,398	1,016	1,330	1,468	1,823	5,637
External financing (net)	209	232	211	267	919	646	1,258	1,105	1,545	4,555
Disbursement	275	291	280	331	1,177	739	1,352	1,176	1,686	4,952
Concessional project loans	275	291	280	331	1,177	382	398	294	352	1,426
Non-concessional borrowing	0	0	0	0	0	357	954	881	1,334	3,526
Amortization (–)	-60	-59	-63	-62	-244	-84	-96	-71	-139	-389
Exceptional financing	-6	-1	-6	-1	-14	-8	2	0	-2	-8
Domestic financing (net)	1,414	235	326	504	2,479	370	72	363	278	1,083
Bank financing	1,122	-77	-39	278	1,284	483	-48	185	199	819
Bank of Uganda	666	67	-34	361	1,060	593	-158	40	81	556
Commercial banks	456	-144	-5	-83	224	-110	110	145	118	263
Nonbank financing	292	312	365	226	1,195	-113	120	178	79	264
Errors and omissions/financing gap (- is gap, + is surplus)	-128	177	159	-261	-51	0	0	0	0	0
Memorandum Items:										
Overall deficit excluding large infrastructure projects financed by non-concessional external borrowing and BoU recapitalization	-615	-275	-361	-968	-2,219	-415	-166	-577	-510	-1,668

Sources: Ugandan authorities and IMF staff estimates and projections.

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

[2] All figures are based on the 2009/10 rebased GDP released in November 2014.

[3] Include mainly HIPC-related grants from FY 2014/15 onwards.

Table 3. Uganda: Monetary Accounts, FY2011/12–FY2019/20 [1, 2]

(Billion of Ugandan Shillings unless otherwise indicated)

	2011/12	2012/13	2013/14	2014/15		2015/16		2016/17	2017/18	2018/19	2019/20
				4th Rev	Prel.	4th Rev	Proj.	Proj.	Proj.	Proj.	Proj.
Depository Corporations Survey[3]											
Net foreign assets	7,901	8,427	8,851	9,319	9,656	9,768	10,699	10,280	11,336	12,845	14,116
Bank of Uganda	6,845	8,305	9,455	9,411	10,092	10,340	10,809	10,702	13,108	15,348	17,188
Commercial banks	1,056	122	-604	-91	-436	-572	-111	-422	-1,773	-2,503	-3,073
Net domestic assets	3,395	3,621	5,291	6,824	6,733	9,015	7,984	11,214	13,528	15,990	18,920
Claims on public sector (net)[4]	-496	-17	623	2,171	1,911	3,153	2,738	3,405	3,630	3,945	4,145
Claims on central government (net)	-569	-105	539	2,073	1,827	3,055	2,654	3,321	3,546	3,861	4,061
Claims on the private sector	7,532	8,011	9,124	10,553	10,986	12,141	13,116	15,132	17,490	20,151	23,213
Other items (net)[5,6]	-3,641	-4,373	-4,456	-5,900	-6,163	-6,279	-7,870	-7,323	-7,593	-8,106	-8,438
Money and quasi-money (M3)	11,296	12,047	14,142	16,144	16,389	18,783	18,683	21,494	24,863	28,835	33,036
Broad money (M2)	7,721	8,932	10,195	11,348	11,095	13,569	12,050	14,186	17,653	21,280	25,041
Foreign exchange deposits	3,575	3,115	3,947	4,796	5,294	5,214	6,632	7,308	7,210	7,555	7,995
Bank of Uganda											
Net foreign assets	6,845	8,305	9,455	9,411	10,092	10,340	10,809	10,702	13,108	15,348	17,188
Net domestic assets	-3,832	-4,760	-5,363	-4,727	-5,039	-4,968	-4,995	-4,095	-5,536	-6,671	-7,278
Claims on public sector (net)[4]	-2,749	-2,858	-3,059	-1,919	-1,995	-1,634	-1,439	-1,072	-972	-872	-872
Claims on central government (net)	-2,750	-2,858	-3,059	-1,919	-1,995	-1,634	-1,439	-1,072	-972	-872	-872
Claims on commercial banks	-1	-518	-889	-638	-161	-774	1,322	1,221	-39	-895	-1,152
Other items (net)[5,6]	-1,082	-1,383	-1,415	-2,170	-2,883	-2,560	-4,878	-4,244	-4,524	-4,904	-5,253
Base money	3,013	3,545	4,092	4,684	5,053	5,372	5,814	6,607	7,572	8,677	9,911
Currency in circulation	2,204	2,453	2,746	2,997	3,232	3,584	3,368	3,964	4,933	5,645	6,642
Commercial bank deposits[7]	808	1,092	1,346	1,686	1,822	1,788	2,446	2,642	2,639	3,032	3,269
Other Depository Corporations											
Net foreign assets	1,056	122	-604	-91	-436	-572	-111	-422	-1,773	-2,503	-3,073
Net domestic assets	8,318	9,805	12,432	13,685	14,113	16,306	15,905	18,515	22,404	26,556	30,482
Of which Claims on central government (net)	2,168	2,753	3,598	3,992	3,830	4,690	4,093	4,393	4,518	4,733	4,933
Of which Claims on private sector	7,471	7,964	9,069	10,490	10,922	12,078	13,052	15,068	17,426	20,087	23,149
Deposit liabilities to the non-bank public	9,373	9,927	11,828	13,594	13,677	15,734	15,794	18,093	20,632	24,053	27,409
Shilling deposits	5,798	6,812	7,881	8,798	8,383	10,520	9,162	10,785	13,421	16,499	19,414
Foreign exchange accounts	3,575	3,115	3,947	4,796	5,294	5,214	6,632	7,308	7,210	7,555	7,995
Memorandum items:											
(Annual percentage change)											
Base money	1.5	17.7	15.4	14.5	23.5	14.7	15.1	13.6	14.6	14.6	14.2
M3	7.2	6.6	17.4	14.2	15.9	16.3	14.0	15.0	15.7	16.0	14.6
Credit to the private sector	11.5	6.4	13.9	15.7	20.4	15.0	19.4	15.4	15.6	15.2	15.2
Memorandum items:											
Base money-to-GDP ratio (percent)	5.1	5.5	6.0	6.2	6.8	6.4	6.8	7.1	7.4	7.7	7.9
M3-to-GDP ratio (percent)	19.0	18.9	20.7	21.5	21.9	22.5	22.0	23.0	24.3	25.5	26.4
Base money multiplier (M2/base money)	2.6	2.5	2.5	2.4	2.2	2.5	2.1	2.1	2.3	2.5	2.5
Credit to the private sector (percent of GDP)	12.7	12.5	13.3	14.0	14.7	14.5	15.4	16.2	17.1	17.8	18.5
Gross reserves of BoU (US$ millions)	2,644	2,912	3,394	2,912	2,895	3,162	2,645	3,005	3,646	4,199	4,611.8
Velocity (M3)	5.3	5.3	4.8	4.7	4.6	4.5	4.5	4.3	4.1	3.9	3.8
Exchange rate (Ush/US$, eop)	2,472	2,593	2,600	…	3,302	…	…	…	…	…	…

Sources: Ugandan authorities and IMF staff estimates and projections.

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

[2] All figures are based on the 2009/10 rebased GDP released in November 2014.

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

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

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

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

[7] Inclusive of foreign currency clearing balances.

Table 4. Uganda: Balance of Payments, FY2011/12–2019/20 [1,2]

(Millions of US Dollars unless otherwise indicated)

	2011/12	2012/13	2013/14	2014/15		2015/16		2016/17	2017/18	2018/19	2019/20
				4th Rev	Prel.	4th Rev	Proj.	Proj.	Proj.	Proj.	Proj.
Current account	-2,219	-1,856	-2,363	-2,385	-2,430	-2,958	-2,186	-2,762	-3,088	-3,878	-4,623
Trade balance	-2,574	-2,123	-2,348	-2,198	-2,251	-2,504	-2,113	-2,540	-2,753	-3,269	-3,840
Exports, f.o.b.	2,667	2,912	2,725	2,794	2,715	2,920	2,967	3,135	3,368	3,860	4,236
Of which: coffee	444	423	404	402	401	400	373	380	406	428	452
Imports, f.o.b.	-5,241	-5,035	-5,074	-4,991	-4,966	-5,424	-5,080	-5,675	-6,121	-7,129	-8,076
Of which: oil	-947	-1,028	-1,090	-905	-933	-785	-693	-761	-871	-965	-1,043
Of which: government	-304	-359	-301	-356	-171	-506	-335	-351	-273	-177	-129
Services (net)	-412	-405	-330	-484	-740	-610	-672	-680	-673	-868	-1,009
Income (net)	-471	-528	-774	-722	-756	-864	-681	-860	-1,012	-1,144	-1,235
Of which: interest on public debt	-35	-39	-49	-44	-52	-102	-83	-131	-225	-338	-420
Transfers	1,238	1,199	1,089	1,018	1,317	1,020	1,279	1,318	1,350	1,403	1,461
Private transfers	838	1,121	999	915	1,174	929	1,166	1,223	1,265	1,313	1,378
Of which: workers' remittances (inflows)	584	807	696	613	792	624	789	829	854	883	929
Official transfers	400	79	90	102	143	91	114	95	86	91	82
Of which: budget support (including HIPC)	224	71	83	92	99	81	105	87	77	82	82
capital gains tax	176	7	7	10	44	10	8	8	8	8	0
Capital and financial account	2,360	1,792	2,254	1,911	1,698	3,215	1,947	3,125	3,729	4,431	5,035
Capital account	194	297	206	199	190	338	337	323	201	164	149
Of which: project grants	194	297	206	199	190	338	337	323	201	164	149
Financial account	2,167	1,494	2,048	1,712	1,508	2,877	1,610	2,802	3,528	4,268	4,886
Foreign direct investment	1,244	940	1,225	1,186	1,153	1,204	838	1,254	1,203	1,955	2,648
Portfolio investment	277	-46	6	-45	-153	23	-13	97	107	122	144
Other investment	646	600	817	571	508	1,650	785	1,452	2,218	2,191	2,094
Of which:											
Public sector (net)	745	534	303	447	424	1,350	1,215	1,339	1,674	1,668	1,429
SDR allocation	0	0	0	0	0	0	0	0	0	0	0
Build-up (-)/drawdown (+) of petroleum fund	273	-7	-7	162	127	-10	-8	0	0	0	0
Loan disbursements	546	617	403	388	385	1,467	1,328	1,452	1,800	1,804	1,591
Project support (loans)	392	497	322	388	385	428	383	562	372	631	563
Budget support (loans)	49	120	0	0	0	0	0	75	0	0	0
Non-concessional borrowing	105	0	81	0	0	1,039	946	815	1,429	1,174	1,028
Amortization due	-75	-76	-93	-104	-88	-107	-105	-113	-126	-136	-162
Commercial banks (net)	-240	380	279	-202	-100	154	-104	95	386	195	141
Other private (net)	418	-314	235	326	184	146	-325	18	158	328	524
Errors and omissions	617	402	618	0	376	0	0	0	0	0	0
Overall balance	759	337	509	-475	-356	257	-239	363	641	554	412
Financing	-759	-337	-509	475	356	-257	239	-363	-641	-554	-412
Of which:											
Central bank net reserves (increase = –)	-755	-333	-504	482	356	-250	250	-359	-641	-554	-412
Of which: SDR allocation	0	0	0	0	0	0	0	0	0	0	0
Use of Fund credit	-2	-2	-2	-1	-1	0	0	0	0	0	0
Memorandum items:											
Gross offical reserves	2,644	2,912	3,394	2,912	2,895	3,162	2,645	3,005	3,646	4,199	4,612
Months of imports of goods and services	4.2	4.5	5.1	4.0	4.3	3.9	3.6	3.8	4.0	4.1	4.4
Donor support											
Of which: Budget support (loans and grants)	273	191	83	92	99	81	105	162	77	82	82
Project support (loans and grants)	586	794	529	587	575	765	719	885	573	794	712
Current account balance (percent of GDP)	-9.5	-7.5	-8.8	-8.9	-9.2	-11.0	-9.6	-10.6	-10.4	-12.1	-13.3
Current account balance (excluding grants)	-10.5	-7.8	-9.1	-9.3	-9.6	-11.3	-10.0	-10.9	-10.7	-12.4	-13.5
Trade balance (percent of GDP)	-11.1	-8.6	-8.7	-8.2	-8.5	-9.3	-9.3	-9.7	-9.3	-10.2	-11.0
Exports of goods (percent of GDP)	11.5	11.8	10.1	10.5	10.3	10.8	13.0	12.0	11.4	12.0	12.2
Imports of goods (percent of GDP)	22.6	20.4	18.8	18.7	18.8	20.1	22.3	21.7	20.7	22.2	23.2

Sources: Ugandan authorities and IMF staff estimates and projections.

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

[2] All figures are based on the 2009/10 rebased GDP released in November 2014.

Table 5. Uganda: Banking Sector Indicators, March 2012–June 2015

(Percent)

	2012				2013				2014				2015	
	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15
Capital adequacy														
Regulatory capital to risk-weighted assets	21.8	20.7	20.9	21.9	24.5	24.3	23.1	22.1	23.6	22.8	22.5	22.2	23.2	21.2
Regulatory tier 1 capital to risk-weighted assets	19.0	18.3	18.5	18.8	21.4	21.2	20.3	19.1	20.9	20.3	19.9	19.7	20.8	18.8
Asset quality														
NPLs to total gross loans	3.4	3.9	4.7	4.2	4.7	4.0	4.4	6.0	6.2	5.8	5.3	4.1	4.2	4.0
NPLs to total deposits	2.6	2.9	3.4	3.1	3.5	2.9	3.2	4.3	4.2	4.1	3.7	2.9	3.1	2.9
Specific provisions to NPLs	45.2	48.7	49.0	45.9	55.1	53.1	47.3	64.8	53.9	62.1	55.4	48.9	53.7	51.9
Earning assets to total assets	74.7	72.0	71.9	71.3	69.6	70.0	70.7	69.6	69.3	68.9	71.5	71.5	70.4	69.5
Large exposures to gross loans	33.7	34.6	34.6	34.6	34.8	36.0	35.4	37.9	33.6	32.3	37.2	38.3	35.2	40.0
Large exposures to total capital	109.4	111.5	104.2	104.7	95.4	103.4	102.2	113.6	97.7	96.4	109.7	113.2	104.5	126.4
Earnings and profitability														
Return on assets	4.4	4.4	4.3	3.9	3.6	3.3	3.2	2.0	2.4	2.1	2.2	2.6	2.5	2.8
Return on equity	28.1	29.5	27.9	24.2	21.0	20.4	18.9	12.4	14.2	12.8	13.1	16.0	15.6	17.7
Net interest margin	12.5	12.8	12.9	12.8	12.5	12.2	11.8	11.6	11.4	11.5	11.3	11.0	11.0	10.9
Cost of deposits	3.4	3.6	4.0	4.1	4.3	4.1	3.9	3.7	3.6	3.7	3.7	3.5	3.4	3.3
Cost to income	67.5	68.1	68.8	70.9	72.0	72.4	73.2	80.1	76.6	75.8	74.8	68.7	68.7	68.6
Overhead to income	40.9	39.6	38.5	40.1	41.9	43.2	45.3	46.7	45.4	41.9	41.1	40.0	40.1	42.9
Liquidity														
Liquid assets to total deposits	37.5	38.9	42.5	42.0	42.7	41.1	40.6	42.5	45.4	46.5	41.8	44.0	44.2	46.4
Market sensitivity														
Foreign currency exposure to regulatory tier 1 capital	-4.1	-5.2	-5.2	-0.6	-5.1	-6.7	-8.2	-3.2	-2.6	-6.7	-1.4	-6.9	-5.4	-5.7
Foreign currency loans to foreign currency deposits	74.7	67.1	74.8	87.0	72.3	72.8	63.0	57.6	73.7	65.0	64.3	64.5	58.8	61.3
Foreign currency assets to foreign currency liabilities	103.2	103.4	100.7	105.0	104.8	104.9	100.6	97.3	100.8	95.4	95.2	97.1	102.9	101.4

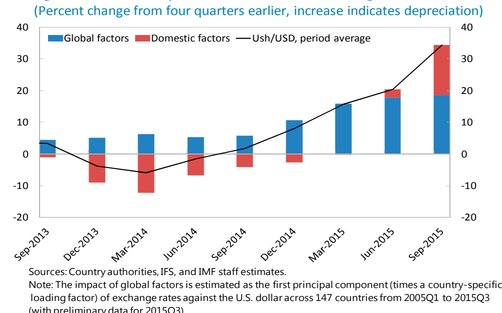
Source: Bank of Uganda.

Annex I. Exchange Rate Developments

The exchange rate depreciated significantly over the last several months. After a period of broad stability, depreciation pressures picked up in April and significantly increased since June, 2015. Between June and September, the Ugandan shilling declined by about 20, 17, and 14 percent against the US dollar, euro, and Kenyan shilling, respectively. In real effective terms, the shilling depreciated by about 10 percent in FY2014/15 and is now estimated to be undervalued by 10-15 percent. The most recent External Balance Assessment (EBA-lite) analysis in May 2015 indicated a slight overvaluation of 1.1 percent.

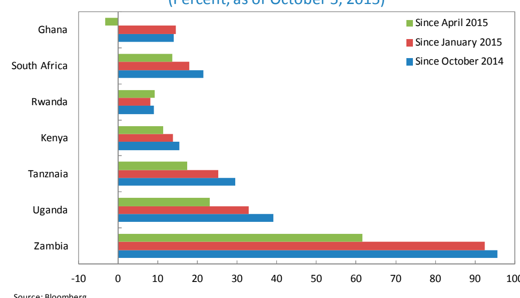
External factors have partly driven the depreciation, but domestic market nervousness has also contributed. A principal component analysis—a parsimonious procedure to identify the composite impact of external determinants on exchange rate movements using exchange rate correlations across countries—shows that weaker demand for Ugandan exports, less favorable terms of trade, and tightening of global financial conditions explain a large part of the shilling depreciation, particularly in the period January-June 2015. Domestic factors related to election uncertainties—expectations of higher spending and weakening confidence—seem to have fueled speculation since June, when the political campaign intensified.

Uganda: Estimated Impact of Global Factors on Exchange Rate Movements
(Percent change from four quarters earlier, increase indicates depreciation)



Sources: Country authorities, IFS, and IMF staff estimates.
Note: The impact of global factors is estimated as the first principal component (times a country-specific loading factor) of exchange rates against the U.S. dollar across 147 countries from 2005Q1 to 2015Q3 (with preliminary data for 2015Q3).

Depreciation Against the US Dollar
(Percent, as of October 5, 2015)



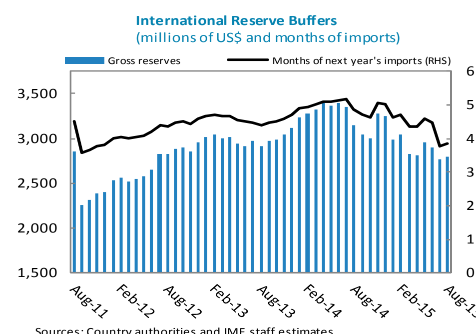
Source: Bloomberg

The depreciation trend has proven stubborn. Consistent with its inflation targeting regime, the BoU has not countered market exchange rate dynamics. It has nonetheless intervened sporadically to try to smooth the pace of depreciation, with only short-lived success. Dollar sales by the BoU in early-March and early-July were large, and drove an appreciation on impact of 65 and 215 shillings per dollar, respectively. However, relative shilling stability lasted only for two months in March and two weeks in July.

The impact of the depreciation on growth is ambiguous. The real exchange rate depreciation may have brought gains to Uganda's external competitiveness and growth—particularly given that the import price elasticity is higher than the export price elasticity. The fiscal accounts have also slightly benefited from the shilling decline. However, the large pass-through to domestic prices is likely offsetting the positive effects of the depreciation on trade and economic activity, as declining consumers' real incomes, higher real interest rates as the central bank tighten monetary policy to contain inflation, and more costly imports of intermediate goods seem to be hurting aggregate demand and domestic production. The impact of the large depreciation on market confidence has also played a role in domestic price increases and currency substitution in favor of dollar savings.

Annex II. Reserve Adequacy at the Time of a Shock

Maintaining comfortable international reserves has been a key policy objective in Uganda. The prevailing exchange rate system implies that private transactions occur in the free market. The reserve accumulation, therefore, responds to the need to address government's foreign exchange needs, deal with volatile capital flows, and prevent and mitigate potential crises. With these objectives, the BoU has consistently conducted sterilized foreign exchange purchases, intensifying them in the face of large portfolio inflows and strong projected government imports. Over the last four years, reserves have on average covered 4½ months of imports, 85 percent of M2, and 500 percent of short term debt. Holding ample reserves has strengthened the BoU's credibility by building confidence among investors and credit rating agencies.



What is a comfortable level of reserves in current conditions? Based on precautionary and non-precautionary motives for keeping reserves and the associated costs of holding them, a level that covers 3½–4 months of prospective imports is adequate for Uganda. The optimal measure could be lower because large imports are tied to one-off investment projects that carry their own financing. Some analysts would argue that given the large depreciation, strengthening the buffers would be necessary as there is no guarantee the shocks would not intensify. Others would favor using the buffers in these circumstances. While the first could be a costly option and the second needs to be implemented wisely, there is broad support for flexibly accommodating targeted reserves to the changing size, nature and volatility of international transactions, particularly when shocks are anticipated to be temporary.

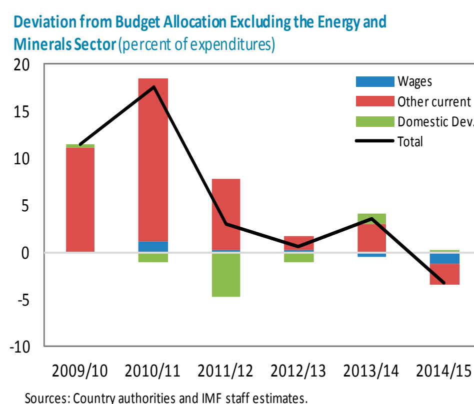
The benefits of adapting the reserve level to lower foreign exchange inflows include:

- **Contributing to market stabilization.** Lower demand for dollars from the BoU amid limited market supply would attenuate shilling depreciation, and help attain the inflation target with less tightening.
- **Providing clear market signals.** Continuing reserve accumulation policies in a rapidly depreciating environment may unduly signal reserve inadequacy and exacerbate market nervousness.
- **Reducing central bank costs.** Reducing opportunity costs of holding international reserves—rate of return on reserve assets, sterilization costs, and marginal product from foregone physical investment—would facilitate economic management at the time of the shock.

Temporarily aiming at a level of reserves of about 3½ months of imports seems optimal. The rationale for this target should be clearly communicated to the public, and only come from lower purchases, as opposed to large foreign exchange market sales or high public sector demand for dollars. Effective fiscal-monetary coordination is therefore essential. Once balance of payments flows, and conditions in the foreign exchange market normalize, the BoU can resume the earlier pace of reserve accumulation, and re-build the buffer for future challenges.

Annex III. Importance of Budget Credibility

Budget credibility has improved over time but reallocation away from development expenditure is still a challenge. Through persistent use of "supplementary budgets", overall balance outturns (excluding one-off investments in energy) have typically exceeded original budget estimates. Budget execution has however become better over time, with the deviation from budget allocation falling from an average of 11 percent in FY2009/10-FY2011/12 to near zero in FY2012/13-FY2014/15. Despite this improvement, spending continues to be reallocated away from development towards current outlays. Other current spending exceeded budgeted amounts by an average of 6½ percent of total expenditures over the six-year period, whereas development expenditure was below budget by an average of 1 percent of total expenditures.



Deviations from the budget have had negative economic consequences. Persistent overspending—in the context of an essentially flat tax-to-GDP ratio—pushed deficits above expectations during the first three years of analysis, likely contributing to higher inflation. While this trend has been reversed, changes in sector allocations in favor of current, notably defense-related spending, has reduced the government's ability to increase the productive capacity of the economy. Moreover, modified allocations have led to poor planning in ministries and other public agencies as some have overestimated their needs during the budget process expecting subsequent cuts, while others have continuously relied on supplementary budgets to fill in gaps in their budgets. Lack of budget credibility has also created uncertainty about the size and timing of government's domestic borrowing requirements hampering monetary policy efficiency.

Enhancements in the legal and institutional framework should be helpful in improving budget credibility. The new PFM Act is expected to bring efficiency, transparency, and accountability to the budget process. Nonetheless, the initial implementation of the law has presented challenges, including Parliament's decision to appropriate funds in the contingency reserve for non-priority spending at the time of budget approval. Recent institutional improvements, such as the delegation of payroll management to individual ministries and a better use of the Integrated Financial Management System (IFMS), have helped reduce the number of ghost workers considerably. Progress in arrears management has been important, and will further benefit from full data reconciliation.

Fiscal discipline should complement these efforts. Adhering to the budget composition in an election year would further enhance budget credibility and send a clear signal that fiscal policy is able to operate free of political interference. However, conducting an exercise to reduce budget expenditures, as it the case in FY2015/16, presents difficult choices. Achieving the optimal allocation of budget resources has to be weighed against the credibility of the cuts.

Appendix I. Letter of Intent

Kampala, Uganda,
November 2, 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 was strong supported by our program of public investment. Despite significant exchange rate depreciation, most of it caused by factors out of our control, inflation has been contained due to decisive monetary policy tightening. Fiscal performance has strictly aligned to the budget, and international reserves remain adequate.

Performance under the PSI-supported program remains positive. In particular, we observed all of June 2015 quantitative assessment criteria and most indicative targets, and we made progress on the structural reform agenda. We understand, however, that the modality of our new auction-based system for foreign exchange purchases could have resulted in a multiple currency practice under Fund policies. While de facto the spreads between successful offers in the auctions conducted so far have been significantly lower than the Fund's 2 percent threshold, we have modified the system to explicitly prevent spreads from widening beyond 1 percent, and thus we request a waiver for the temporary nonobservance of this continuous assessment criterion.

Our key priority now is to continue to adjust policies to evolving global, regional, and domestic conditions. To this end, we have decided to implement credible expenditure cuts with respect to the approved budget, boost tax administration to maintain strong revenue performance, and adhere to the deficit financing modalities contemplated in the program. Monetary policy will remain vigilant of price and exchange rate developments. We have also re-profiled our medium-term public investment program to ensure public debt remains at a low risk of distress. We shall continue to enhance our institutional coordination and communication strategy to boost policy credibility. We are confident that these actions will help us achieve our main objectives of high and inclusive growth with low and stable inflation.

Our structural reform agenda will center on implementing efficiently the new Public Financial Management (PFM) legal framework. In particular, we intend to issue regulations that respond to well-established PFM principles for the newly adopted PFM Act. We remain committed to

finalizing this fiscal year the charter of fiscal responsibility to set sound fiscal policy guidelines, and the amendments to the Bank of Uganda Act to strengthen central bank independence. We also plan to continue making progress on the transparent management and the reduction of the stock of public sector arrears.

These and other details of our economic program are set out in the attached Memorandum of Economic and Financial Policies (MEFP) and the Technical Memorandum of Understanding (TMU), which extend our commitments to end-June 2016. In line with the new debt limits policy, we request dropping the ceilings on short term external debt and on non-concessional external debt with maturities greater than one year and modifying the treatment of the overall fiscal deficit from an indicative target to a quantitative assessment criteria. We also request eliminating the quantitative assessment criteria on net domestic financing and replacing it by an indicative target on the ceiling on cumulative changes in temporary advances from the Bank of Uganda to the central government, which we believe will further protect macroeconomic stability.

In light of the satisfactory performance and our continued commitment to and ownership of the program, we request completion of the fifth review under our PSI-supported program. We also request modification of the December 2015 quantitative assessment criteria, and December 2015 and March 2016 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 fifth 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 June 2015 Memoranda of Economic and Financial Policies. It presents an update on the economic performance in FY2014/15 and the first quarter of FY2015/16, and provides details of the policies Government intends to implement to preserve price stability and growth in a context of fiscal and external sustainability. The memorandum proposes extension of quantitative targets to end-March 2016, and structural benchmarks and other reform commitments to end-June 2016.

B. Recent Economic and Policy Developments

2. Real GDP growth continued to strengthen, reaching 5 percent in FY2014/15 and mainly driven by a strong performance of services and manufacturing. However, more recent indicators including increasing interest rates, a decline in the business tendency survey, and shortfalls in corporate tax revenue point to a possible slowdown in private sector activity. The scale up of public investments is expected to offset this behavior in the rest of the year, providing a boost to the construction, mining, and quarrying sectors.

3. Inflation remained within the PSI consultation target bands. Headline inflation recorded an average of 2.7 percent in FY2014/15, but it has since then picked up. Annual core and headline inflation rose to 7.2 and 6.7 percent, respectively, in September 2015. Declining fuel and food prices had previously mitigated the impact of the high exchange rate pass-through; however food crop inflation picked up since May due to weather conditions and problems related to pests and diseases.

4. The exchange rate depreciation, which reached over 40 percent year-on-year in September 2015, was a result of a combination of global and domestic factors, including the appreciation of the US dollar against major currencies; declining global commodity prices; an elevated demand for foreign currency by offshore investors and key sectors of the domestic economy, such as energy, manufacturing; lower FDI inflows owing to tightening of global liquidity conditions; negative sentiment related to the national elections cycle; and delays in issuing production licenses to the extractive sector.

5. The current account deficit remained large at 9.6 percent of GDP (excluding official grants) in FY2014/15, owing mostly to one-off government payments for services related to the Karuma and Isimba hydropower projects. Lower tourism receipts and higher profit repatriations also contributed to this outcome. The current account deficit was financed mainly by FDI and some external reserves drawdown. Reserve coverage remained adequate at above 4 months of imports of goods and services at the end of the fiscal year.

6. The financial sector remains sound, well capitalized, and profitable. Non-performing loans (NPLs) have gradually fallen from 5.8 percent as of June 2014 to 4 percent of total gross loans in June 2015. The shilling depreciation has increased commercial banks' exposure to foreign

currency lending, but risks remain well contained as banks adhere to the guideline of extending foreign currency loans only to borrowers with an income stream in foreign currency. Stress tests on foreign currency risk show that an additional 100 percent shilling depreciation from June levels would result in a decline in the core capital ratio from 18.8 percent to 17.7 percent. Furthermore, all banks would keep their open position within the regulatory limit of +/-25 percent of tier 1 capital.

7. On the fiscal side, the FY2014/15 revenue-to-GDP ratio was 1½ percent higher than in FY2013/14, supported by the strong package of tax measures approved in the FY2014/15 budget. However, tax revenues in the first three months of the current fiscal year have slightly underperformed. This was partially driven by shortfalls in corporate, withholding, and excise duty taxes, notably on international calls resulting from non-uniform external tax treatment in Uganda and other countries in the region. Current spending was ½ percent of GDP higher than in the previous year on account of increased interest payments on domestic debt and wage and salary costs. Capital spending, excluding Karuma and Isimba, remained constant due to delays in project implementation. Spending on Karuma and Isimba increased by 1½ percent of GDP.

8. The overall deficit was 4.6 percent of GDP, financed by a combination of concessional project loans, issuance of domestic securities, and withdrawals from the petroleum and energy funds. While financing of the deficit in FY2014/15 was largely as anticipated, in the first quarter of FY2015/16 the government faced challenges issuing securities in the domestic market in the context of rising interest rates and speculation. In view of cash flow difficulties, the government resorted to a temporary advance from the Bank of Uganda (BoU), which the government intends to gradually repay over the fiscal year.

9. Our debt sustainability analysis shows that debt remains at low risk of distress despite the downward revision of the World Bank's Country Policy and Institutional Assessment (CPIA) and the strong exchange rate depreciation. To ensure this position is kept, we have re-profiled Government's public investment plans in the medium term to postpone the start of some of the projects. This is important since it confirms that Government will be able to service its debt obligations.

10. Monetary policy was tightened at the appropriate time to ensure that annual core inflation remains around the medium-term target of 5 percent. The central bank rate was increased by 600 basis points from 11 percent in March to 17 percent in October to forestall a rise in core inflation resulting from the high pass-through of the depreciation of the shilling and second-round effects from a pick-up in food crop prices. Since Uganda has a flexible exchange rate regime, the BoU does not target the exchange rate. The BoU continued to purchase foreign exchange in the market to build up reserves but it had to also occasionally sell foreign exchange to stem excessive volatility in the market.

C. Performance under the PSI

11. Performance under the PSI has been strong. All end-June 2015 quantitative assessment criteria (QAC) were met; international reserves declined but remain at adequate levels, and the ceilings on the increase in net domestic financing and the contracting or guaranteeing of new

non-concessional external debt were also met. Inflation remained within the consultation target bands. The indicative targets (IT) on tax revenues and expenditures on poverty alleviating sectors surpassed program targets. However, the IT on the overall deficit was missed due to higher project performance financed by stronger-than expected external financing, and so was the IT on withdrawals from the energy and petroleum fund, though just by a small margin. While progress was made in the reduction of the stock of arrears, we are currently working with the Auditor General to ascertain why the stock was larger than initially thought. We are committed to conducting a thorough audit of the arrears situation to strengthen credibility in the data, and publish the report on the stock of end-June arrears by end-December (proposed updated date for structural benchmark). We also plan to apply sanctions on the incurrence of arrears to ensure no new arrears are accumulated.

12. Progress on the structural reform agenda is ongoing. The draft PFM Act regulations are now under review of the First Parliamentary Council, before submission to Cabinet for approval. Regulations will become effective by March 2016 (proposed updated date for structural benchmark). Consultative meetings and workshops with Permanent Secretaries and Accounting Officers have taken place to sensitize them about the new law and draft regulations. The draft amendments to the Bank of Uganda Act are being reviewed by the Ministry of Finance, Planning and Economic Development (MoFPED) before submission to Cabinet, and will be submitted to Parliament by April 2016 (structural benchmark). The charter of fiscal responsibility is to be finalized for submission to Parliament after the general election, by April 2016 (structural benchmark). Government continues to recapitalize the BoU to ensure it has the necessary tools for the effective conduct of monetary policy (structural benchmark). The TSA head and TSA sub-account structure has been completed. Donor-supported projects have however not yet been included in the TSA, as this will require enhanced systems to facilitate a common disbursement mechanism. Government will continue to work with specific development partners on this issue. We will also continue publishing quarterly reports on the stock of unpaid bills (structural benchmark).

D. Macroeconomic Outlook and Risks

13. Real GDP growth is projected at 5 percent for FY2015/16 and 5.8 percent for FY2016/17. This pick-up in growth will be driven by a scale up in public infrastructure spending (particularly HPPs) and a rebound in private sector activity as market sentiment improves on account of a stable post-election environment. Private sector investment will be boosted by a recovery in FDI inflows linked to the expected issuance of oil production licenses and the normalization of the monetary policy stance that will provide a boost to the manufacturing and trade sectors. Consumer prices are expected to increase somewhat reflecting the continued and lagged pass-through of the exchange rate depreciation to domestic prices and higher food crops prices. Nonetheless, average core inflation is projected to remain within the PSI consultation band at 7.9 percent and 6.6 percent for FY2015/16 and FY2016/17, respectively.

14. The current account deficit is projected to widen as a result of increased imports to finance Government's planned infrastructure projects and an expansion in private sector activity, coupled with slow growth in exports. Government's infrastructure related imports will however

be fully externally financed and will therefore not exert pressure on the balance of payments. International reserves are projected to decline to 3.6 months of imports in FY2015/16, but to recover to 3.8 months of imports in FY2016/17 and gradually return to over 4 months of imports thereafter. The medium-term outlook points to good prospects in the oil sector as Government issues production licenses to prospective investors and negotiations on oil-related infrastructure progress.

15. Nonetheless, risks to the outlook have significantly increased owing to the difficulties in neighboring countries, the continued strengthening of the US dollar, lower international commodity prices, seasonal factors regarding food crops, and deteriorating market sentiment in the run-up to the February 2016 general election.

E. Economic Policies

National Development Plan

16. The new National Development Plan (NDP) II came into force in June 2015, and constitutes the main policy framework governing the Government's macroeconomic and development policy agenda in the medium term. The plan prioritizes 3 of the 9 opportunities identified in the Vision 2040—agriculture; tourism; and mining, oil and gas—and identifies infrastructure and human capital as two fundamental areas of development in order to achieve the priorities. The Plan will bring to completion a number of unfinished NDP I interventions, but will also introduce new projects critical for enhancing regional trade and integration, preparing for oil production, and improving the business environment. These projects include the standard-gauge railway, the oil refinery, oil-related infrastructure serving the Albertine region, and a number of new roads and electricity transmission projects.

Fiscal Policy

The fiscal stance

17. The government has decided to reduce significantly the fiscal expansion approved in the FY2015/16 budget to help achieve macroeconomic objectives and build policy credibility. The deficit is now expected to increase from 4.6 percent in FY2014/15 to 6.6 percent of GDP, as opposed to 7.0 percent presented in the budget. Since a large part of the deficit is expected to be financed from external sources, domestic borrowing needs in the market will fall from Shs. 1.4 trillion to Shs. 530 billion. This would imply that the government will issue securities for Shs. 750 billion in the three last quarters of the fiscal year.

18. Despite the challenges in raising domestic financing at the beginning of the fiscal year, we will continue to offer securities to meet the costs of budget execution, albeit for lower-than-anticipated amounts given the revised fiscal framework. Below are some of our planned actions in the domestic debt market:

i. To adjust supply to demand preferences, we are planning to reduce the amount offered at bond auctions, and increase the amount offered at T-bills auctions. This measure will reduce the risk of having to lock-in high interest rates in the future. Efforts to lengthen

the maturity of domestic debt will continue in the medium term, including through market reforms to expand participants.

ii. We also plan to offer the 2-year, 5-year and 10-year bonds at the same auction. Currently only two bonds are offered at each bond auction. This will help strike a balance between managing the refinancing risk and locking high interest rates in the future.

iii. We will change the modality for treasury securities auctions to enhance performance and minimize equilibrium yields paid on these securities.

Even though this is an election year, we are committed to executing the budget in line with the agreed terms under the PSI. This implies that the budget will be executed well below the ceilings in the budget approved by Parliament to reflect the reduction in the fiscal expansion.

Boosting tax revenue

19. We plan to continue our efforts to further increase tax revenue by 0.3 percent of GDP in the current fiscal year, surpassing the nominal budget target. We have identified a plan of tax administration actions to mitigate potential revenue shortfalls in FY2015/16 and compensate for the shortfalls that materialized in the first three months of the year.

20. Our strategy to improve performance in FY2015/16 includes the following actions:

On domestic taxes:

i. Conducting critical analysis of returns on a monthly basis;
ii. Closely monitoring large taxpayers (VIPs and high net worth investors/individuals) to better understand their businesses and offer advisory services;
iii. Ensuring data matching between domestic taxes and customs to identify non-complaint taxpayers and minimize under-declarations;
iv. Enforcing the new simplified presumptive regime to bring more players from the informal sector into the tax net; and
v. Providing information to taxpayers on the impact/interpretation of new policy measures.

On customs:

i. Enhancing valuation to minimize revenue leakages by adding more items to the database;
ii. Improving bonded warehousing management;
iii. Centralizing customs document processing; and
iv. Strengthening risk management through the establishment of a national targeting center to provide timely interventions and avert revenue leakages.

21. For the medium term, we plan to continue simplifying the tax regime, by removing ambiguities in the tax laws and updating them to cope with the dynamics in the economy and international developments. This will not only widen the tax base but also reduce compliance costs and improve revenue collections. For this purpose, Government will reassess the rationale

and value added of the remaining tax exemptions to specific sectors and consider their elimination. Government will also undertake comprehensive taxpayer education, and further automate and simplify tax management and compliance systems. Government commits to improving service delivery and providing the needed resources to support tax administration.

Identifying expenditure cuts and prioritizing spending

22. The less expansionary deficit that we now envisage relies on realistic expenditures cuts in comparison to the current budget and last PSI review. These expenditure cuts will take the form of lower-than-programmed capital investment expenditures on slow moving projects and lower non-essential recurrent expenditures. The nature of the cuts will ensure growth is not significantly and adversely affected and arrears are not accumulated. The cuts will also ensure that poverty-reducing spending is preserved.

Implementing infrastructure projects

23. Successful implementation of infrastructure investment projects remains a key priority for us. We remain committed to properly sequencing the projects once their feasibility studies and commercial viability have been confirmed. We plan to limit implementation constraints by ensuring that all projects are approved by the Development Committee. We are also finalizing the Public Investment Management Guidelines and Procedures (structural benchmark).

24. The main projects that we will implement in FY2015/16 are: 1) the continuation of the construction of the Karuma and Isimba dams, with spending amounting to $680 million. Work on these projects has started, although the external disbursements have been delayed because of the need to conclude negotiations, but are expected to be disbursed by end-2015. The 15 percent of the total costs' contribution from Government was provided in FY2014/15 and utilized mainly for the purchase of equipment and materials, while insurance and commitment fees remain; 2) road construction using machinery acquired through a loan amounting to $132 million for the purchase of construction equipment; and 3) the upgrade of the Entebbe airport financed by a loan of a total value of $202 million—of which $80 million is to be spent in FY2015/16.

25. Our medium-term investment plan has been adjusted in the following way: 1) the pace of spending on Karuma has been slowed; 2) spending on the SGR has been reduced in FY2016/17, and spread over a larger number of years; 3) the investment in the refinery has been reduced in FY2017/18 and spread over a larger number of years; and 4) various road projects have been delayed by one year and will now commence in FY2017/18.

26. Road construction will be undertaken by PPP arrangements, including for the construction of the Kampala-Jinja express highway, Kampala Southern Bypass, and Kampala Bombo express highway. The planned oil refinery will also take the form of a PPP. The Public Private Partnership Act is effective since October 2015, and provides the legal and institutional framework for the implementation of PPPs. Government has initiated the process of setting up institutions responsible for exercising oversight of implementation of PPPs, including by

preparing regulations, setting up the PPP unit, and establishing the PPP committee within the MoFPED.

F. Monetary and Financial Sector Policies

27. The BoU will remain focused on its main objective of keeping inflation low and stable. To this end, it will continue to carefully monitor domestic and external economic developments and outlook and adapt the monetary policy stance as needed.

28. To avoid confusing signals to the market and ensure that foreign exchange purchases contribute to reserve build up, the BoU recently changed the modality of its program of purchases from a pre-determined amount with participation of some banks to an auction-based methodology where all banks are eligible to participate. The BoU invites banks to place their foreign exchange offers on a daily basis. Banks are free to offer any amount at any price. The BoU accepts the lowest price bids first and work upwards. This experience has resulted in price deviations of less than 0.2 percent between successful offers during the same auction. To avoid giving rise to multiple currency practices, the BoU has issued new guidelines to ensure that the spread between auction prices will remain well below 1 percent at all times. Sales of foreign exchange in the market will continue to be limited to smoothing excessive volatility.

29. To further improve the inflation targeting regime and strengthen central bank's governance and independence, we seek to finalize the amendments to the BoU Act by April 2016 (structural benchmark). The new BoU Act will include provisions to limit temporary advances to Government to 10 percent of tax revenue of the previous year; establish the capital of the BoU as an adequate percent of monetary liabilities; and regulate the management of the Petroleum Revenue Investment Reserve established by the new PFM Act.

30. The BoU remains committed and has started implementing policies to control non-monetary policy related (administrative and operational) costs in line with reforms described in its latest business plan.

31. To preserve financial sector stability, the BoU is strengthening its prudential oversight to guard against potential market, liquidity, and operational risks. The BoU continues to monitor the health of the banking system closely in the aftermath of the strong depreciation through its onsite inspections and off-site analysis, including through stress-testing the system for further currency depreciations, interest rates increases, liquidity pressures, and credit sector concentration risks.

G. Policy Coordination

32. The MoFPED and the BoU will continue to strengthen coordination through regular meetings and agree on guiding principles of cooperation in the updated Memorandum of Understanding between the two parties to be signed shortly. Given the nervousness in the market, it is essential to ensure policy consistency and build policy credibility. This will be further enhanced by a joint strategy to communicate policies to the public aiming at raising general awareness of economic developments and policy signaling to manage expectations throughout the election period.

33. The MoFPED is committed to containing temporary advances at manageable levels so that they can be repaid within the year, to ensure adequate liquidity in the market and avoid distorting signals. For this purpose, we propose including in the PSI a new IT to measure changes in the advance from the BoU to Government. In addition, and in line with IMF technical assistance recommendations, the MoFPED will introduce specific rules and controls around the flows, use, and balances of the Uganda Consolidated Fund (UCF) and UCF/TSA and institutionalize these rules in a framework agreement with the BoU and in the charter of fiscal responsibility (new proposed structural benchmark).

34. Government will also ensure that all future oil revenues are deposited in the new Petroleum Fund, and that all oil revenue remains earmarked to infrastructure financing through the regular process of budget appropriations. For this purpose, the current stocks of Shs. 1,066 and Shs. 190 billion from the oil and energy funds will be fully transferred to the new petroleum fund created in line with the PFM Act, in addition to the $36 million in capital gains received following the commencement of the Act.

H. Social Protection

35. Government remains committed to strengthening the social protection system to ensure the benefits of growth are broadly shared. Efforts will be focused on reducing poverty and inequality, and providing a support system for the lower income segments of the population.

36. To achieve this objective, a draft social protection policy was developed and submitted to Cabinet for approval. It outlines Uganda's vision for a national social protection system, and clarifies a specific set of instruments, namely social insurance, direct income support, social care, and support services. The National Social Protection Policy will also provide a clear framework for increasing social protection coverage and delivering well-coordinated interventions to address the risks and vulnerabilities faced by different categories of the population in both the formal and informal sectors.

37. To further strengthen social protection interventions, the Government of Uganda (GoU) has entered into a Memorandum of Understanding (MoU) with DFID and the Government of Ireland. A key component of this agreement is the implementation of the second phase of the Social Assistance Grants for Empowerment Program over a 5-year period (FY 2015/16–FY 2020/21), whereby 40 new districts will be added to the existing 15 districts previously covered by Phase 1 of the program. Other key deliverables under this MoU include the strengthening of the institutional framework for a coordinated and gender sensitive social protection service delivery, and the enhancement of an enabling environment for an inclusive social protection policy.

I. Structural Reforms

38. Progress on PFM reforms is ongoing. The implementation of the new PFM Act, in force since March 2015, has increased transparency and scrutiny of the budget process and fiscal frameworks, and improved standards for reporting, budgeting, procurement, audit, and oversight. Government will ensure that the proposed amendments to the Act, needed to facilitate budget implementation, keep its main principles intact. Our pilot experience including 14 local governments in the TSA has been positive, and we plan to expand it to all local governments within 2 to 3 years. By March 2016, 30 local governments will be using the TSA (proposed modified structural benchmark). In addition, government will continue to engage development partners on streamlining disbursement and reporting modalities for proper operation under the TSA. In parallel, government will upgrade the data center to facilitate inclusion of more entities in the TSA.

39. We have issued 10 million identity cards, surpassing the PSI benchmark of 3 million. This will support efforts to strengthen revenue mobilization, promote financial inclusion through the unique identification of financial sector clients, and combat money laundering and the financing of terrorism.

40. Progress is ongoing to enhance financial access and inclusion. In the more recent period, we have prepared draft amendments of the Financial Institutions Act (FIA) to include provisions regulating agency banking that are expected to further spur financial deepening and access. Progress has also been made to oversee operations of mobile money transactions.

41. To ensure financial system integrity, we sped up the implementation of the action plan to comply with Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) standards. Amendments to the AML Act are under consideration of Parliament. Draft regulations for the AML Act, now under review by the MoFPED, expand the scope of records required to be kept, and ensure that there is unconditional exchange of information with foreign counterparts, among other actions. Amendments to the Anti-Terrorism Act, including definitions to properly criminalize terrorist financing, were adopted in June, and its regulations were issued in August, 2015. These amendments, together with the full constitution of the Board of the Financial Intelligence Authority, prevented Uganda from being blacklisted by the Financial Action Task Force (FATF). The Government is committed to promptly addressing any remaining strategic AML/CFT deficiencies.

42. Further upgrading our statistics compilation and dissemination system remains one of our critical objectives. We are willing to work with the Fund to implement the recommendations under the e-GDDS, as suggested in Ms. Lagarde's letter of May, 2015. This would allow us to improve data transparency standards by using standardized formats. In the fiscal area, progress has been made to overcome the considerable coordination difficulties that prevent the straightforward collection and dissemination of arrears data, although further steps are required and are under consideration.

43. Progress towards EAC regional integration will continue. Work to establish regional institutions at the EAC level and to create a fiscal surveillance process is ongoing, including the

preparation of a medium-term convergence program. Other steps taken to enhance regional integration include the enactment of the Elimination of Non-Tariffs Bill in March 2015 and the launch of a new scorecard to assess progress towards the Common Market Protocol and highlight key implementation gaps EAC Capital Markets Authorities also plan to integrate regional financial sectors and link up the stock markets.

J. Program Monitoring

44. Progress on the implementation of the policies under this program will be monitored through QACs, ITs, and SBs detailed in the attached Tables 1, 2, and 3 and through semi-annual reviews. Two QACs (the overall deficit and the international reserves) are proposed to be modified for end–December 2015 to better reflect the updated macroeconomic framework and plans, and to be monitored at the sixth PSI review. We request turning the previous IT on the overall deficit into a QAC and dropping the QAC on net domestic financing. We request adding a new IT on cumulative changes in temporary advances from the BoU to the central government. We request dropping the ceilings on nonconcessional and short-term external borrowing in line with the new debt policy guidelines. Indicative targets are proposed for March 2016. The sixth review is expected to be completed by end-June 2016. The attached Technical Memorandum of Understanding—which is an integral part of this memorandum—contains the needed definitions.

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

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

	December 31, 2014 [2]				March 31, 2015 [2]				June 30, 2015 [2]			
	Program	Adjusted Target	Outturn	Result	Program	Adjusted Target	Outturn	Result	Program	Adjusted Target	Outturn	Result
	(Billions of Ugandan shillings)											
Assessment criteria												
Ceiling on the increase in net domestic financing of the central government [3]	2,461	2,081	1,632	Met	2,896	2,518	2,002	Met	2,526	2,417	2,400	Met
	(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	Met
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		2,134	Met	3,000		2,217	Met
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
Minimum increase in net international reserves of the Bank of Uganda (US$mn)[3,7]	-275	-175	238	Met	-175	-77	-101	Not met	-482	-490	-308	Met
Share of oil revenue placed in the Petroleum Fund	100		100	Met	100		100	Met	100		100	Met
	(Billions of Ugandan shillings)											
Indicative targets												
Ceiling on the overall deficit of the Central Government [3]	n.a.		n.a.		n.a.		n.a.		3,371	3,262	3,319	Not met
Floor on tax revenue	4,362		4,454	Met	6,576		6,751	Met	9,397		9,485	Met
Expenditures on poverty alleviating sectors	1,277		1,420	Met	2,141		2,233	Met	2,994		3,032	Met
Ceiling on the issuance of guarantees by the Government/Bank of Uganda	0		0	Met	0		0	Met	0		0	Met
Net change in the stock of domestic arrears[8]	-70		-58	Not met	-80		-96	Met	-212		n.a.	n.a.
Ceiling on withdrawals from energy and petroleum funds	1,230		899	Met	1,230		899	Met	1,096		1,100	Not met
	(Annual percentage change)											
Inflation consultation clause												
Outer band (upper limit)	8.7				8.3				8.0			
Inner band (upper limit)	7.7				7.3				7.0			
Core inflation target [9]	5.7		3.1	Not met	5.3		2.9	Not met	5.0		3.3	Met
Inner band (lower limit)	3.7				3.3				3.0			
Outer band (lower limit)	2.7				2.3				2.0			

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

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

[3] The adjustors applied for budget support contained in Schedule A of the TMU inadvertently switched the lines for budget support loans and grants. The correct adjustor has been used to calculate the adjusted target.

[4] Continuous assessment criterion.

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

[6] Excluding normal import-related credits.

[7] The NIR outturn is assessed using program exchange rates.

[8] 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.

[9] Annual percentage change, twelve-month period average core inflation.

Attachment Table I.2. Uganda: Quantitative Assessment Criteria and Indicative Targets for September 2015–March 2016[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]	
	Program	Program	Revised Program	Program	Revised Program
		(Billions of Ugandan shillings)			
Assessment criteria					
Ceiling on the overall deficit of the Central Government	1,682	3,215	2,346	4,479	3,814
		(Millions of US dollars)			
Ceiling on the stock of external payment arrears incurred by the public sector	0	0	0	0	0
Minimum increase in net international reserves of the Bank of Uganda (US$mn)[3]	49	111	-225	174	-281
Share of oil revenue placed in the Petroleum Fund	100	100	100	100	100
		(Billions of Ugandan shillings)			
Indicative targets					
Ceiling on cumulative changes in temporary advances from Bank of Uganda to the central government	n.a.	n.a.	268	n.a.	118
Floor on tax revenue	2,441	5,199	5,282	7,823	7,997
Expenditures on poverty alleviating sectors	768	1,570	1,570	2,367	2,367
Ceiling on the issuance of guarantees by the Government/Bank of Uganda	0	0	0	0	0
Net change in the stock of domestic arrears[4]	-20	-40	-39	-60	-80
Ceiling on withdrawals from energy and petroleum funds	70	95	173	120	253
		(Annual percentage change)			
Inflation consultation clause					
Outer band (upper limit)	8.0	8.0	8.0	8.0	8.0
Inner band (upper limit)	7.0	7.0	7.0	7.0	7.0
Core inflation target [5]	5.0	5.0	5.0	5.0	5.0
Inner band (lower limit)	3.0	3.0	3.0	3.0	3.0
Outer band (lower limit)	2.0	2.0	2.0	2.0	2.0

[1] Defined in the Technical Memorandum of Understanding (TMU). Values for 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 2015, except as marked.

[3] The NIR outturn is assessed using program exchange rates.

[4] 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.

[5] Annual percentage change, twelve-month period average core inflation.

Attachment Table I.3. Structural Benchmarks				
Policy Measure	**Macroeconomic Rationale**	**Date[1]**	**Status**	**Proposed Revised Date[1]**
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	Some progress. The draft is under review.	
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 2015	Not met. BoU recapitalization for this fiscal year catered for in the FY2015/16 budget. The recapitalization process has started, and the BoU is making progress on the implementation of its business plan to contain operational and administrative costs.	November 2015
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.		

Attachment Table I.3. 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, 2015 for the quarter ending June 30, 2015.	Not met. Government needs to audit and reconcile figures before publication.	December 2015
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 identification of financial sector clients, and combat money laundering and the financing of terrorism.	July 2015	Met.	
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	Not met. Government needs to wait for approval of PFM Act amendments. Current draft of regulations needs to incorporate substantive changes, mainly on oil revenue management.	March 2016
Ministry of Finance to send to Parliament the charter of fiscal responsibility.	To improve fiscal and macroeconomic management.	April 2016	On track. Current draft under internal discussion.	
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	On track. Work Bank consultants were procured; guidelines were produced; and training for stakeholders was facilitated.	
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.	March 2016	Off track. Donors require more time as they consider existing systems do not provide sufficient safeguards. SB reformulated in line with the next SB below.	

Attachment Table I.3. Structural Benchmarks (concluded)

Proposed new structural benchmarks.				
Ministry of Finance to include 30 local governments in the TSA structure.	Provide a key milestone for full TSA implementation.	March 2016		
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 the BOU and in the charter of fiscal responsibility.	To improve fiscal and macroeconomic management.	April 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 December 31, 2015—March 31, 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 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)

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

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-December 2015 will be subject to the consultation mechanism, while the CCPI inflation for end-March 2016 will be an indicative target.

Text Table 2. Inflation Targets

	Dec. 2015	Mar. 2016
Outer band (upper limit)	8.0	8.0
Inner band (upper limit)	7.0	7.0
Core inflation target	5.0	5.0
Inner band (lower limit)	3.0	3.0
Outer band (lower limit)	2.0	2.0

3. Should the observed average CCPI inflation for the test date linked to a PSI program review (i.e., end-December 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 Fund staff when the observed average CCPI inflation falls outside the inner band, as specified for December 2015 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. 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).

[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.

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 while the Act becomes operational, 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 is to be addressed under the envisaged amendments to the BoU Act, expected to be submitted to Parliament in April, 2016.

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.

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) and project accounts with the central bank. 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. 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 arrears as reported in the consolidated financial statements of the GoU will be used as the indicative target.

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

21. 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 with the BoU so that proper management can be made on the 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 respective fiscal year. Withdrawals will be restricted to meet the GoU's share of spending on externally-financed infrastructure projects listed in Text Table 3.

Text Table 3. Externally-financed infrastructure projects.

Karuma and Isimba hydropower projects (HPPs)
Standard Gauge Railway
Entebbe Airport upgrade

L. Adjusters

Adjustor related to budget support

22. The NIR 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.

23. 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)

	Dec-15	Mar-16
Budget support grants	110	142
Budget support loans	--	--

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

Adjustors related to the financing of the infrastructure projects

Background on Infrastructure projects and Energy and Petroleum Fund Stocks

24. The GoU's deposits in the Energy Fund and the Petroleum Fund—with the current stocks described in the table below—will be exclusively used for the GoU to co-finance the externally-financed infrastructure projects listed in Text Table 3 for the current FY. 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 as of end-June 2015

(Ush billions and USD millions)

	Ush	USD	
Energy Fund	190	0	(BoU reserves)
Petroleum Fund	1,186	0	(BoU other assets)

Adjustor on Expenditures to Co-finance Externally-financed Infrastructure Projects

25. The ceilings on the cumulative increase in 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 spending to co-finance the externally-financed infrastructure projects listed in Text Table 3, financed by withdrawals from the Petroleum Fund and the Energy Fund (measured using the DCS) 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 by 10 percent of the amounts as set out in Schedule B. Spending on these projects financed by external borrowing are not included in this adjuster.

Schedule B: Expenditures on co-financing externally-financed infrastructure projects

(Ush billions)

	Dec-15	Mar-16
Cumulative from the beginning of the respective fiscal year	173	253

Adjustor on Inflows into the Petroleum Fund

26. 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 C.

Schedule C: Inflows into Petroleum Fund
(Ush billions)

	Dec-15	Mar-16
Cumulative from the beginning of the respective fiscal year	--	--

Adjustor on Foreign Currency Spending to Co-finance Externally-financed Infrastructure Projects

27. 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 co-finance the externally-financed infrastructure projects listed in Text Table 3 falls short of (exceeds) the projected amounts set out in Schedule D. 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 foreing-currency spending to confiance the externally-financed infrastructure projects
(US$ millions)

	Dec-15	Mar-16
Cumulative from the beginning of the respective fiscal year	--	--

28. 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 E.

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

	Dec-15	Mar-16
Cumulative from the beginning of the respective fiscal year	200	200

Adjustor related to externally-financed projects

29. 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 F. Any upward adjustment will be capped by 10 percent of the amounts set out in Schedule F.

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

	Dec-15	Mar-16
Cumulative from the beginning of the respective fiscal year	2090	3266

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

30. 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.[3] 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

[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.

or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lesser retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

(b) Under the definition of debt set out in point 9(a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

31. 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.

N. Monitoring and Reporting Requirements

32. 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

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

INTERNATIONAL MONETARY FUND

UGANDA

FIFTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT AND REQUEST FOR WAIVER OF AN ASSESSMENT CRITERION AND MODIFICATION OF ASSESSMENT CRITERIA—INFORMATIONAL ANNEX

November 3, 2015

Prepared By

The African Department
(in consultation with other departments)

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FUND RELATIONS

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

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

SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	173.06	100.00
Holdings	47.49	27.44

Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
ECF Arrangements	0.20	0.11

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF [1/]	Sep 13, 2002	Jan 31, 2006	13.50	13.50
ECF [1/]	Nov 10, 1997	Mar 31, 2001	100.43	100.43
ECF [1/]	Sep 06, 1994	Nov 09, 1997	120.51	120.51

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

	Forthcoming				
	2015	2016	2017	2018	2019
Principal		0.20			
Charges/Interest	0.02	0.07	0.07	0.07	0.07
Total	0.02	0.27	0.07	0.07	0.07

Implementation of HIPC Initiative:

I. Commitment of HIPC assistance	Original Framework	Enhanced Framework	Total
Decision point date	Apr 1997	Feb 2000	
Assistance committed			
by all creditors (US$ Million) [3/]	347.00	656.00	
Of which: IMF assistance (US$ million)	68.90	91.00	
(SDR equivalent in millions)	51.51	68.10	

	Apr 1998	May 2000	
Completion point date	Apr 1998	May 2000	
II. Disbursement of IMF assistance (SDR Million)			
Assistance disbursed to the member	51.51	68.10	119.61
Interim assistance	--	8.20	8.20
Completion point balance	51.51	59.90	111.41
Additional disbursement of interest income [4/]	--	2.06	2.06
Total disbursements	51.51	70.16	121.67

Implementation of Multilateral Debt Relief Initiative (MDRI):

I. MDRI-eligible debt (SDR Million)[5/]	87.73
Financed by: MDRI Trust	75.85
Remaining HIPC resources	11.88

II. Debt Relief by Facility (SDR Million)

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

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

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[1/] Formerly PRGF.

[2/] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

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

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

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

Safeguards Assessments:

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

Exchange Rate Arrangement:

The official exchange rate is determined on the interbank market for foreign exchange. Uganda's de jure exchange rate arrangement is free floating, and its de facto is floating. As of end-September, 2015 the official exchange rate was USh 3,695.25 per U.S. dollar. The exchange system is free of restrictions on the making of payments and transfers for current international transactions.

Article IV Consultation:

The Executive Board concluded the last Article IV consultation on June 29, 2015. The next Article IV consultation will be held in accordance with the decision on consultation cycles adopted by Decision No. 14747, as amended.

Technical Assistance:

Uganda has continued to receive extensive technical assistance from both IMF and East AFRITAC (regional technical assistance center).[1] Key areas of assistance include PFM, revenue mobilization, mining and oil resource management, and international taxation on the fiscal side. MCM and East AFRITAC have been providing a series of missions focusing on financial stability since the beginning of 2014, covering a wide range of areas, including insurance company supervision, mobile payment regulation, payment systems, and oversight policy.

More particularly, on the fiscal area, in June 2015, an AFE PFM mission followed up ongoing work on assisting the authorities in improving cash management. The mission focused on expanding the coverage and operation of the Treasury Single Account, and strengthening cash forecasting with the aim of more active cash management. Improving the Program-Based Budgeting structure and budget documents was also discussed in an August mission. The second mission under the project on extractive industry fiscal regimes in Uganda, supported by the IMF's Trust Fund on Managing

[1] For a description of technical assistance provided prior to June 2015, see the staff report for Uganda: 2015 Article IV Consultation and Fourth Review Under the Policy Support Instrument (IMF Country Report No. 15/175). Refer to the staff report for Uganda First Review Under the Policy Support Instrument (IMF Country Report No. 13/375) for the details on technical assistance for the second half of 2013; to the staff report for Uganda Second Review Under the Policy Support Instrument (IMF Country Report No. 14/195) for the details on technical assistance for the first half of 2014; and for the Third Review Under the Policy Support Instrument (IMF Country Report No. 14/344) for the details on technical assistance for the second half of 2014.

Natural Resource Wealth, took place in July 2015, and discussed how to implement fiscal regimes for extractive industries. A FAD mission in August worked together with the Uganda Revenue Authority to develop and further refine the Tax Administration Diagnostic Assessment Tool (TADAT) through a TADAT pilot assessment mission on the framework to assess the strengths and weaknesses of the tax administration system and identify priorities for reforms in tax administration.

An East AFRITAC technical assistance mission assisted the BoU to strengthen its Anti-money Laundering/ Combating the Financing of Terrorism supervisory tools and practices. Another East AFRITAC (AFE) mission provided training on supervision of reinsurance companies and assisted in the preparations of an industry seminar to introduce risk-based supervision in October 2015. A mission to the BOU advised on prudential regulations for mergers and acquisitions in October 2015 while another assisted in a pilot examination on consolidated supervision.

On the data field, East AFRITAC fielded a mission to develop quarterly GDP estimates by expenditure in July/August.

Resident Representative:

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

JOINT WORLD BANK-IMF WORK PROGRAM

Title	Products	Provisional Timing of Missions (if relevant)	Expected Delivery Dates
World Bank	The current IDA portfolio consists of 19 active operations with net commitment of $2.5 billion, and 5 regional projects with net commitment of $149 million. The disbursement rate remains low, with $1.65 billion undisbursed. About 60 percent of the portfolio finances transport and energy infrastructure investments. Other key sectors include agriculture, water, urban development, education, health, and private sector competitiveness. Five of the eight projects approved by the Bank Board during FY2014/15 are still not effective, including the skills development project, energy for rural transformation II project, agriculture cluster project; multi-sectoral food security information; and NUSAF3. The Bank is managing other trust funded projects such as the $100 million fund for teacher and school effectiveness (under the Global Partnership for Education facility grant), and other smaller grants.		
	A Development Policy Loan Operation (DPO) is being discussed for possible disbursement during FY2015/16.	November 2015	Board presentation in April 2016.
	The Public Investment Management project (with support from DFID trust fund) aims at streamlining analysis and appraisal of projects, as well as starting the process of building capacity to this end.	Ongoing	Project to close in December 2015.
	Economic update (two series) Special focus to be determined	Mission ongoing with the dissemination of the economic update with special focus on land.	Next update expected in March 2016.

Fund Work Program	Fifth review of the PSI	October 2015	December 2015
	Sixth review of the PSI	May 2016	June 2016
	TA priorities:		
	• Public Financial Management	November 2015	November 2015
	• Customs Administration	TBD	TBD
	• Tax Administration	October 2015	October 2015
	• Fiscal Transparency	April 2016	TBD
	• Natural Resource Taxation	October 2015	October 2015
	• Central Bank Governance	TBD	TBD
	• National accounts	February 2016	February 2016
Joint Work Program	Joint DSA update	May 2016	June 2016

STATISTICAL ISSUES

(as of October 30, 2015)

I. Assessment of Data Adequacy for Surveillance
General: Overall data provision is adequate for surveillance purposes, although some shortcomings remain.
Real Sector Statistics: Since 2004 Uganda has been receiving technical assistance (TA) from the East African Technical Assistance Center (East AFRITAC) on the compilation of **annual and quarterly national accounts and price statistics**. With assistance from East AFRITAC and an external consultant, the Uganda Bureau of Statistics (UBOS) developed supply and use tables (SUT) that include preliminary product balances for 155 activities by 161 products. An East AFRITAC mission in May 2014 assisted in finalizing the SUT and rebasing the annual and quarterly GDP estimates at current and constant prices. The rebased GDP estimates (FY2009/10) were released in November 2014. An East AFRITAC mission in July-August helped improve expenditure measures of GDP, and a planned mission is expected to develop quarterly expenditure measures in current and constant prices. STA has begun a project to assist the authorities to strengthen financial transactions accounts and balance sheets by institutional sector, and is planning a workshop on real estate prices for EAC countries to assist the authorities with the property price index that Uganda is developing. **Labor market indicators** such as employment and wages/earnings are infrequently compiled and disseminated. UBOS aims to compile and disseminate these data categories on an annual basis, but due to resource and data unavailability, these data are compiled with a two year lag. The **consumer price index** (CPI) series released in January 2010 were replaced in June 2014 by the new CPI series that use the expenditure weights from the 2009/2010 Uganda National Household Survey. UBOS compiles and disseminates a Producer Price Index (PPI) for manufacturing (separately for imports and domestic output) and for hotels. East AFRITAC has been providing TA to rebase and expand the coverage and quality of the PPI and to develop export and import price indices.
Government Finance Statistics (GFS): The Ministry of Finance, Planning and Economic Development (MoFPED) compiles and reports annual (GFSY) budgetary central and local government data and monthly (IFS) budgetary central government data on a cash basis following the Government Finance Statistics Manual 2001 (GFSM 2001). East AFRITAC is providing technical assistance to the national authorities to expand the coverage and improve the quality of these statistics. The national GFS Technical Working Group, comprising representatives from MOFPED, UBOS and the Bank of Uganda (BOU) are working on the implementation of GFSM 2014 to meet East African Monetary Union (EAMU) Protocol's fiscal statistics requirements. This work will result in important improvements in the Uganda's GFS, such as expansion of coverage to the general government sector by June 2016. In addition, according to the plan, Uganda will disseminate estimates of the stock of financial assets and liabilities by 2017 and will complete implementation of GFSM by the end of 2017.

Monetary and Financial Statistics: TA in FY2015/16 aims at improving the institutional coverage and classification of other depository corporations (ODCs) and initiating the collection and compilation of data for other financial corporations, mainly insurance companies and pension funds. This would build on previous missions financed by DFID on the standardized report forms (SRFs). Uganda began publishing SRF-based monetary data from 2002 in IFS beginning in early 2009. In addition, the TA also aimed at developing a system that would allow the BOU to collect information on financial positions with non-residents in the other East African Community (EAC) partner states, for the purpose of compiling union-wide MFS for the EAC. The BOU compiles and submits to STA all core financial soundness indicators (FSIs) and some FSIs for deposit takers, households, and real estate markets.

External Sector Statistics (ESS): The BOU, with the assistance of East AFRITAC has improved the quality and timeliness of ESS and implemented *Balance of Payments and International Investment Position Manual (BPM6)* standards. In May 2015, an STA technical assistance mission visited Uganda to finalize the compilation methods for the unit value based export and import price indexes, as well as develop more reliable survey based export and import indexes.

II. Data Standards and Quality

Uganda is participating in the IMF–DFID Enhanced Data Dissemination Initiative, Quarterly National Accounts (QNA) Statistics Module. An initial mission was undertaken during November 2010 to review the data sources and compilation methodology used to compile QNA estimates and to make recommendations for improvements. Follow-up missions were undertaken during May and November 2011, May and November 2012, and May and November 2013. CPI, PPI and annual estimates of rebased GDP have been released. Major improvements have been made to the associated data sources, especially benchmark surveys and the compilation methodologies. Comprehensive supply and use tables (SUTs) have been compiled; and quarterly GDP by production approach (GDP-P) at constant and current prices disseminated. The quality and timeliness of the ESS has been improved and the estimates are consistent with the BPM6 standards.

Uganda has been GDDS participant since May 2000. In February 2005, a STA mission prepared a Report on the Observance of Standards and Codes (ROSC), with results published in July 2006. The ROSC mission assessed data compilation and dissemination practices against international standards in national accounts, prices, government finance, and balance of payments statistics. The monetary and financial statistics were not assessed.

III. Reporting to STA
Uganda reports government finance statistics (GFS) data according to the GFSM 2001 framework for the GFS Yearbook, but does not report any high frequency data for inclusion in the International Financial Statistics (IFS). The BoU reports regularly monetary data for the central bank and ODCs in the SRF format, and it also reports all core FSIs and some FSIs for deposit takers, households, and real estate markets.

INTERNATIONAL MONETARY FUND

UGANDA

November 3, 2015

FIFTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT AND REQUEST FOR WAIVER OF AN ASSESSMENT CRITERION AND MODIFICATION OF ASSESSMENT CRITERIA—DEBT SUSTAINABILITY ANALYSIS

Approved By
Roger Nord (IMF, AFR), Masato Miyazaki (IMF, SPR), and John Panzer (IDA)

Prepared by the staff of the International Monetary Fund (IMF) and the International Development Association (IDA)

Risk of external debt distress:	**Low**
Augmented by significant risks stemming from domestic public and/or private external debt?	**No**

The Debt Sustainability Analysis (DSA) update indicates that Uganda remains at low risk of debt distress.[1] The recent large depreciation of the shilling and the downgrade in the Country Policy and Institutional Assessment (CPIA) rating have however raised the external debt burden and lowered its sustainability thresholds. In response to this the authorities have indicated their intention to adjust their medium term borrowing plan to maintain debt at low risk of distress. Relatively weak exports and low revenues as well as the short maturity nature of domestic debt pose risks to debt prospects.

[1] The last full Debt Sustainability Analysis (DSA) was conducted at the time of the 2015 Article IV Consultation and Fourth PSI Review in June 2015 (IMF Country Report No. 15/175). Under the Country Policy and Institutional Assessment (CPIA), Uganda was shifted from strong to medium performer in July 2015. All data refer to fiscal years running from July to June (e.g., FY2015/16 covers July 2015 to June 2016). External debt is defined as foreign-currency denominated debt.

RECENT DEVELOPMENTS

1. **A large shilling depreciation and a downgrade in Uganda's CPIA rating from strong to medium performer have raised the external debt burden and lowered its sustainability thresholds.** A real exchange rate depreciation of about 10 percent (y/y) resulted in an increase in the ratio of public and publicly guaranteed (PPG) external debt-to-GDP to 19 percent at end-FY2014/15 (18 percent in the previous DSA). At the same time, the change in the CPIA rating—mainly due to slow improvement in the index that measures transparency, accountability and corruption in the public sector since 2012—lowered the thresholds for external debt indicators, leading to reduced borrowing capacity (Box 1).

2. **Weak export performance, relatively low tax revenues, and the short-term nature of domestic debt add to the debt burden.** While medium-term gains from the real depreciation could be expected, the value of exports of goods has not recovered, owing to weak demand from trading partners and falling commodity prices. Government revenues have significantly improved and are expected to further benefit from planned administration gains, but remain low by regional standards. The average maturity of domestic debt remains short, reflecting structural market inefficiencies and an increased preference for short-term financial investments in the run-up to elections.

3. **In response to these developments, the authorities have decided to adjust their medium-term borrowing plan to keep the risk of debt distress low.** To this end, they have committed to postpone some externally-financed investments (amounting on average to about ½ percent of GDP annually) between FY2016/17 and FY2019/20 while protecting high priority projects and those that have already started, including the hydropower plant projects (HPPs).

Box 1. Uganda CPIA Rating

The CPIA downgrade took place in July 2015 because average ratings over 2012-2014, compiled by the World Bank, remained below the threshold. The Staff Guidance Note on the Application of the Joint Bank-Fund Debt Sustainability Framework for Low-Income Countries (www.imf.org) sets a three-year CPIA average to determine the threshold used for the DSA. In the case of Uganda, the improvement in the 2014 CPIA rating was not enough to bring the average for 2012-2014 above the threshold, prompting the use of more stringent thresholds for the external debt indicators (Box Table 1).

Box Table 1. PPG External Debt Thresholds

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

The CPIA downgrade highlights the importance of reinforcing ongoing efforts to address governance issues. The deterioration of the overall CPIA index was triggered by declines in 2012 in (1) the quality of budgetary and financial management; and (2) the level of transparency, accountability, and corruption in the public sector. Although the former index improved in 2014, the latter stayed constant since its decline in 2012. Improvements in governance, transparency, and financial management, notably when the government implements large investment projects, are essential.

Changes in the Underlying Macroeconomic Assumptions

4. **The macroeconomic assumptions used in this DSA are aligned to those corresponding to the authorities' framework supported by the PSI.** The baseline scenario assumes implementation of the authorities' economic policies and structural reforms. Compared to the previous DSA, the main changes are (1) a decline over the projection period in nominal GDP measured in U.S. dollars reflecting the base effect of the recent depreciation; (2) the planned adjustment in the authorities' fiscal investment plan; and (3) lower estimates for oil-related revenue following a downward revision in oil price assumptions from 74 to 63 dollars per barrel in FY2020/21, in line with the latest WEO projections (Text Table 1).

- *Growth* is projected at 6½ percent, on average, over the medium term (½ percentage point lower than in the previous DSA) reflecting the re-phasing of investment projects. Oil production is projected to raise real GDP growth by 0.8 percentage points, on average, during FY2022-2026 (compared to 0.9 percent in the previous DSA). Oil production would now account for 7 percent of Uganda's GDP during the peak extraction period (previously, 10 percent).

- *The GDP deflator* is projected at 4 percent over the medium term. It is lower than in the last DSA because the higher-than-projected depreciation is offset by improvements in terms-of-trade projections stemming from weaker commodity prices. The deflator is projected to pick up as growth recovers over the medium term, while converging to 4 percent in the long run.

- *The external current account deficit* is estimated at 11 percent of GDP, on average, over the medium term (1 percent of GDP lower than in the last DSA). This reflects the combined impact of the real effective exchange rate depreciation and the planned reductions in investment. Oil exports are projected to narrow the current account balance by 2 percent of GDP, on average, in the next 20 years, compared to 2½ percent in the last DSA.

- *The fiscal deficit* is estimated to average 5½ percent of GDP a year over the long run—a decline of ¼ percentage point compared to the last DSA. The re-phasing of the public investment projects is projected to push the deficit down through FY2019/20 (by ½ percent of GDP) and raise it afterwards. In addition, over the long term, the deficit is set to increase by ¼ percent of GDP to account for the oil price decline. Conservatively, oil revenue projections have been revised down by ¾ percentage point to 3 percent of GDP, on average, once oil production reaches full capacity.

- *Nonconcessional borrowing* is projected to remain unchanged at about $8 billion over the medium term (cumulative from June 28, 2013), but disbursements before FY2019/20 are now anticipated to be lower due to the re-phasing of some non-essential projects (Text Table 2). Debt to be contracted by end-December 2015 ($3 billion) will finance the construction of the Karuma and Isimba dams, industrial substations, the Entebbe Airport rehabilitation, and road construction projects.

Text Table 1. Selected Macroeconomic Indicators – Compared to the Previous DSA

	FY2016	FY2017-21 Average	FY2022-26 Average	FY2027-31 Average	FY2032-36 Average
Real GDP growth (percent)					
Baseline	5.0	6.6	8.0	5.4	4.9
excl. oil production	5.0	6.3	7.2	5.7	5.3
Previous DSA	5.8	7.0	8.1	5.3	4.8
Inflation (GDP deflator, national currency, percent)					
Baseline	8.2	4.0	4.6	3.9	3.9
excl. oil production	8.2	3.8	4.4	4.0	4.0
Previous DSA	5.1	4.5	4.6	3.9	3.9
Nominal GDP (US$ billion)					
Baseline	22.8	32.2	57.5	95.6	145.0
excl. oil production	22.8	32.0	54.0	89.4	138.9
Previous DSA	27.0	34.5	62.8	104.2	149.3
Current account balance (percent of GDP)					
Baseline	-9.6	-11.0	-5.7	-4.9	-4.4
excl. oil production	-9.6	-5.7	-8.0	-7.3	-5.8
Previous DSA	-11.0	-12.0	-5.0	-3.8	-4.2
Overall fiscal balance (percent of GDP)					
Baseline	-6.6	-5.3	-2.0	-1.1	-1.3
excl. oil production	-6.6	-5.4	-3.5	-3.0	-2.8
Previous DSA	-7.0	-5.5	-1.8	-0.8	-1.2
Oil-related Revenue (percent of GDP)					
Baseline	0.0	0.4	2.6	3.4	2.6
excl. oil production	0.0	0.0	0.0	0.0	0.0
Previous DSA	0.0	0.4	3.0	4.2	3.2

Source: IMF staff projections.

Text Table 2. Summary Table on External Borrowing Program

PPG external debt contracted or guaranteed	Volume of new debt[1]	Present value of new debt[1]
Year 1: FY2015/16	(Millions of U.S. dollars)	
Source of debt financing	**2,684**	**1,862**
Concessional debt, of which[2]	1,845	1,107
Multilateral debt	1,414	848
Bilateral debt	432	259
Non-concessional debt, of which[2]	839	755
Semi-concessional debt[3]	839	755
Commercial-term debt[4]	-	-
Use of debt financing	**2,684**	**1,862**
Infrastructure	2,684	1,862
Budget financing	-	-
Memorandum items		
Indicative projections		
Year 2: FY2016/17	821	723
Year 3: FY2017/18	2,371	2,134

Sources: Ugandan authorities and IMF staff projections.

[1] Contracting and guaranteeing of new debt, defined as debt approval by a resolution of Parliament as required in Section 36 (5) and 39 (1) of the Public Finance and Management Act, 2015. The present value of debt is calculated using the terms of individual loans and applying the 5 percent program discount rate.

[2] Debt with a grant element that exceeds a minimum threshold (35 percent).

[3] Debt with a positive grant element which does not meet the minimum threshold.

[4] Debt without a positive grant element. For commercial debt, the present value would be defined as the nominal/face value.

EXTERNAL DEBT SUSTAINABILITY

5. **Public and publicly guaranteed (PPG) external debt is assessed to be sustainable over the projection period.** The PV of PPG external debt-to-GDP ratio is expected to peak at 27 percent in FY2020/21, while nominal PPG external debt would stay below 36 percent of GDP in the projection period. All debt burden indicators—under the baseline scenario and the standardized stress tests—are projected to remain below Uganda's country-specific debt burden thresholds (Figure 1, Tables 1, and 3). Compared to the last full DSA, the debt burden indicators remain at similar levels, after taking into account the authorities' policy response to the increased risks.

6. **Nonetheless, more stringent thresholds limit the capacity for additional external borrowing**. Extreme stress tests—mainly the 30 percent one-time depreciation scenario—now show that debt burden indicators peak close to the threshold. To increase the space for external borrowing while maintaining debt sustainability, it is important to strengthen the quality of reforms and institution building, in particular by making progress in governance, transparency, and public financial management issues.

7. **Risks stemming from the uncertainty about oil production remain limited.** A customized alternative scenario, where no oil revenues or oil exports materialize, shows a limited increase in the debt burden indicators, reflecting the authorities' prudent debt accumulation plan. Given the high uncertainty, especially regarding oil prices, keeping a prudent fiscal plan that does not rely on oil proceeds is warranted.

PUBLIC DEBT SUSTAINABILITY

8. **Total public debt (external and domestic) is assessed to be sustainable over the projection period.** The PV of public debt-to-GDP ratio is projected to peak at about 41 percent in FY2020/21, well below the benchmark level of 56 percent associated with heightened public debt vulnerabilities for medium performers. However, the relatively short average maturity of domestic debt combined with a low revenue base continue to be a matter of concern, leading to a debt service-to-revenue ratio of about 41 percent in FY2019/20, among the highest in countries of Uganda's level of income, and increasing rollover and interest rate risks. These risks need to be mitigated by a combination of stronger revenue mobilization and determined efforts to extend average maturities over the medium term.

9. **Stress tests indicate the importance of fiscal consolidation over time.** An illustrative scenario with a fixed primary deficit over the projection period indicates a significantly high PV of public debt-to-GDP ratio, breaching the benchmark level of 56 percent of GDP in FY2024/25 (Figure 2, Tables 2 and 4). This highlights the importance of reducing fiscal deficits immediately after the planned scaling up of public investment has been completed. The customized alternative scenario without oil flows indicate higher but limited risks stemming from uncertainty about oil revenues, as in the case for the external debt analysis.

10. **The authorities have made efforts to strengthen public debt management in recent years.** With assistance from the World Bank, the authorities have developed a medium term debt management strategy and an assessment of debt management performance (Debt Management Performance Assessment, DeMPA). They are also establishing a Debt and Cash Management Directorate in the Ministry of Finance, Planning and Economic Development, with a plan to transfer debt management functions from the Bank of Uganda. Currently, the World Bank is providing technical assistance in drafting a debt

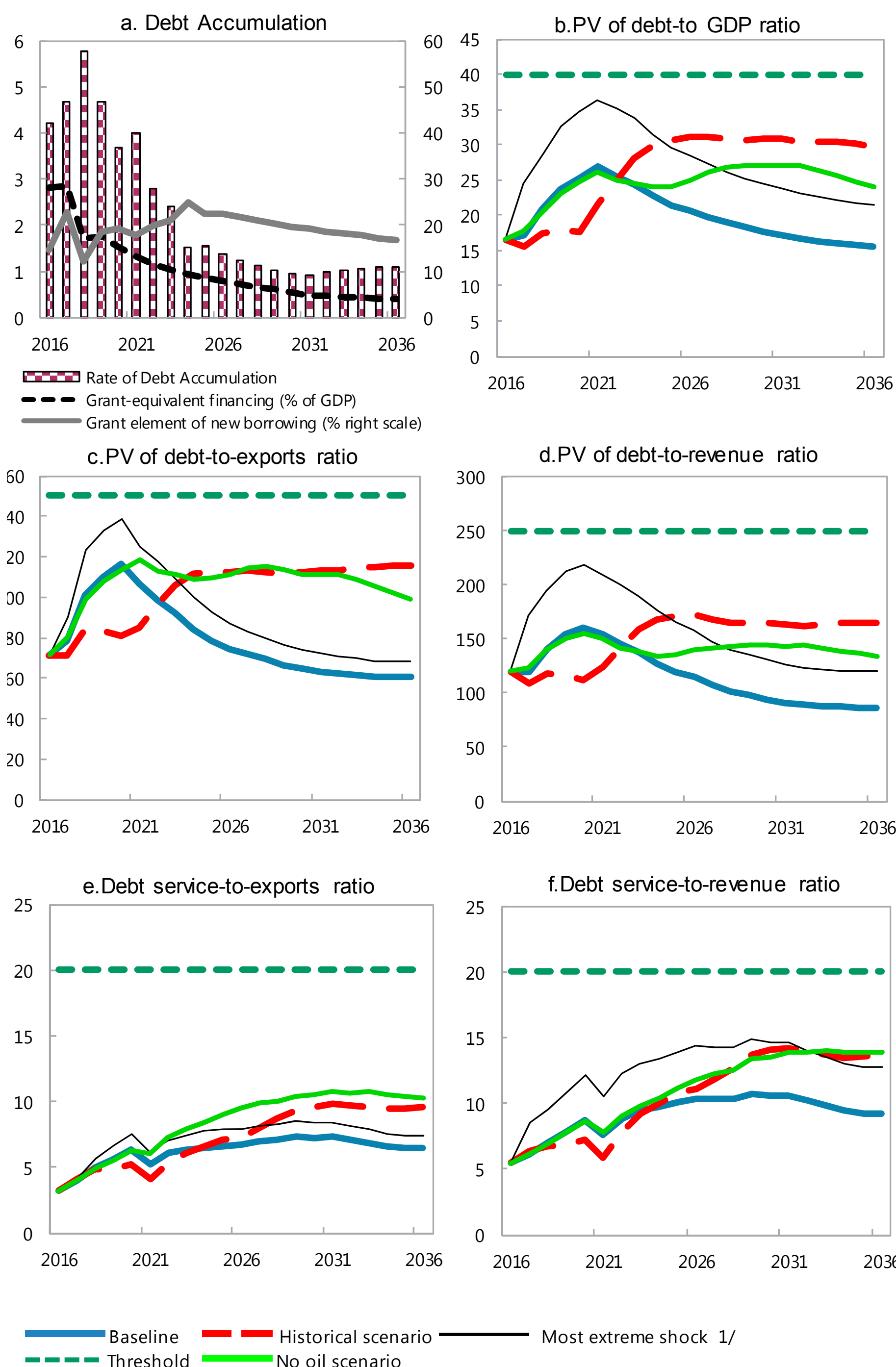
management reform action plan, focusing on the internal organization of debt management and the establishment of a framework for managing contingent liabilities. Further technical assistance is planned by the end of CY2015 to update Uganda's debt management strategy.

CONCLUSION

11. **Uganda's risk of external debt distress remains low.** Although the recent large depreciation of the shilling raises the external debt burden, the planned reduction in the pace of public investment mitigates the increased risks. Adhering to this revised plan; carefully assessing projects' financial and economic viability; selecting the best possible borrowing terms; and avoiding reliance on uncertain oil flows remain essential preconditions for debt sustainability. Making progress in governance issues is also critical considering that large public investments are coming on stream.

12. **The authorities concurred with staff's views.** They remain committed to ensuring debt sustainability through long-term prudent debt management, as outlined in their Medium Term Debt Management Framework, which aims at minimizing costs and risks associated with public investment project financing. The authorities acknowledged the increased risks stemming from the exchange rate depreciation and weak exports as well as the challenges highlighted by the CPIA downgrading, and intend to stick to the revised investment plan, and closely monitor developments to assess if further policy adjustments are needed to ensure maintenance of debt sustainability. They also agreed to make progress in governance and transparency issues, and intend to continue to engage with IDA/IMF staff on debt management issues. The authorities continue to address the short maturity of domestic debt by building policy credibility, deepening the markets, and reforming auction modalities.

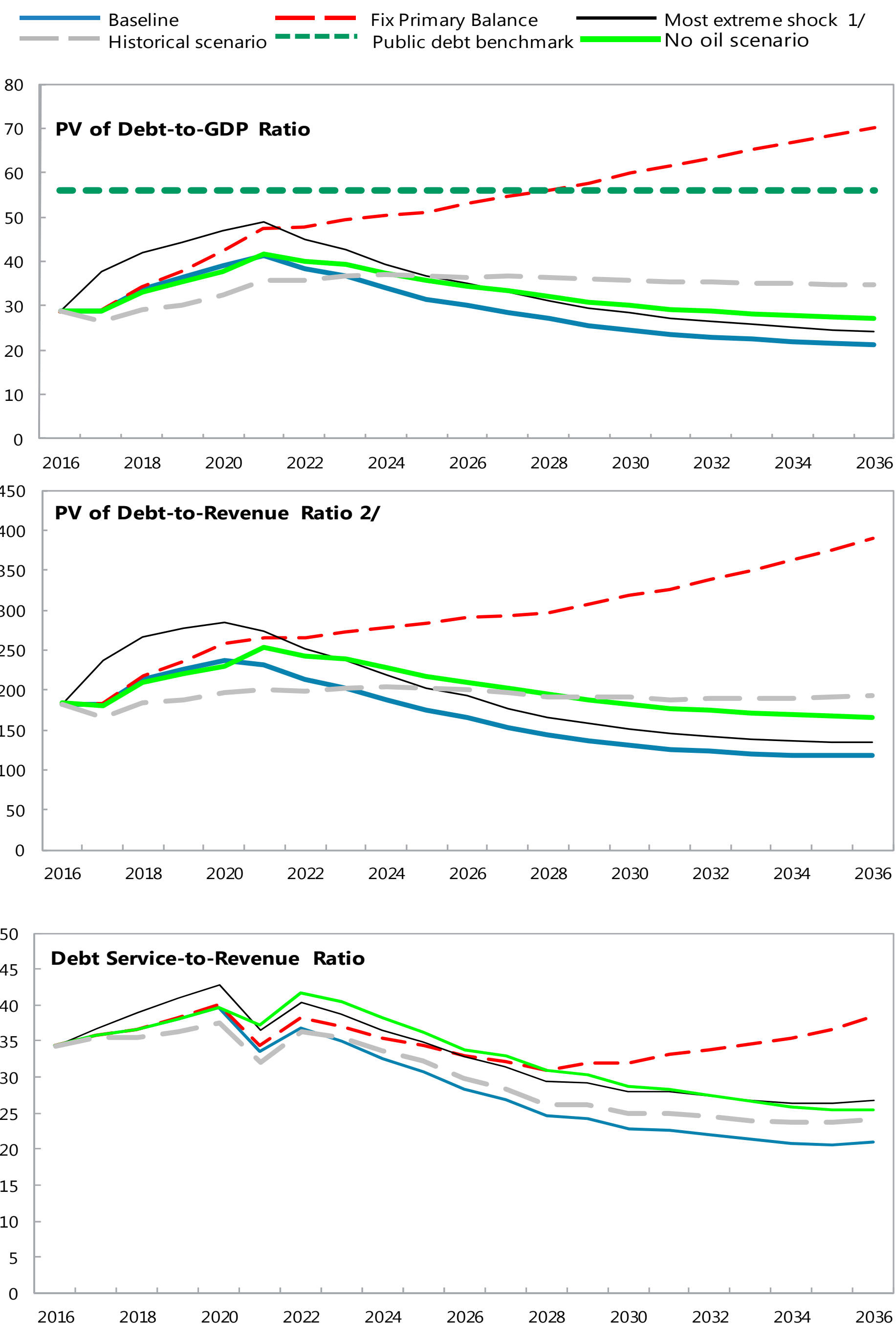
Figure 1. Uganda: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2016-2036 1/



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

1/ The most extreme stress test is the test that yields the highest ratio on or before 2026. In figure b. it corresponds to a One-time depreciation shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock; and in figure f. to a One-time depreciation shock.

Figure 2.Uganda: Indicators of Public Debt Under Alternative Scenarios, 2016-2036 1/



Sources: Ugandan authorities; and IMFstaff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2025.
2/ Revenues are defined inclusive of grants.

Table 1. Uganda: External Debt Sustainability Framework, Baseline Scenario, 2012-2036 [1/]

(In percent of GDP, unless otherwise indicated)

	Actual				Historical [6/] Average	Standard [6/] Deviation	Projections									
	2012	2013	2014	2015			2016	2017	2018	2019	2020	2021	2016-2021 Average	2026	2036	2022-2036 Average
External debt (nominal) 1/	**26.6**	**29.3**	**30.8**	**36.8**			**45.6**	**43.9**	**47.0**	**50.6**	**53.1**	**51.4**		**32.3**	**25.0**	
of which: public and publicly guaranteed (PPG)	13.2	15.2	16.1	19.3			25.8	25.5	29.3	32.4	34.0	35.5		27.2	20.8	
Change in external debt	-1.3	2.8	1.4	6.0			8.9	-1.8	3.1	3.6	2.6	-1.7		-0.9	-0.1	
Identified net debt-creating flows	2.2	3.1	2.5	6.5			4.8	4.3	4.7	4.0	3.4	-1.9		-0.3	0.2	
Non-interest current account deficit	**8.1**	**6.3**	**6.7**	**6.9**	**5.7**	**2.5**	**7.4**	**8.2**	**8.0**	**9.6**	**10.7**	**6.0**		**4.2**	**3.5**	3.7
Deficit in balance of goods and services	12.9	10.2	9.9	11.3			12.2	12.3	11.6	12.9	13.9	8.7		3.8	5.6	
Exports	20.2	20.5	18.8	18.8			23.1	21.8	20.8	21.5	21.7	25.3		27.7	25.6	
Imports	33.1	30.7	28.8	30.1			35.4	34.2	32.4	34.4	35.7	34.0		31.5	31.2	
Net current transfers (negative = inflow)	-5.3	-4.9	-4.0	-5.0	-6.2	1.7	-5.6	-5.0	-4.6	-4.4	-4.2	-4.0		-3.4	-3.1	-3.3
of which: official	-1.7	-0.3	-0.3	-0.5			-0.5	-0.4	-0.3	-0.3	-0.2	-0.2		-0.2	0.0	
Other current account flows (negative = net inflow)	0.6	0.9	0.8	0.6			0.8	0.9	1.0	1.1	1.0	1.2		3.8	1.0	
Net FDI (negative = inflow)	**-3.9**	**-2.9**	**-3.8**	**-3.3**	**-3.7**	**1.1**	**-2.8**	**-4.0**	**-3.3**	**-5.3**	**-6.9**	**-6.4**		**-4.1**	**-3.2**	-4.1
Endogenous debt dynamics 2/	**-2.1**	**-0.3**	**-0.4**	**2.9**			**0.3**	**0.1**	**0.0**	**-0.2**	**-0.4**	**-1.5**		**-0.5**	**-0.1**	
Contribution from nominal interest rate	1.5	1.2	2.1	2.3			2.4	2.4	2.3	2.5	2.6	2.6		1.3	1.0	
Contribution from real GDP growth	-1.1	-0.8	-1.2	-1.6			-2.1	-2.3	-2.4	-2.7	-3.0	-4.1		-1.8	-1.1	
Contribution from price and exchange rate changes	-2.5	-0.7	-1.2	2.1			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-3.5**	**-0.3**	**-1.1**	**-0.5**			**4.0**	**-6.1**	**-1.6**	**-0.4**	**-0.9**	**0.2**		**-0.6**	**-0.3**	
of which: exceptional financing	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	...	28.4			36.4	35.5	38.6	41.9	44.5	42.8		25.8	19.8	
In percent of exports	...	...	...	150.9			157.1	162.3	185.6	194.8	204.6	169.5		93.1	77.2	
PV of PPG external debt	**...**	**...**	**...**	**10.9**			**16.5**	**17.1**	**20.9**	**23.7**	**25.3**	**26.9**		**20.6**	**15.6**	
In percent of exports	**...**	**...**	**...**	**58.1**			**71.2**	**78.1**	**100.7**	**110.2**	**116.5**	**106.3**		**74.5**	**60.7**	
In percent of government revenues	**...**	**...**	**...**	**80.7**			**120.1**	**119.5**	**141.4**	**154.8**	**160.1**	**154.7**		**114.7**	**86.8**	
Debt service-to-exports ratio (in percent)	**9.7**	**9.0**	**15.1**	**15.8**			**17.2**	**18.5**	**16.2**	**18.2**	**17.3**	**14.9**		**11.8**	**11.8**	
PPG debt service-to-exports ratio (in percent)	**2.4**	**2.3**	**2.8**	**2.5**			**3.2**	**4.0**	**4.9**	**5.6**	**6.4**	**5.3**		**6.7**	**6.5**	
PPG debt service-to-revenue ratio (in percent)	**4.3**	**4.1**	**4.5**	**3.5**			**5.4**	**6.1**	**6.9**	**7.8**	**8.8**	**7.7**		**10.4**	**9.2**	
Total gross financing need (billions of U.S. dollars)	1.7	1.6	1.8	2.1			2.3	2.5	2.7	2.9	2.9	1.5		2.9	6.7	
Non-interest current account deficit that stabilizes debt ratio	9.5	3.5	5.3	0.9			-1.5	10.0	4.9	6.0	8.2	7.7		5.2	3.6	
Key macroeconomic assumptions																
Real GDP growth (in percent)	4.4	3.3	4.6	5.0	6.7	2.6	5.0	5.8	6.1	6.3	6.5	8.5	6.4	5.8	4.8	6.1
GDP deflator in US dollar terms (change in percent)	9.8	2.8	4.4	-6.5	4.5	9.7	-17.9	8.2	6.9	1.9	1.9	1.6	0.4	4.3	3.5	4.1
Effective interest rate (percent) 5/	6.2	5.0	7.7	7.3	7.1	2.3	5.7	6.1	6.0	5.8	5.5	5.4	5.7	4.3	4.4	4.3
Growth of exports of G&S (US dollar terms, in percent)	22.7	7.5	0.3	-1.9	14.8	11.9	6.1	8.1	8.0	12.1	9.4	28.2	12.0	12.5	6.8	10.6
Growth of imports of G&S (US dollar terms, in percent)	12.3	-1.4	2.2	2.8	14.8	12.8	1.2	10.7	7.4	15.2	12.3	5.0	8.7	10.3	8.4	9.8
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	...	14.7	22.9	12.1	18.7	19.2	17.7	17.6	22.3	16.8	20.1
Government revenues (excluding grants, in percent of GDP)	11.2	11.4	11.9	13.5			13.7	14.3	14.8	15.3	15.8	17.4		18.0	17.9	18.3
Aid flows (in billions of US dollars) 7/	0.8	1.0	0.5	0.3			0.7	0.9	0.6	0.8	0.7	0.7		0.8	1.1	
of which: Grants	0.4	0.4	0.3	0.3			0.4	0.4	0.3	0.2	0.2	0.2		0.1	0.0	
of which: Concessional loans	0.3	0.6	0.2	0.0			0.3	0.5	0.3	0.5	0.5	0.5		0.7	1.1	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...	...			2.8	2.8	1.7	1.8	1.5	1.3		0.8	0.4	0.7
Grant-equivalent financing (in percent of external financing) 8/	...	...	...	...			36.0	39.9	24.2	27.8	29.2	26.0		27.2	16.8	23.0
Memorandum items:																
Nominal GDP (Billions of US dollars)	23.2	24.7	26.9	26.4			22.8	26.1	29.6	32.1	34.8	38.3		71.6	169.7	
Nominal dollar GDP growth	14.7	6.1	9.2	-1.8			-13.8	14.5	13.4	8.4	8.4	10.2	6.9	10.4	8.4	10.4
PV of PPG external debt (in billions of US dollars)				2.5			3.6	4.6	6.2	7.5	8.7	10.1		14.8	26.4	
(PVt-PVt-1)/GDPt-1 (in percent)							4.2	4.7	5.8	4.7	3.7	4.0	4.5	1.4	1.1	1.3
Gross workers' remittances (billions of US dollars)	0.8	1.1	1.0	1.2			1.2	1.2	1.3	1.3	1.4	1.4		2.8	6.0	
PV of PPG external debt (in percent of GDP + remittances)		...	...	10.5			15.7	16.3	20.1	22.8	24.4	25.9		19.8	15.0	
PV of PPG external debt (in percent of exports + remittances)		...	...	47.0			58.3	64.3	83.5	92.6	98.5	92.6		65.2	53.3	
Debt service of PPG external debt (in percent of exports + remittances)		...	...	2.1			2.6	3.3	4.1	4.7	5.4	4.6		5.9	5.7	

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

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

Table 2. Uganda: Public Sector Debt Sustainability Framework, Baseline Scenario, 2013-2036

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2013	2014	2015	Average 5/	Standard Deviation 5/	2016	2017	2018	2019	2020	2021	2016-21 Average	2026	2036	2022-36 Average
Public sector debt 1/	23.3	26.4	31.1			37.9	37.3	42.0	44.9	47.6	50.0		36.7	26.5	
of which: foreign-currency denominated	15.2	16.1	19.3			25.8	25.5	29.3	32.4	34.0	35.5		27.2	20.8	
Change in public sector debt	1.1	3.0	4.7			6.8	-0.6	4.7	2.9	2.8	2.4		-1.5	-0.4	
Identified debt-creating flows	2.6	2.6	6.7			6.3	1.2	4.0	4.5	3.3	-0.3		-2.0	-0.6	
Primary deficit	2.2	2.7	3.0	1.7	1.2	4.6	4.4	3.9	3.6	2.4	1.5	3.4	-0.3	0.3	-0.3
Revenue and grants	12.9	13.0	14.8			15.7	15.8	15.8	16.0	16.5	17.9		18.2	17.9	
of which: grants	1.5	1.0	1.2			1.9	1.6	1.0	0.7	0.6	0.5		0.2	0.0	
Primary (noninterest) expenditure	15.1	15.7	17.8			20.2	20.3	19.7	19.6	18.8	19.4		17.9	18.2	
Automatic debt dynamics	0.4	-0.1	3.3			1.4	-4.2	-0.6	-1.1	-1.4	-2.3		-1.7	-0.9	
Contribution from interest rate/growth differential	0.1	0.0	-0.3			-0.5	-0.7	-0.7	-1.2	-1.5	-2.7		-1.2	-0.6	
of which: contribution from average real interest rate	0.8	1.0	1.0			1.0	1.4	1.5	1.3	1.2	1.0		1.0	0.6	
of which: contribution from real GDP growth	-0.7	-1.0	-1.3			-1.5	-2.1	-2.2	-2.5	-2.7	-3.7		-2.1	-1.2	
Contribution from real exchange rate depreciation	0.3	-0.1	3.6			2.0	-3.5	0.1	0.1	0.1	0.4		...	...	
Other identified debt-creating flows	0.0	0.0	0.3			0.2	1.0	0.7	2.0	2.3	0.5		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.6	0.6	1.9	2.3	0.5		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (e.g., bank recapitalization)	0.0	0.0	0.3			0.2	0.4	0.1	0.1	0.0	0.0		0.0	0.0	
Residual, including asset changes	-1.5	0.4	-1.9			0.5	-1.9	0.7	-1.6	-0.5	2.6		0.4	0.3	
Other Sustainability Indicators															
PV of public sector debt	...	...	22.7			28.6	28.9	33.6	36.3	39.0	41.4		30.1	21.2	
of which: foreign-currency denominated	...	...	10.9			16.5	17.1	20.9	23.7	25.3	26.9		20.6	15.6	
of which: external	...	...	10.9			16.5	17.1	20.9	23.7	25.3	26.9		20.6	15.6	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	6.5	10.3	11.7			14.1	14.4	13.9	14.1	13.2	12.1		8.2	5.7	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	153.6			182.8	182.2	212.9	226.0	236.8	231.5		166.0	118.4	
PV of public sector debt-to-revenue ratio (in percent)	...	...	167.7			208.6	202.3	226.9	236.5	246.5	238.4		167.7	118.4	
of which: external 3/	...	...	80.7			120.1	119.5	141.4	154.8	160.1	154.7		114.7	86.8	
Debt service-to-revenue and grants ratio (in percent) 4/	31.6	35.3	33.4			34.3	35.7	36.6	38.1	39.7	33.5		28.3	21.0	
Debt service-to-revenue ratio (in percent) 4/	35.7	38.3	36.5			39.1	39.6	39.0	39.9	41.3	34.5		28.6	21.0	
Primary deficit that stabilizes the debt-to-GDP ratio	1.1	-0.3	-1.7			-2.2	5.0	-0.8	0.7	-0.4	-0.8		1.2	0.6	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	3.3	4.6	5.0	6.7	2.6	5.0	5.8	6.1	6.3	6.5	8.5	6.4	5.8	4.8	6.1
Average nominal interest rate on forex debt (in percent)	1.2	1.3	0.9	1.2	0.4	1.5	2.1	2.6	2.9	3.0	3.2	2.5	3.2	3.3	3.2
Average real interest rate on domestic debt (in percent)	10.1	13.8	10.7	5.3	6.3	8.1	11.0	11.8	9.1	8.1	5.4	8.9	6.6	6.9	7.0
Real exchange rate depreciation (in percent, + indicates depreciation	2.5	-0.4	23.5	-1.4	16.8	10.6	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	4.1	2.3	4.2	9.5	6.9	8.2	4.0	3.2	3.8	4.0	4.8	4.7	3.9	3.8	4.1
Growth of real primary spending (deflated by GDP deflator, in percer	6.6	8.6	19.4	3.5	6.4	19.5	5.8	3.3	5.8	2.1	12.0	8.1	7.6	3.9	5.7
Grant element of new external borrowing (in percent)	...	...	...	...	...	14.7	22.9	12.1	18.7	19.2	17.7	17.6	22.3	16.8	...

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

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

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

3/ Revenues excluding grants.

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

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

Table 3. Uganda: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2016-2036

(In percent)

	Projections							
	2016	2017	2018	2019	2020	2021	**2026**	2036
PV of debt-to GDP ratio								
Baseline	16	17	21	24	25	27	**21**	16
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	16	16	17	18	18	21	**31**	30
A2. New public sector loans on less favorable terms in 2016-2036 2/	16	19	23	27	30	32	**28**	26
A3. Alternative Scenario : No Oil Scenario	16	18	21	23	25	26	**25**	24
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	16	18	22	24	26	27	**21**	16
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	16	19	23	26	27	29	**22**	16
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	16	20	27	30	32	34	**26**	20
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	16	19	23	26	27	28	**22**	16
B5. Combination of B1-B4 using one-half standard deviation shocks	16	20	26	29	31	32	**25**	18
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	16	25	29	32	35	36	**28**	21
PV of debt-to-exports ratio								
Baseline	71	78	101	110	117	106	**75**	61
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	71	71	84	83	81	85	**112**	115
A2. New public sector loans on less favorable terms in 2016-2036 2/	71	88	113	128	138	128	**102**	102
A3. Alternative Scenario : No Oil Scenario	71	81	99	108	113	118	**112**	99
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	71	81	100	109	115	104	**74**	61
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	71	90	124	133	139	124	**87**	68
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	71	81	100	109	115	104	**74**	61
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	71	89	111	119	125	112	**78**	62
B5. Combination of B1-B4 using one-half standard deviation shocks	71	85	104	113	119	107	**75**	60
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	71	81	100	109	115	104	**74**	61
PV of debt-to-revenue ratio								
Baseline	120	119	141	155	160	155	**115**	87
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	120	109	118	117	112	124	**172**	165
A2. New public sector loans on less favorable terms in 2016-2036 2/	120	135	158	179	190	186	**157**	146
A3. Alternative Scenario : No Oil Scenario	120	124	139	151	156	150	**139**	134
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	120	126	145	159	164	157	**119**	90
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	120	131	157	169	173	164	**121**	88
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	120	142	180	197	204	195	**147**	111
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	120	136	156	168	172	163	**121**	88
B5. Combination of B1-B4 using one-half standard deviation shocks	120	143	175	189	195	186	**139**	103
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	120	172	194	212	219	210	**159**	120

Table 3. Uganda: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2016-2036 (concluded)

(In percent)

	Projections							
	2016	2017	2018	2019	2020	2021	2026	2036
Debt service-to-exports ratio								
Baseline	3	4	5	6	6	5	**7**	6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	3	4	5	5	5	4	**7**	10
A2. New public sector loans on less favorable terms in 2016-2036 2/	3	4	4	5	6	5	**7**	9
A3. Alternative Scenario : No Oil Scenario	3	4	5	6	6	6	**9**	10
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	3	4	5	6	6	5	**7**	6
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	3	4	6	7	8	6	**8**	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	3	4	5	6	6	5	**7**	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	3	4	5	6	7	6	**7**	7
B5. Combination of B1-B4 using one-half standard deviation shocks	3	4	5	6	7	5	**7**	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	3	4	5	6	6	5	**7**	6
Debt service-to-revenue ratio								
Baseline	5	6	7	8	9	8	**10**	9
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	5	6	7	7	7	6	**11**	14
A2. New public sector loans on less favorable terms in 2016-2036 2/	5	6	6	7	9	8	**11**	13
A3. Alternative Scenario : No Oil Scenario	5	6	7	8	9	8	**12**	14
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	5	6	7	8	9	8	**11**	10
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	5	6	7	8	9	8	**11**	10
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	5	7	9	10	11	10	**13**	12
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	5	6	7	8	9	8	**11**	10
B5. Combination of B1-B4 using one-half standard deviation shocks	5	7	8	10	11	9	**13**	11
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	5	8	10	11	12	11	**14**	13
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	13	13	13	13	13	13	**13**	13

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

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

Table 4. Uganda: Sensitivity Analysis for Key Indicators of Public Debt 2016-2036

(In percent)

	Projections							
	2016	2017	2018	2019	2020	2021	2026	2036
PV of Debt-to-GDP Ratio								
Baseline	29	29	34	36	39	41	30	21
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	29	26	29	30	32	36	37	35
A2. Primary balance is unchanged from 2016	29	29	34	38	42	47	53	70
A3. Permanently lower GDP growth 1/	29	29	34	37	41	44	35	38
A4. Alternative Scenario : No Oil Scenario	29	29	33	35	38	42	34	27
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-2018	29	30	35	39	42	45	35	29
B2. Primary balance is at historical average minus one standard deviations in 2017-2018	29	28	31	34	37	39	29	21
B3. Combination of B1-B2 using one half standard deviation shocks	29	27	31	34	37	39	30	22
B4. One-time 30 percent real depreciation in 2017	29	33	38	40	43	45	33	24
B5. 10 percent of GDP increase in other debt-creating flows in 2017	29	38	42	44	47	49	35	24
PV of Debt-to-Revenue Ratio 2/								
Baseline	183	182	213	226	237	231	166	118
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	183	166	184	188	197	200	201	193
A2. Primary balance is unchanged from 2016	183	183	217	236	258	265	291	390
A3. Permanently lower GDP growth 1/	183	184	216	232	246	243	195	212
A4. Alternative Scenario : No Oil Scenario	184	181	210	221	230	253	209	165
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-2018	183	186	224	240	254	250	192	162
B2. Primary balance is at historical average minus one standard deviations in 2017-2018	183	174	199	213	225	221	159	114
B3. Combination of B1-B2 using one half standard deviation shocks	183	171	194	210	223	220	163	124
B4. One-time 30 percent real depreciation in 2017	183	211	240	250	260	253	179	134
B5. 10 percent of GDP increase in other debt-creating flows in 2017	183	237	266	276	284	273	192	134
Debt Service-to-Revenue Ratio 2/								
Baseline	34	36	37	38	40	34	28	21
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	34	35	36	36	38	32	30	24
A2. Primary balance is unchanged from 2016	34	36	37	38	40	34	33	38
A3. Permanently lower GDP growth 1/	34	36	37	39	41	35	31	28
A4. Alternative Scenario : No Oil Scenario	34	36	37	38	40	37	34	26
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-2018	34	36	38	40	41	35	30	24
B2. Primary balance is at historical average minus one standard deviations in 2017-2018	34	36	36	38	39	33	28	21
B3. Combination of B1-B2 using one half standard deviation shocks	34	36	36	38	39	33	28	21
B4. One-time 30 percent real depreciation in 2017	34	37	39	41	43	36	33	27
B5. 10 percent of GDP increase in other debt-creating flows in 2017	34	36	39	41	42	35	31	23

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

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

2/ Revenues are defined inclusive of grants.