INTERNATIONAL MONETARY FUND

IMF Country Report No. 16/145

UGANDA

June 2016

SIXTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT AND REQUEST FOR A ONE-YEAR EXTENSION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR UGANDA

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

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 6, 2016, following discussions that ended on April 6, 2016, 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 May 20, 2016.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Uganda.

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

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

*Also included in Staff Report

The 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
COMMUNICATIONS DEPARTMENT

Press Release No. 16/263
FOR IMMEDIATE RELEASE
June 6, 2016

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Sixth PSI Review for Uganda and Approves One-Year Extension of the Program

The Executive Board of the International Monetary Fund today completed the sixth review of Uganda's economic performance under the program supported by the Policy Support Instrument (PSI).[1]

In completing the review, the Board approved the authorities' request for a one-year extension of the current PSI arrangement to facilitate policy continuity and allow sufficient time for ongoing structural reforms to progress and also granted a waiver of the nonobservance of the end-December 2015 assessment criteria on the overall deficit of the central government.

The PSI for Uganda was approved by the Executive Board on June 28, 2013 (see Press Release No. 13/78). Uganda's program under the PSI aims at maintaining macroeconomic stability and alleviating constraints to growth. The program supports the authorities' objectives on reforms to the monetary policy framework, tax revenue mobilization, public financial management, and financial sector development. It also backs efforts to improve the business environment, including by preparing the economy better for oil production.

Following the Board discussion, Mr. Min Zhu, Deputy Managing Director and Acting Chair, made the following statement:

"Despite external shocks, and amid election-related uncertainty, Uganda's economy demonstrated resilience, with robust growth, low inflation, and strong international reserves. However, structural reforms have lagged and need to be revitalized to enhance competitiveness, promote economic diversification, and foster sustained and inclusive economic growth.

"Economic policies will remain focused on keeping inflation low and boosting growth. Fiscal priorities include shifting public spending toward infrastructure and poverty-alleviating

[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.

expenditures, boosting domestic revenue mobilization, and enhancing public investment efficiency. Continued fiscal prudence could facilitate further monetary policy easing, which would help ease tight credit conditions.

“More progress is needed on key structural reforms. Prompt parliamentary approval of the Public Financial Management Act regulations in line with international best practice, decisive action to reconcile and validate the stock of domestic arrears, and finalizing the charter of fiscal responsibility are paramount steps to further improve governance and strengthen the budget process. Final approval of legal amendments to the Bank of Uganda Act will strengthen the central bank’s independence and support the inflation targeting regime.

“Vigilance is needed to ensure continued financial stability. Plans to further strengthen prudential supervision in line with the Basel III guidelines are welcome. Ensuring that regulatory oversight keeps pace with financial innovation will help preserve financial stability. Prioritizing prompt parliamentary approval of the Amendments of the Anti-Money Laundering Amendment Act and the Insurance Act should help Uganda exit from the FATF gray list, further strengthening the investment climate.”

INTERNATIONAL MONETARY FUND

UGANDA

SIXTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT AND REQUEST FOR A ONE-YEAR EXTENSION

May 20, 2016

KEY ISSUES

The economy has performed well in a challenging environment. Despite sluggish growth in credit to the private sector, GDP growth has been supported by the implementation of large public investments. Inflation has started to decelerate towards the medium-term target, allowing for monetary policy easing. Improved market sentiment on domestic policies helped stabilize the shilling. International reserves remain adequate.

Program performance under the PSI was mixed. All end-December and continuous quantitative assessment criteria (QAC) were met with one exception, and so were most indicative targets (ITs). Inflation remained well within the bands of the consultation clause. However, there were delays in some structural reforms.

Policies are rightly geared to maintain macro-financial stability. Further monetary policy loosening—in support of the expansion of credit to the private sector—will be guided by the Bank of Uganda's inflation forecast, which will in turn depend on adherence to the budget, food price inflation, and the external environment. Supervision and enforcement of macro-prudential requirements and ongoing financial innovation will help deepen the financial sector while safeguarding stability.

Risks to the outlook are to the downside, but long-term prospects remain favorable. Adverse weather developments, regional and global political and economic uncertainties, and post-election fiscal pressures may challenge the achievement of short-term growth and inflation objectives. However, provided progress on structural reforms is accelerated, the medium-term outlook remains positive, supported by future oil production, increased regional integration and inter-regional trade, and implementation of significant infrastructure projects.

Staff recommends completing the sixth review under the PSI and supports its one-year extension. Staff supports a waiver of the QAC on the ceiling on the overall deficit of the central government, which was missed by a small margin, on the grounds that the slippage was minor. Staff also supports the authorities' request for a one-year extension of the current PSI to facilitate policy continuity and allow sufficient time for ongoing structural reforms to progress.

Approved By

Abebe Aemro Selassie (AFR) and Masato Miyazaki (SPR)

IMF team: R. Nord (head), A. Aisen and R. Randall (all AFR), J. Danforth (FAD) and F. Narita (SPR). C. Mira (resident representative) and C. Ntumwa (local office economist) supported the mission, and G. Gasasira-Manzi (OED) attended official meetings.

Discussions: Held in Kampala during March 21-April 6, 2016. 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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ANNEX

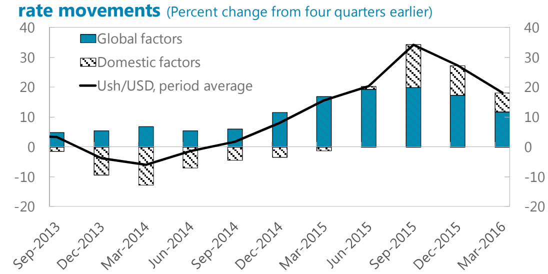
APPENDIX

BACKGROUND AND RECENT DEVELOPMENTS

1. **President Museveni was declared the winner of the presidential elections held on February 18.** The electoral process was marked by allegations of excessive use of force by police, military, and regulatory authorities, and lack of transparency in vote counting. While results were contested in court by one of the presidential candidates, the Electoral Commission declared President Museveni the winner, elected for another 5-year term, with 61 percent of total votes cast.

2. **The economy has performed well.** Despite slow growth in credit to the private sector, an incipient recovery in business tendency indicators suggests that GDP growth in FY2015/16 will reach 5 percent supported by ongoing large public investments in hydropower projects. Headline and core inflation decelerated to 5.1 and 6.4 percent respectively in April, compared to 8.5 and 7.6 percent in December supported by lower food, fuel and electricity prices and a stable exchange rate amid tight monetary conditions. After a more than 30 percent year-over-year depreciation through September 2015, the shilling appreciated by over 10 percent through March 2016 helped by improved market sentiment on domestic policies and a relatively more benign external environment

Uganda: Estimated impact of global factors on exchange rate movements (Percent change from four quarters earlier)



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 2016Q1 (with preliminary data for 2016Q1).

3. **At 9¾ percent of GDP, the current account deficit is expected to widen in FY2015/16, with weak export performance.** While an increase in project-related imports was partly offset by lower international oil prices, exports were negatively affected by soft commodity prices and lower demand from some of Uganda’s key regional trading partners, including South Sudan. An increase in net portfolio flows and stable FDI inflows are expected to strengthen the capital and financial accounts. As a result, gross international reserves are projected to reach US$ 2.75 billion (US$100 million higher than projected during the 5th review) equivalent to 3.9 months of prospective imports.

4. **The banking system remains sound, but growth in credit to the private sector has been sluggish.** Financial soundness indicators suggest that the banking system remains well-capitalized, liquid and profitable. However, preliminary data suggest that the NPL ratio increased to about 7 percent of total loans in March—reflecting increases in NPLs in both U.S. dollar and shilling lending across various sectors and banks— in the context of high and variable interest rates and exchange rate volatility. In keeping with enhanced risk management practices, banks tightened lending standards, particularly in foreign currency lending. As a result, on a 12-month basis, growth in credit to the private sector, excluding exchange rate valuation effects, declined sharply over the last year from 8½ percent in June 2015 to just 2.3 percent in March 2016. In parallel, US dollar deposits grew strongly as depositors moved to protect their savings from the risk of further exchange rate depreciation.

5. After a pause in the hiking cycle, the authorities have started to ease monetary policy as expected core inflation decelerated. Bank of Uganda's (BoU) Monetary Policy Committee reduced the central bank rate (CBR) by 100 basis points in its last meeting in April. This followed an improvement in the inflationary outlook, increased market confidence, and the need to address the sharp deceleration in credit to the private sector and downside risks to economic growth. The government securities market—supported by a rebound in foreign investor participation— had already priced in a rate cut judged by the drop in Treasury bill yields in March. As the interest rate cut is transmitted to markets, interbank, deposit and lending rates are expected to decline.

MEFP ¶ 31-32

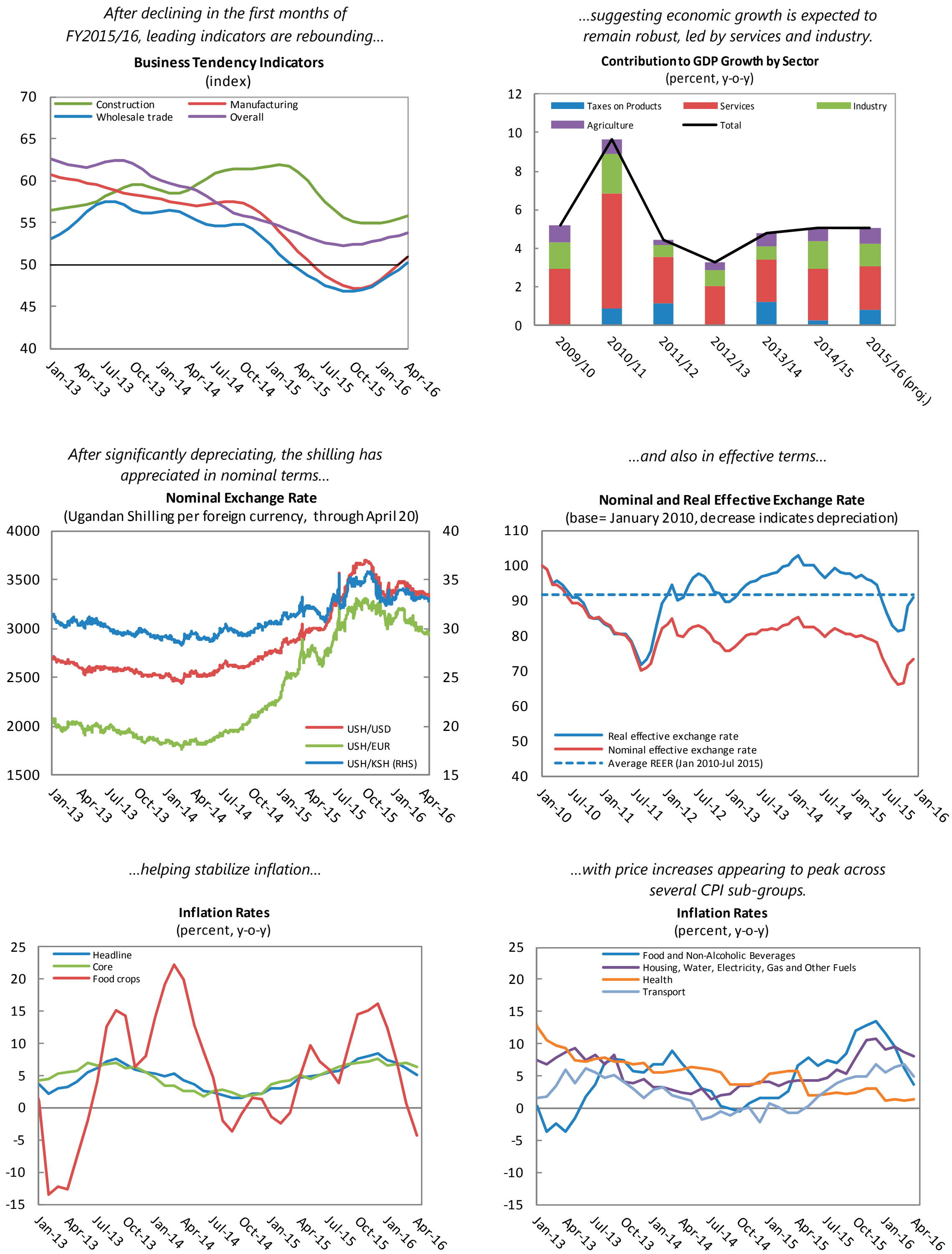
Text Table 1. Key Interest Rates (in percent)

	Jul-11	Jul-12	Jul-13	Jul-14	Jul-15	Sep-15	Dec-15	Mar-16	Apr-16
Central Bank Rate	13.0	19.0	11.0	11.0	14.5	16.0	17.0	17.0	16.0
7-day interbank market	15.3	18.5	11.0	11.0	17.1	18.1	18.2	17.0	16.4
Deposit (shillings)	2.8	3.6	2.9	2.8	3.2	3.3	4.2	3.4	...
Time Deposit (shillings)	13.0	17.8	11.7	10.4	11.3	14.5	17.0	13.7	...
Lending (shillings)	21.7	26.9	23.2	21.6	21.8	23.4	24.6	24.4	...
Treasury bill yields									
91-day	14.2	18.7	9.9	9.6	13.4	16.7	17.6	15.1	13.7
182-day	15.0	18.6	11.6	11.2	14.5	17.7	19.6	15.7	14.1
364-day	15.3	17.5	13.2	12.0	14.8	17.7	18.5	14.4	13.6

Source: Bank of Uganda

6. Election-related revenue and expenditure slippages have weakened the domestically-financed fiscal performance. Despite strong revenue performance through end-December, weaker compliance with tax administration in Q3 FY2015/16 resulted in revenue shortfalls of about Shs. 180 billion (0.2 percent of GDP), particularly in VAT and excise taxes. Security-related spending pressures emerged in the run up to the February elections, which were mostly offset by reductions in capital and poverty-alleviating spending, but a net spending overrun of around Shs. 50 billion is still expected for FY2015/16 as a whole.

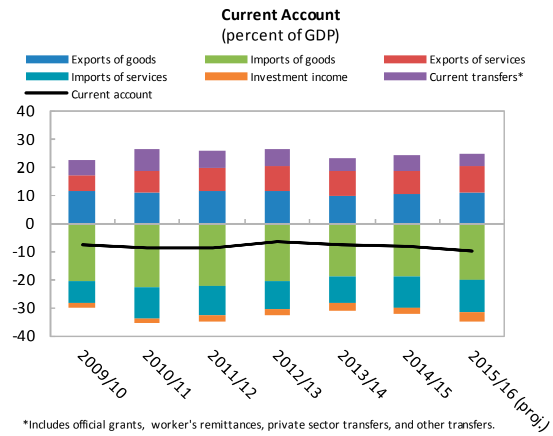
Figure 1. Real Sector Developments



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

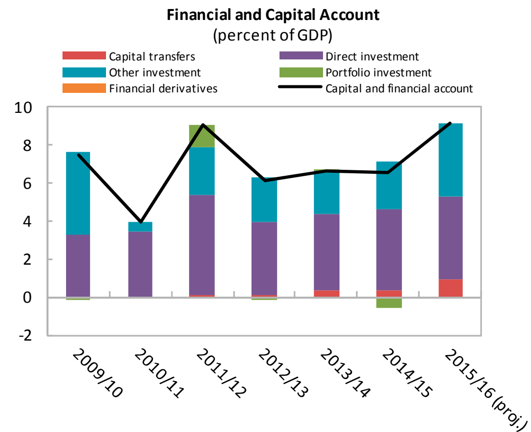
Figure 2. External Sector Developments

With sluggish exports, the current account deficit remains large…

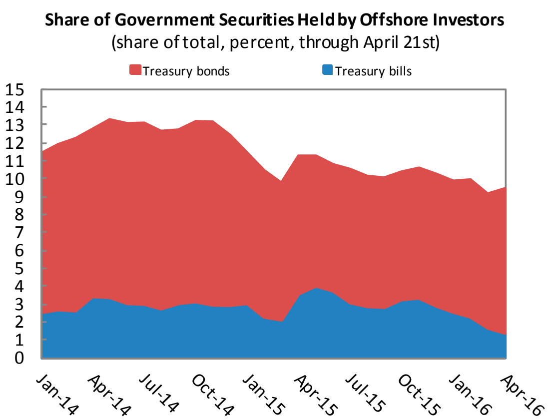


*Includes official grants, worker's remittances, private sector transfers, and other transfers.

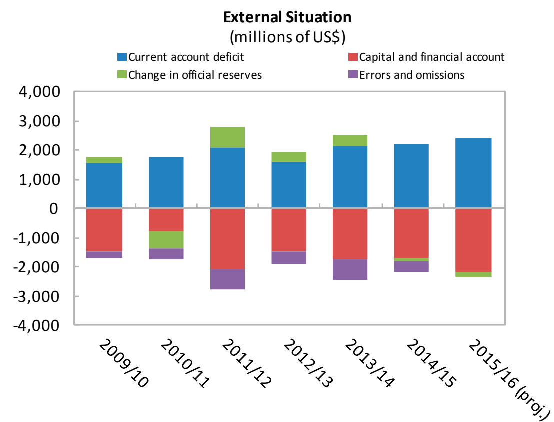
…while net inflows are expected to recover…



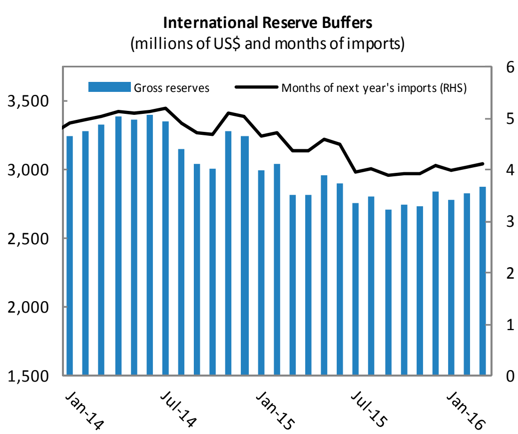
…despite somewhat subdued foreign investors' appetite.



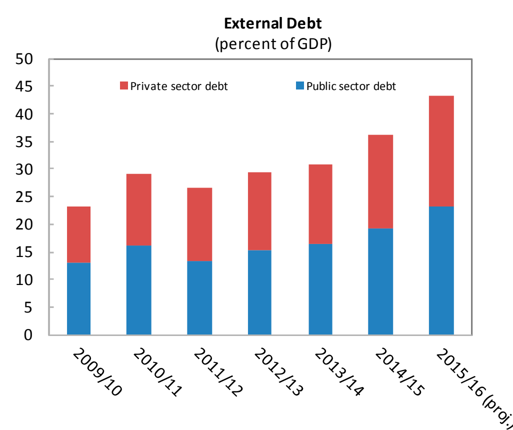
International reserves recently declined as the government financed its share of the infrastructure projects…



…but reserve coverage remains adequate.



External debt is expected to grow but remain sustainable.

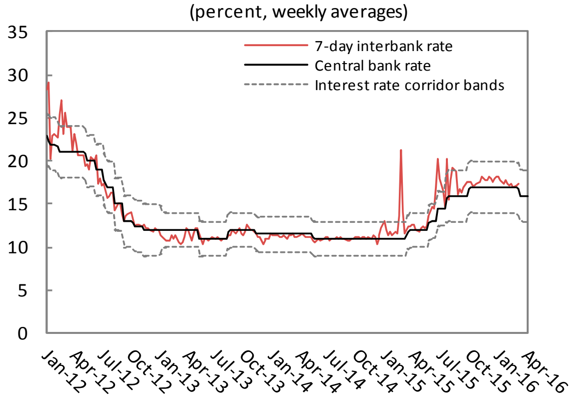


Sources: Bank of Uganda and IMF staff calculations.

Figure 3. Monetary Sector Developments

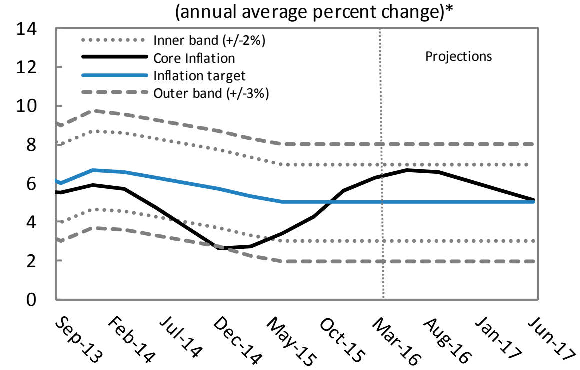
The central bank rate was recently reduced…

Central Bank and Interbank Rate
(percent, weekly averages)



…following the declining inflation forecast.

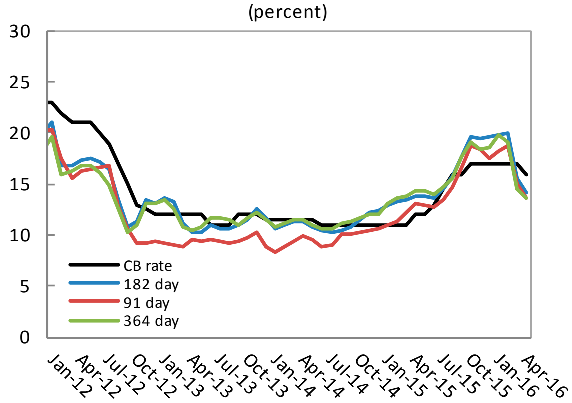
Core Inflation Forecast
(annual average percent change)*



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

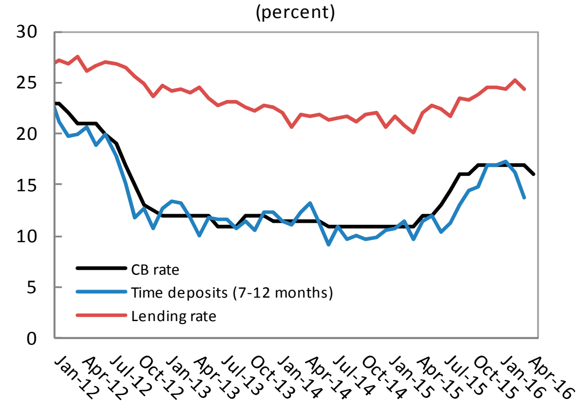
Treasury bill rates have gone down…

Evolution of Treasury Bill Rates
(percent)



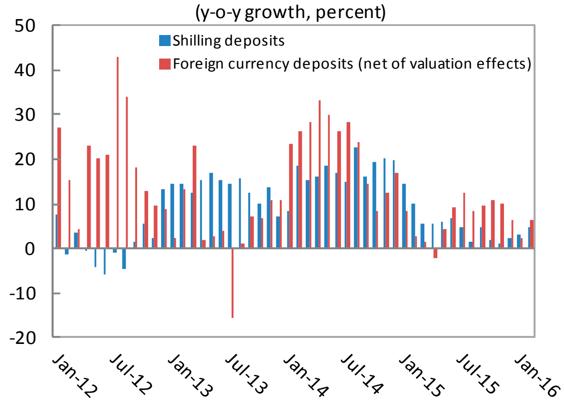
…but lending rates are yet to react.

Interest Rate Structure
(percent)



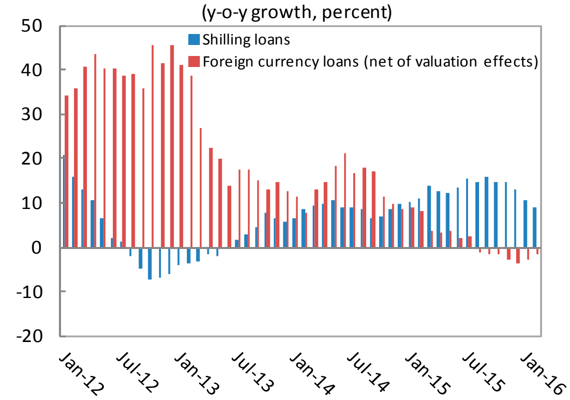
Foreign currency deposits grew more than shilling deposits…

Evolution of Deposits
(y-o-y growth, percent)



…and foreign currency lending contracted.

Evolution of Lending
(y-o-y growth, percent)

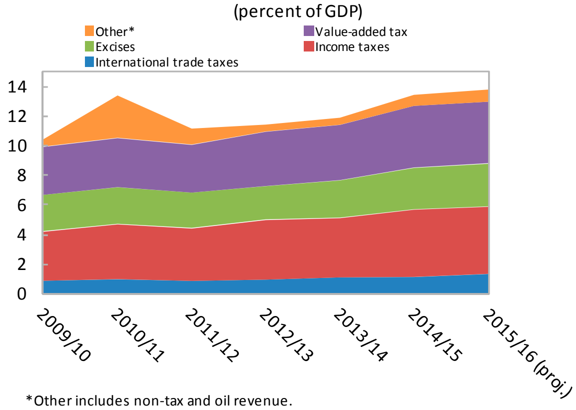


Sources: Bank of Uganda and IMF staff calculations.

Figure 4. Fiscal Sector Developments

Tax revenues have picked up…

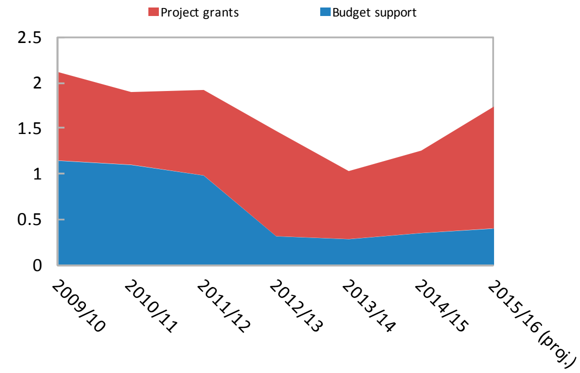
Total Revenue
(percent of GDP)



*Other includes non-tax and oil revenue.

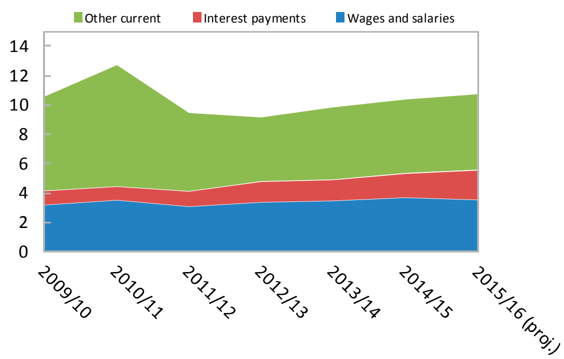
…and grants are expected to recover.

Grants
(percent of GDP)



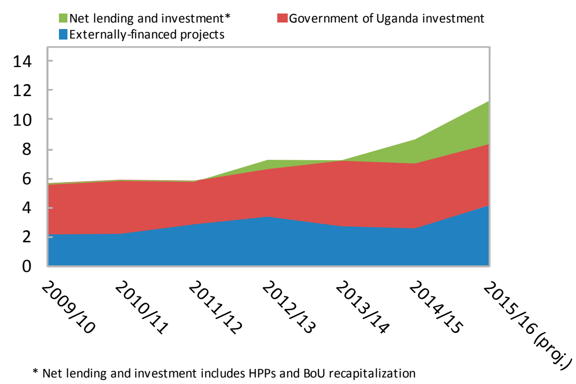
Current expenditures are expected to increase…

Current Expenditures
(percent of GDP)



…while capital expenditures are expected to be boosted by hydropower investments…

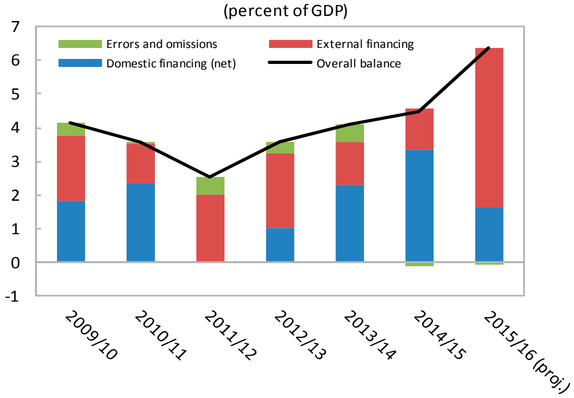
Capital Expenditures
(percent of GDP)



* Net lending and investment includes HPPs and BoU recapitalization

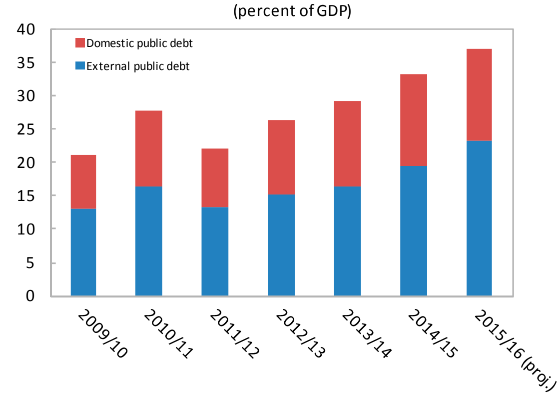
…leading to a projected expansion in the overall deficit…

Overall Deficit
(percent of GDP)



…and some increase in public debt.

Public Debt
(percent of GDP)



Sources: Bank of Uganda and IMF staff calculations.

PERFORMANCE UNDER THE PSI

7. **Performance under the PSI has been mixed.** Average core inflation remained well within the inner band of the inflation consultation clause at 5.2 percent in December. The floor on the accumulation of reserves was also met with a comfortable margin. However, the end-December Quantitative Assessment Criterion (QAC) on the ceiling on the overall deficit was missed, but the slippage was minor. The authorities did not cut spending as earlier planned, when it became apparent that the exchange rate was stronger and El Niño-related weather developments were proving less severe than previously anticipated. All indicative targets (ITs) for December were met with two exceptions: the IT on poverty-alleviating expenditures was missed due to a budget reallocation towards election-related spending, and on the net reduction in domestic arrears. The authorities have requested a one-year extension of the current PSI arrangement to facilitate policy continuity and allow sufficient time for ongoing structural reforms to progress.

MEFP Table 1.1

8. **Implementation of structural reforms has also been mixed.** The MoF developed public investment guidelines and procedures in a timely manner while the Treasury Single Account (TSA) has been expanded to local governments. However, there have been delays in the publication of quarterly reports on unpaid bills, sending to parliament the Charter for Fiscal Responsibility and the BoU Act amendments, and issuing regulations for the PFM Act.

MEFP Table 1.2

POLICY DISCUSSIONS

A. Economic outlook and risks

9. **Uganda's economic outlook will be shaped by the policy response to both domestic and external challenges.**

- ***Real GDP growth*** will continue to be underpinned by the scaling up of public infrastructure and expected pickup in non-oil private investment, including by SMEs. Growth was revised downwards to 5½ percent in FY2016/17 to reflect potential spillovers from a weaker global environment, and the impact of expenditure overruns and tight credit conditions on private investment. Projected higher medium-term growth (5¾–6¼) would require adherence to future budget targets for priority public investment and poverty-alleviating expenditures, and a rebound in private investment. Improvements in the business environment, implementing structural reforms, export diversification, regional integration, and oil production could further boost medium-term growth.

- ***Average headline inflation*** is projected to decelerate to 5½ percent in FY2016/17 reflecting the so far benign behavior of food prices, dissipating pressures from the lagged exchange rate depreciation, and a well-calibrated monetary-fiscal policy mix. Core inflation is projected to converge towards and remain at its medium-term 5 percent target.

- The ***external current account deficit*** is projected to widen by 1 percent to 10¾ percent of GDP in FY2016/17, reflecting large infrastructure-related imports and still subdued growth in exports. International reserves are projected to remain at 4 months of import cover.

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	4.8	5.0	5.0	5.5
Headline CPI inflation, period average	5.0	5.4	3.0	7.3	5.5
Core CPI inflation, period average	6.6	4.7	3.4	6.8	5.1
External current account balance	-6.4	-7.8	-8.3	-9.7	-10.7
International reserves (stock, months of imports)	4.5	5.1	4.5	3.9	4.0
Overall balance	-3.6	-4.1	-4.5	-6.4	-6.2
Underlying deficit [1]	-2.9	-4.1	-3.0	-2.3	-3.5
Policy rate (end of period)	11.0	11.0	13.0		
Credit to the private sector (annual growth, percent)	6.4	14.0	20.5	16.3	16.3

[1] Overall deficit excluding large infrastructure projects financed by non-concessional external borrowing and BoU recapitalization. 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.

10. Risks to the outlook are tilted to the downside. Unfavorable weather developments could have an adverse impact on food inflation, agricultural output, employment and food security. Medium-term oil-related FDI could be curtailed if international oil prices trend lower. Heightened global risks, including spillovers from China's economic rebalancing and potential slowdown (Annex I) and U.S. monetary policy normalization could also affect FDI and net portfolio flows. Regional geopolitical instability could further hurt trade and investments. Domestic downside risks relate to lingering effects of post-election uncertainties on fiscal policies. However, on the upside, the growing importance of inter-regional trade is helping to diversify Uganda's export demand and reduce external vulnerabilities.

B. Recalibrating fiscal policy and mitigating risks

MEFP ¶ 19

11. The domestic fiscal stance, as measured by the higher-than-expected underlying deficit, was more expansionary than envisaged in FY2015/16. Compared to earlier understandings, the wider underlying deficit mainly reflects election-related revenue and expenditure slippages**.** With recent developments less severe than earlier anticipated, expenditure cuts envisaged at the time of the Fifth PSI Review were no longer necessary to stabilize inflation. Revenue performance was weaker than expected despite strong outcomes through end-December, owing to slippages in compliance. While most additional spending will be offset by other cuts to minimize the impact on the overall budgetary envelope, the expenditure reallocation adversely affected investment and poverty-alleviation spending. As a result, the underlying deficit, the main fiscal anchor, is currently projected at 2¼ percent of GDP, slightly higher than the 2 percent projected earlier, but expected to be comfortably financed, with restored investor confidence driving high demand for government securities.

12. **Looking ahead, the FY2016/17 budget aims to reinforce fiscal prudence through enhanced revenue mobilization and recurrent expenditure restraint**. The overall deficit is projected to slightly decline to 6.2 percent of GDP relative to FY2015/16, boosting the share of public investment and poverty-alleviating spending, as one-off election-year increases in other current spending are not expected to reoccur. The overall deficit will be sustainably financed, with the majority of large public investment projects tied to the disbursement of external loans, and some on concessional terms. Net domestic debt issuances are significantly reduced vis-à-vis FY2015/16, and the budget will further benefit from reduced interest costs resulting from the more prudent fiscal stance.

MEFP ¶ 21

13. **The budget targets a revenue increase equivalent to 0.5 percent of GDP to better align Uganda's revenue performance with that of regional and other peers.** The authorities have identified a mix of tax policy measures and administrative reforms to achieve the targeted increase. Tax policy changes include: increases in excise taxes on petrol, cigarettes and alcohol; expansion of the coverage of VAT; and the introduction of various environmental levies. Proposed administrative reforms are in keeping with recent technical assistance recommendations, and aim to strengthen monitoring, compliance and enforcement through improved data mining and matching focused on customs and domestic tax filings, strengthened risk-based audits, and improving data quality and integrity for the taxpayers registration database and taxpayers accounts.

MEFP ¶ 22 & ¶23

C. Consolidating the fiscal position over the medium term

14. **Over the medium term, fiscal consolidation is expected to continue, with the primary objective of maintaining Uganda's low risk of debt distress**. The underlying deficit is projected to improve over the medium term to 1½ percent of GDP by FY2019/20. This fiscal effort is reflected in the trajectory of the overall deficit, which also improves over the same period, notwithstanding the planned scaling up of public investment to address Uganda's large infrastructure gap and support growth.[1] Enhanced revenue mobilization and non-priority expenditure restraint are expected to contribute to this effort and are essential in maintaining debt sustainability. The current medium-term fiscal projections remain consistent with the low risk of debt distress assessed under the Debt Sustainability Analysis undertaken during the Fifth review (IMF Country Report No. 15/321).

15. **Tax revenues are projected to increase by ½ percent of GDP per annum over the medium term, through a mix of tax policy and administrative reforms.** Increasing the revenue effort will help finance priority social and public investment expenditures and achieve

[1] The trajectory of the overall deficit including grants—the EAC's medium-term convergence criterion—is consistent with Uganda's commitments under the EAMU's Protocol.

important regional harmonization goals. According to the 2014 FAD VAT Gap Report, closing the VAT compliance gap to about 40 percent of potential VAT would help Uganda to achieve the regional average tax efficiency and raise VAT revenues by the equivalent of 2–2½ percent of GDP[2]. Further, addressing the VAT policy gap could contribute another 1 percent of GDP to these gains. Recommended follow-up actions included efforts to enhance the tax-paying culture, and close monitoring of the tax gap and strategic compliance risks pertaining to the Large and Medium Taxpayers' Offices.

16. Restraint of recurrent spending over the medium term would create space for priority poverty-alleviating spending and public investment. Restraining other current expenditures makes room for critical public investment and poverty-alleviating expenditures—core pillars of the poverty reduction strategy. The authorities intend to enhance investment efficiency by appropriate project selection and effective implementation of the new Public Investment Management Guidelines, and careful assessment of contingent risks stemming from PPP arrangements. In this regard, the authorities have requested technical assistance from East AFRITAC. They also plan to finalize and disseminate the Investment Appraisal User Manual to provide needed guidance on project identification, appraisal, implementation, monitoring and evaluation criteria. (*Structural Benchmark, end-December 2016*).

MEFP ¶ 25

D. Anchoring inflationary expectations and maintaining financial stability

17. The scope for further monetary policy easing will be guided by the BoU's inflation forecast, reflecting domestic and external risks. Responding to the deceleration in inflationary expectations, the BoU eased monetary policy in April. Going forward, additional easing will be conditional on how well actual inflation will track inflation expectations. The scope for further relaxing monetary policy will also depend on adherence to the budget; the behavior of food prices and their second-round effects on core inflation; the global and regional economic environment and their repercussions on exchange rate movements; and the behavior of private sector credit and its overall effect on the output gap.

MEFP ¶ 30

18. The BoU will further strengthen prudential oversight to continue to safeguard financial stability. Exposure to foreign currency loans in the real estate sector proved a particular source of vulnerability under rapid exchange rate depreciation in instances where rents were foreign-currency denominated and paid by tenants with shillings earnings. To mitigate risks in the real estate sector, the BoU plans to adopt maximum loan-to-value ratios as a new macro-prudential policy tool. BoU stress tests support continued resilience of bank capital under a battery of credit

MEFP ¶ 33

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[2] These yields were estimated prior to the adoption of a package of tax reforms, including eliminating some VAT exemptions, in the FY2014/15 budget. Hence, current estimates are likely to be somewhat lower, and will be revisited during an upcoming comprehensive review that the authorities recently requested.

risk and liquidity shocks. Nevertheless, the BoU intends to remain vigilant in guarding against potential market, liquidity and operational risks, as well as vulnerabilities emerging from credit sector concentration and currency mismatches. In this regard, the authorities also plan to strengthen the macro-prudential toolkit through the adoption of the capital conservation buffer, capital charge for systemically important banks, and the liquidity coverage ratio, in line with Basel III guidelines and in keeping with the recently approved Amended Financial Institutions Act. Going forward, the authorities plan to continuously monitor financial sector developments, through onsite and offsite supervision, and to further update the micro- and macro-prudential toolkit to ensure financial stability.

19. Addressing remaining strategic AML/CFT legislative deficiencies should help secure Uganda's prompt exit from the FATF gray list. The FATF determined in February 2014 that key deficiencies remain in the AML/CFT legal framework, including shortcomings regarding the powers of the Financial Intelligence Authority (FIA) and supervisory agencies, and the criminalization of terrorist financing. Passage of the amendments to the AML/CFT legal framework (e.g., AML Act and Insurance Act) by May 2016 should help address the recommendations made by the FATF (*Structural Benchmark, end-June 2016*). Ensuring that the legal framework is aligned with the FATF recommendations could facilitate Uganda's exit from the FATF's gray list. Ongoing legal reforms and capacity building, with the help of development partners, are strengthening the FIA's financial and operational independence. This will help to enforce supervision and the development of regulations mitigating potential risks, including those stemming from innovations in the mobile money industry.

MEFP ¶ 36 & ¶37

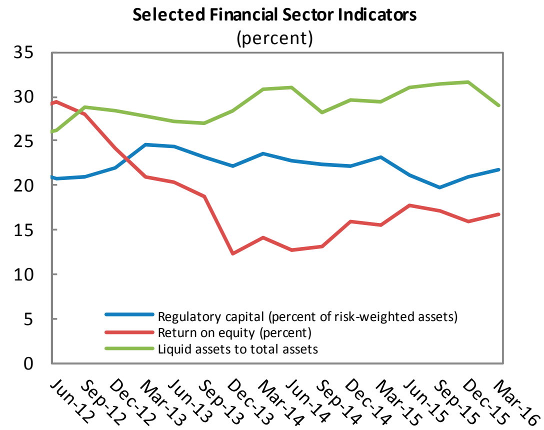
E. Advancing financial sector deepening and inclusion

20. Financial inclusion activities under the four pillars—financial literacy, consumer protection, innovations, and data measurement—continue at a brisk pace. The BoU, in consultation with development partners, continues to implement financial literacy and training programs in secondary and primary schools, and developing financial literacy training tools, including a Trainer's Manual. Regarding consumer protection, the BoU has introduced a "Key Facts" document containing important financial disclosures, and a complaints desk has been set up at the BoU, which investigates consumer grievances. Mobile banking remains the most dynamic area of financial innovation, with the total value of transactions made by mobile phones in 2015

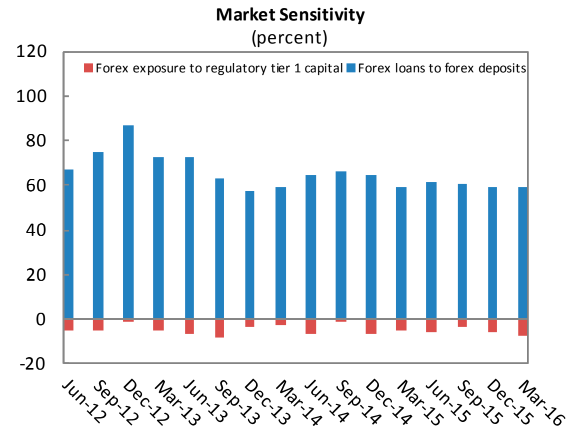
MEFP ¶34 & ¶35

Figure 5. Financial Sector Developments

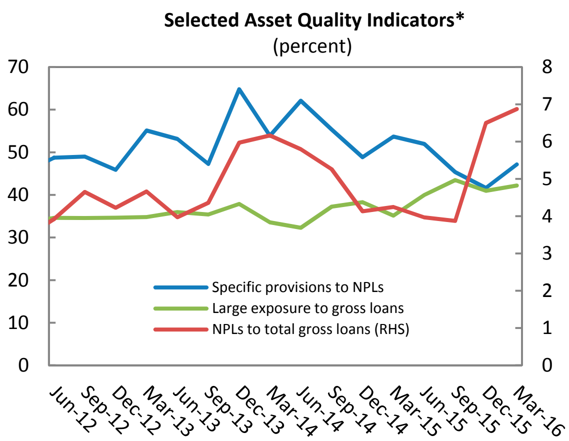
The financial sector remains sound…



…with foreign exchange exposures contained.

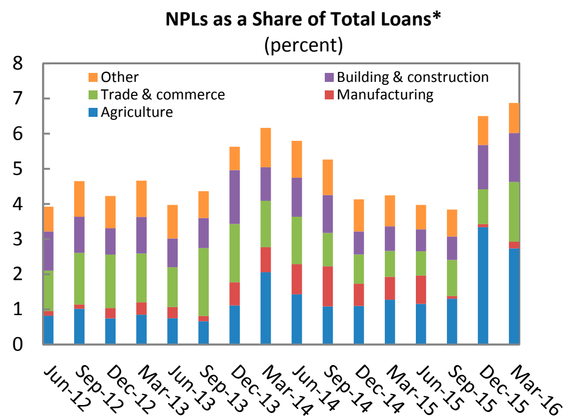


Nonperforming loans have increased…



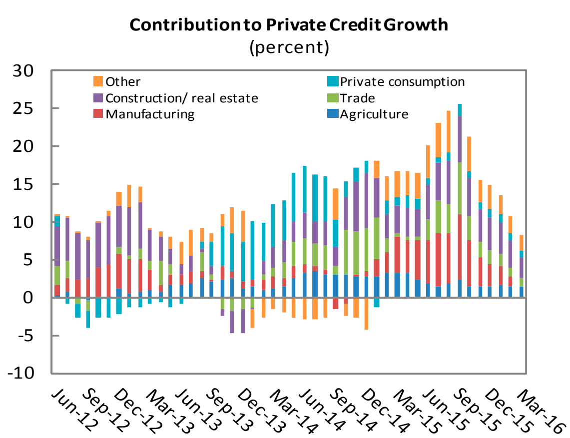
*Preliminary numbers for Dec-15 and Mar-16.

…particularly in the agricultural sector.

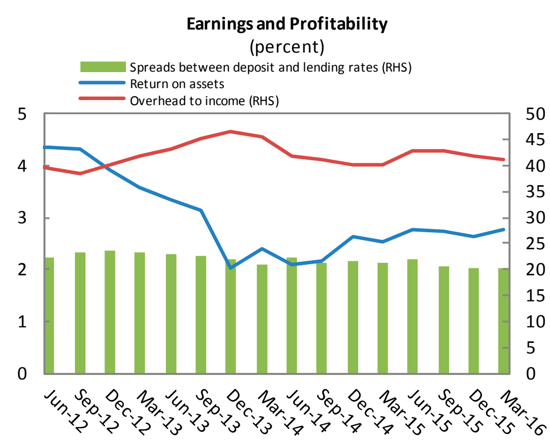


*Preliminary numbers for Dec-15 and Mar-16.

The credit portfolio is diversified…



…but spreads between deposit and lending rates remain high.



Sources: Bank of Uganda and IMF staff calculations.

registering US$10 billion (about 38 percent of GDP). New proposals under study include the creation of savings and loan accounts using mobile money, patterned after Kenya's M-Shwari system. Operational challenges include preserving the system's integrity and preventing criminal abuse, and safeguarding deposits through deposit insurance. Staff welcomed these developments, and underscored the importance of ensuring that the regulatory framework keeps pace with innovation in the sector.

F. Reinvigorating structural reforms

21. The new public financial management framework will remain the key focus of the authorities' structural reform agenda.

- **Finalization of the Charter of Fiscal Responsibility (CFR)**. Work is ongoing to finalize the CFR and submit it to Parliament. (*Structural Benchmark, end-September 2016*) The CPR will contain measurable objectives for government and is expected to be a key element of the government's accountability framework.

MEFP ¶ 38

- **Implementation of new PFM Regulations**. The authorities are finalizing the new PFM regulations, and are committed to ensuring that the regulations are consistent with international best practice, in order to facilitate the implementation of the PFM Act (*Structural Benchmark, end-June 2016*).

MEFP ¶ 38 &
Table 1.2

- **Reducing domestic arrears**. Corrective actions are being undertaken to reduce domestic payment arrears and mitigate related fiscal risks, including completing the ongoing reconciliation and validation of the stock of domestic payment arrears, and plans to tighten expenditure controls in order to prevent their reoccurrence (*Structural Benchmark, end-June 2016*). The authorities indicated that the ongoing audit to ensure consistency of arrears reporting would be enhanced by allowing the Internal Audit Department to conclude its verification process before the financial statements are prepared at the vote level and consolidated by the Accountant General. In addition, the adoption of a semi-annual reporting schedule should allow sufficient time for enhanced quality control. The authorities have stepped up enforcement of sanctions provisioned for under the PFM Act, including by not reappointing Accounting Officers who have failed to account appropriately for public resources. To prevent a further buildup of arrears and strengthen arrears reporting and expenditure controls, they also intend to request technical assistance from East AFRITAC.[3]

MEFP ¶ 41

[3] Uganda owes a small amount in pre-HIPC Initiative arrears to non-Paris Club creditors which continue to be deemed away under the revised arrears policy for official creditors, as the underlying Paris Club

(continued)

- **Strengthening fiscal/monetary coordination**. The BoU and MoFPED will continue efforts to improve policy coordination and communication with the markets. The Memorandum of Understanding between the two institutions will be revised to reflect the new PFM Act (including in areas such as petroleum fund management, public debt, the CFR, and agreements under the EAC monetary union protocol).

MEFP ¶ 39

22. The proposed Amendments to the BoU Act aim to strengthen the Bank's independence (*Structural Benchmark, end-May 2016*)**.** The revised Act will contain provisions governing the implementation of inflation targeting, in line with international best practice; establish BoU's capital as a percentage of monetary liabilities; and limit intra-year advances to the government to 10 percent of the previous year's revenues.

MEFP ¶ 43

23. The new structural benchmarks include:

- ***Securing Uganda's prompt exit from the FATF gray list.*** Key outstanding actions include Parliamentary approval of the Amendments of the Anti-Money Laundering Amendment Act and the Insurance Act by May 2016. The amendments will help to address key legislative deficiencies and pave the way for a FATF onsite visit in September. (*Structural Benchmark, end-June 2016*)
- ***Finalization, publication, and dissemination of the Public Investment Project Appraisal User Manual.*** Designed to improve the efficiency of public investment. (*Structural Benchmark, end-December 2016*)

- ***Update and publish Development Committee guidelines***. Promotes compliance with the Appraisal User Manual. (*Structural Benchmark, end-December 2016*)

POLICIES TO SUPPORT GROWTH AND POVERTY REDUCTION

24. Performance under the First National Development Plan (NDPI), 2008/09-2013/14, was positive. Growth has been robust averaging 5½ percent over FY2010/11 and FY2013/14 supported by a strong expansion of the services sector. However, employment creation was modest and the poverty rate, albeit declining, remained high. Gains in human capital development were moderate. While access to education increased, there were only modest gains in health indicators, such as infant and maternal mortality. Further progress in the social sectors can be expected under the successor plan.

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agreement was adequately representative and the authorities continue to make best efforts to resolve the arrears.

(continued)

25. Uganda's Second National Development Plan (NDPII), 2015/16-2019/20 establishes the roadmap towards middle-income status by 2020. This is the second five-year plan implemented under Vision 2040, and the theme for the NDPII is "Strengthening Uganda's Competitiveness for Sustainable Wealth Creation, Employment, and Inclusive Growth", and builds on the achievements under NDPI. The underlying inclusive growth strategy prioritizes investment in the five areas with the greatest multiplier effect—namely, agriculture; tourism; minerals, oil and gas; infrastructure development; and human capital development. The NDPII is underpinned by a commitment to macroeconomic stability, and a growth strategy led by public and private investment. Emphasis is placed on the mobilization of resources to help finance the scaling up of infrastructure investment, including through revenue mobilization and tapping nontraditional financing sources. The plan also strives for consistency with regional policy harmonization objectives. Staff is of the view that the Economic Development Document (EDD) is generally compatible with the Government's long-term vision of structurally transforming the economy to support sustained growth and poverty reduction, provided that the macroeconomic framework remains current. Staff will continue the dialogue with the authorities and consult with the World Bank, development partners, and CSOs.

STAFF APPRAISAL

26. Uganda's economy has demonstrated strong resilience despite election-related uncertainties and a complex regional and global environment. Growth remains robust, notwithstanding lower exports and a wider current account deficit. The central bank's proactive monetary policy response helped to anchor inflationary expectations—within the context of exchange rate flexibility—and limit the pass-through of exchange rate depreciation to domestic prices, contributing to a stronger-than-expected accumulation of reserves. Although program performance was somewhat mixed, the PSI remains on track. Uganda's medium-term growth prospects remain favorable, supported by prospective oil production, enhanced inter-regional trade and scaled-up infrastructure investments.

27. Staff welcomes the steps taken to minimize fiscal slippages in FY2015/16, but regrets the shift in expenditure composition. The authorities have taken steps to limit revenue shortfalls and have offset most expenditure overruns through reallocations. However, the resulting shift from public investment to current spending is less supportive of economic growth and poverty alleviation and will need to be corrected in the next year's budget.

28. The FY2016/17 budget appropriately targets an increase in public investment, while resuming fiscal consolidation. Revenue measures equivalent to ½ percent of GDP are welcome and underpin a slight decline in the overall deficit. At the same time, recurrent expenditure restraint will allow for a boosting of public investment. The authorities are encouraged to enhance public investment efficiency by appropriate project selection and successful implementation of the new public investment management guidelines, and to carefully assess contingent risks from PPP arrangements, to help safeguard debt sustainability and Uganda's low risk of debt distress.

29. The BoU's inflation targeting framework has helped to anchor inflation expectations. Following the tightening of monetary policy in 2015, which helped to limit the pass-through of exchange rate depreciation to core inflation, the authorities appropriately started to ease. Further monetary policy loosening will be guided by the inflation forecast, which will in turn depend on the commitment to fiscal prudence, the behavior of the exchange rate and food prices and their second-round effects on core inflation, and the output gap.

30. Decisively reducing domestic payment arrears is a priority. The slow progress in identifying and reducing arrears is regrettable. The authorities are encouraged to complete as soon as possible the reconciliation and validation of the stock of domestic payment arrears, regularize semi-annual reporting of unpaid bills, and tighten expenditure controls to improve monitoring and prevent further accumulation of arrears. Staff supports actions taken by the authorities to enforce sanctions aimed at strengthening compliance with spending procedures.

31. Rapid progress is needed on the AML/CFT legal framework to secure Uganda's prompt exit from the FATF gray list. Timely Parliamentary approval of the Amendments of the Anti-Money Laundering Amendment Act and the Insurance Act should help address the outstanding deficiencies in the AML/CFT legal framework. Staff supports the ongoing efforts to strengthen the capacity and independence of the FIA, to ensure financial stability and strengthen the investment climate.

32. Vigilance is needed to ensure continued financial stability. Exchange rate and interest rate volatility exerted some pressure on bank balance sheets, and an effort is needed to guard against latent risks. Staff supports the authorities' plans to further strengthen prudential supervision and the macro-prudential toolkit, including through the issuance of new loan-to-value guidelines to mitigate risks in the real estate sector, and the adoption of the capital conservation buffer, capital charge for systemically important banks, and the liquidity coverage ratio, in line with Basel III guidelines. Implementation of the Amended Financial Institutions Act and ensuring that the regulatory framework keeps pace with financial innovation will help to preserve financial stability.

33. The authorities are urged to step up implementation of other structural reforms. In particular, it would be important to expedite finalization of the amendments to the BoU Act, designed to strengthen the BoU's independence; align the regulations of the new Public Financial Management Act with international best practice; and finalize and approve the Charter of Fiscal Responsibility.

34. Staff recommends completion of the sixth review of the PSI-supported program. The attached MEFP outlines the macroeconomic objectives and policies for the period ahead. Staff supports a waiver of the nonobservance of the ceiling on the overall deficit of the central government on the grounds that the slippage was minor. Staff also supports the authorities' request for a one-year extension of the current PSI. The one-year extension will facilitate policy continuity and allow sufficient time for progress on structural reforms.

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
					5th Rev	Proj.	5th Rev	Proj.	Proj.	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)										
Output, prices, and exchange rate											
Real GDP	4.4	3.3	4.8	5.0	5.0	5.0	5.8	5.5	5.8	6.0	6.2
GDP deflator	20.9	4.1	2.3	3.6	8.2	7.6	4.0	4.4	4.1	3.8	3.9
CPI (period average)	20.9	5.0	5.4	3.0	7.7	7.3	6.3	5.5	5.0	5.0	5.0
CPI (end of period)	15.0	5.4	2.6	5.0	8.0	7.6	5.6	5.1	5.0	5.0	5.0
Core inflation (end of period)	13.2	6.9	1.9	5.1	7.7	6.6	5.7	4.9	5.0	5.0	5.0
Core inflation (period average)	24.6	6.6	4.7	3.4	7.9	6.8	6.6	5.1	5.0	5.0	5.0
Terms of trade (deterioration, -)	3.5	-8.2	4.7	19.9	1.2	2.5	-2.7	-2.8	-2.1	-1.6	-1.0
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	15.9	14.0	15.5	15.0	12.9	14.4	15.1	14.5
Credit to non-government sector	11.5	6.4	13.9	20.4	19.4	16.2	15.4	16.2	16.4	16.5	16.6
Bank of Uganda policy rate [3]	20.0	11.0	11.0	13.0	...	...	...	...	...	...	...
M3/GDP (percent)	19.0	18.9	20.6	22.0	22.0	22.5	23.0	23.0	23.9	25.0	26.0
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	12.9	14.8	15.7	15.7	15.8	16.2	16.0	16.1	16.6
Of which: grants	1.9	1.5	1.0	1.2	1.9	1.7	1.6	1.8	1.1	0.8	0.7
Expenditure	15.6	16.5	17.1	19.3	22.3	22.1	22.4	22.5	22.4	22.7	21.9
Current	9.4	9.1	9.8	10.3	10.3	10.7	10.2	10.4	10.3	10.6	10.7
Capital [4]	5.8	6.6	7.2	8.3	11.7	11.0	11.5	11.3	11.7	11.7	10.9
Primary balance	-1.5	-2.2	-2.7	-2.8	-4.5	-4.4	-4.4	-4.1	-4.1	-3.9	-2.6
Overall balance	-2.5	-3.6	-4.1	-4.5	-6.6	-6.4	-6.6	-6.2	-6.5	-6.5	-5.3
Excluding grants	-4.5	-5.0	-5.1	-5.7	-8.6	-8.1	-8.1	-8.1	-7.5	-7.3	-6.0
Net domestic borrowing	0.0	1.0	2.3	3.3	1.3	1.6	1.4	0.9	0.8	0.9	0.4
Public debt											
Public gross nominal debt	22.0	26.2	29.1	33.2	38.8	36.9	38.7	40.5	44.3	47.8	49.2
of which: external public debt	13.2	15.2	16.3	19.3	25.8	23.2	25.5	27.1	30.8	34.3	36.5
Investment and savings	9.8	6.7	8.7	9.4	10.0	10.1	10.9	11.0	10.5	11.7	10.5
Investment	27.0	28.2	27.5	25.4	34.3	27.5	35.4	28.8	30.2	31.7	33.8
Public	6.4	6.7	5.8	6.6	9.4	8.9	9.3	9.2	9.5	9.5	8.8
Private	20.6	21.5	21.7	18.8	25.0	18.6	26.0	19.6	20.8	22.2	25.0
Savings	17.3	21.5	18.8	16.0	24.3	17.3	24.4	17.9	19.7	20.0	23.3
Public	1.4	1.7	0.9	1.2	2.2	1.7	2.4	2.1	2.4	2.5	3.1
Private	15.9	19.8	17.8	14.8	22.1	15.7	22.0	15.7	17.3	17.5	20.2
External sector [5]											
Exports (goods and services)	20.2	20.5	18.7	18.9	23.1	20.4	21.8	19.4	20.3	21.2	21.6
Imports (goods and services)	33.1	30.7	28.7	30.3	35.4	32.0	34.2	31.5	31.1	32.5	31.5
Current account balance (including grants)	-8.8	-6.4	-7.8	-8.3	-9.6	-9.7	-10.2	-10.7	-10.3	-11.2	-10.1
Current account balance (excluding grants)	-9.8	-6.7	-8.1	-8.7	-10.0	-10.1	-10.5	-11.0	-10.5	-11.6	-10.5
Gross international reserves											
In billions of US$	2.6	2.9	3.4	2.9	2.6	2.7	3.0	2.9	3.3	3.7	3.9
In months of next year imports	4.2	4.5	5.1	4.5	3.6	3.9	3.8	4.0	4.1	4.3	4.5
Memorandum items:											
GDP at current market prices											
Billion of Ugandan shillings	59,420	63,905	68,523	74,565	84,984	84,306	93,473	92,878	102,224	112,456	124,098
US$ million	23,237	24,663	26,998	26,370	...	...	...	...	...	...	...
GDP per capita (Nominal US$)	640	656	697	661	555	592	617	632	644	674	707
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.

[5] This table uses a classfication different from the 5th review Staff Report (IMF Country Report No. 15/321), regarding official transfers and capital account, to be in line with the published data by the authorities.

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
					5th Rev	Proj.	5th Rev	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	7,771	8,245	8,868	11,045	13,306	13,208	14,811	15,071	16,319	18,135	20,576
Revenue	6,634	7,309	8,165	10,114	11,659	11,747	13,345	13,386	15,238	17,285	19,722
Tax	5,983	7,005	7,831	9,542	11,106	11,040	12,705	12,585	14,459	16,441	18,796
International trade taxes	503	599	747	838	1,165	1,120	1,435	1,319	1,621	1,946	2,320
Income taxes	2,112	2,588	2,756	3,402	3,629	3,840	4,199	4,316	4,852	5,465	6,249
Excises	1,446	1,466	1,757	2,128	2,575	2,490	2,896	2,963	3,378	3,707	4,243
Value-added tax	1,921	2,353	2,570	3,117	3,664	3,518	4,096	3,902	4,491	5,188	5,839
Infrastructure levy	…	…	…	57	72	72		85	117	135	146
Nontax	259	304	334	452	553	582	639	674	779	844	926
Oil revenue	392	0	0	120	0	125	0	127	0	0	0
Grants	1,137	936	702	931	1,647	1,460	1,467	1,685	1,081	850	854
Budget support[3]	581	199	191	258	392	334	310	292	269	290	297
Project grants	556	738	511	673	1,255	1,127	1,156	1,393	812	560	557
Expenditures and net lending[4]	9,281	10,523	11,684	14,379	18,943	18,590	20,942	20,875	22,921	25,492	27,132
Current expenditures	5,584	5,813	6,706	7,689	8,757	8,996	9,536	9,656	10,555	11,915	13,308
Wages and salaries	1,832	2,160	2,385	2,759	2,894	2,989	3,190	3,307	3,579	3,896	4,350
Interest payments	603	890	970	1,213	1,804	1,692	2,062	2,002	2,409	2,935	3,329
Other current	3,150	2,763	3,351	3,717	4,059	4,314	4,284	4,347	4,567	5,085	5,628
Development expenditures	3,458	4,237	4,937	5,230	7,373	7,017	8,956	9,087	10,125	11,886	12,771
Externally-financed projects	1,701	2,163	1,871	1,933	3,917	3,489	4,323	4,705	5,213	6,514	6,452
Of which: Non-concessional borrowing					1,236	1,047	1,156	925	2,893	3,693	4,038
Government of Uganda investment	1,756	2,074	3,066	3,296	3,456	3,528	4,633	4,382	4,912	5,372	6,319
Net lending and investment	-39	409	21	1,235	2,734	2,497	2,130	1,782	1,891	1,341	704
Hydro-power projects	0	0	21	985	2,534	2,297	1,780	1,432	1,791	1,241	704
Of which: Non-concessional borrowing	0	0	0	0	2,290	1,994	1,763	1,432	1,791	1,241	704
Bank of Uganda recapitalization[5]	0	410	0	250	200	200	350	350	100	100	0
Other spending	278	63	20	225	80	80	320	350	350	350	350
Clearance of domestic arrears	278	63	20	225	80	80	80	110	110	110	110
Contingency	0	0	0	0	0	0	240	240	240	240	240
Overall balance	-1,510	-2,277	-2,816	-3,334	-5,637	-5,382	-6,130	-5,804	-6,602	-7,356	-6,556
Financing	1,191	2,084	2,463	3,402	5,637	5,382	6,130	5,804	6,602	7,356	6,556
External financing (net)	1,171	1,418	887	919	4,555	4,017	4,789	4,969	5,735	6,319	6,001
Disbursement	1,374	1,628	1,128	1,177	4,952	4,356	5,199	5,352	6,556	7,195	6,599
Budget support	126	324	0	0	0	0	269	261	0	0	0
Concessional project loans	1,056	1,303	1,128	1,177	1,426	1,315	2,011	2,387	1,507	2,261	1,857
Non-concessional borrowing	192	0	0	0	3,526	3,041	2,919	2,357	4,685	4,934	4,742
Revolving Credit								347	364		
Amortization (–)	-193	-200	-212	-244	-389	-339	-415	-388	-823	-878	-616
Exceptional financing	-10	-10	-30	-14	-8	0	6	5	2	3	18
Domestic financing (net)	20	666	1,576	2,483	1,083	1,365	1,341	835	867	1,037	555
Bank financing	-1,242	508	647	1,288	819	765	667	503	297	370	250
Bank of Uganda[6]	-1,182	-77	-198	1,064	556	265	367	223	100	100	0
Of which: Petroleum fund withdrawals	0	-21	-2	1,488	166	-125	17	-127	0	0	0
Of which: Energy fund withdrawals	88	-466	26	558	190	190	0	0	0	0	0
Of which: Government Securities[5]	0	410	0	250	200	200	350	350	100	100	0
Commercial banks	-60	585	845	224	263	500	300	280	197	270	250
Nonbank financing	1,262	158	930	1,195	264	600	674	332	570	668	305
Errors and omissions/financing gap (- is gap, + is surplus)	-319	-193	-352	68	0	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	-2,219	-1,668	-1,963	-2,844	-3,224	-1,818	-2,322	-1,814
Petroleum Fund (end period stock)[7]	1,585	1,606	1,608	120	1,020	245	1,003	372	372	372	372
Energy fund (end period stock)	308	775	748	190	0	0	0	0	0	0	0
Public domestic debt[8]	5,206	7,033	8,798	10,321	11,048	11,621	12,372	12,583	13,450	14,487	15,042

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] The balances of the Oil Fund were transferred to the UCF and in line with the PFM Act, a new Petroleum Fund was opened with balances from recent oil revenue

[8] 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
					5th Rev	Proj.	5th Rev	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	13.1	12.9	12.9	14.8	15.7	15.7	15.8	16.2	16.0	16.1	16.6
Revenue	11.2	11.4	11.9	13.6	13.7	13.9	14.3	14.4	14.9	15.4	15.9
Tax	10.1	11.0	11.4	12.8	13.1	13.1	13.6	13.6	14.1	14.6	15.1
International trade taxes	0.8	0.9	1.1	1.1	1.4	1.3	1.5	1.4	1.6	1.7	1.9
Income taxes	3.6	4.0	4.0	4.6	4.3	4.6	4.5	4.6	4.7	4.9	5.0
Excises	2.4	2.3	2.6	2.9	3.0	3.0	3.1	3.2	3.3	3.3	3.4
Value-added tax	3.2	3.7	3.8	4.2	4.3	4.2	4.4	4.2	4.4	4.6	4.7
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	0.6	0.7	0.7	0.7	0.7	0.8	0.8	0.7
Oil revenue	0.7	0.0	0.0	0.2	0.0	0.1	0.0	0.1	0.0	0.0	0.0
Grants	1.9	1.5	1.0	1.2	1.9	1.7	1.6	1.8	1.1	0.8	0.7
Budget support[3]	1.0	0.3	0.3	0.3	0.5	0.4	0.3	0.3	0.3	0.3	0.2
Project grants	0.9	1.2	0.7	0.9	1.5	1.3	1.2	1.5	0.8	0.5	0.4
Expenditures and net lending[4]	15.6	16.5	17.1	19.3	22.3	22.1	22.4	22.5	22.4	22.7	21.9
Current expenditures	9.4	9.1	9.8	10.3	10.3	10.7	10.2	10.4	10.3	10.6	10.7
Wages and salaries	3.1	3.4	3.5	3.7	3.4	3.5	3.4	3.6	3.5	3.5	3.5
Interest payments	1.0	1.4	1.4	1.6	2.1	2.0	2.2	2.2	2.4	2.6	2.7
Other current	5.3	4.3	4.9	5.0	4.8	5.1	4.6	4.7	4.5	4.5	4.5
Development expenditures	5.8	6.6	7.2	7.0	8.7	8.3	9.6	9.8	9.9	10.6	10.3
Externally-financed projects	2.9	3.4	2.7	2.6	4.6	4.1	4.6	5.1	5.1	5.8	5.2
Of which: Non-concessional borrowing					1.5	1.2	1.2	1.0	2.8	3.3	3.3
Government of Uganda investment	3.0	3.2	4.5	4.4	4.1	4.2	5.0	4.7	4.8	4.8	5.1
Net lending and investment	-0.1	0.6	0.0	1.7	3.2	3.0	2.3	1.9	1.9	1.2	0.6
Hydro-power projects	0.0	0.0	0.0	1.3	3.0	2.7	1.9	1.5	1.8	1.1	0.6
Of which: Non-concessional borrowing	0.0	0.0	0.0	0.0	2.7	2.4	1.9	1.5	1.8	1.1	0.6
Bank of Uganda recapitalization[5]	0.0	0.6	0.0	0.3	0.2	0.2	0.4	0.4	0.1	0.1	0.0
Other spending	0.5	0.1	0.0	0.3	0.1	0.1	0.3	0.4	0.3	0.3	0.3
Clearance of domestic arrears	0.5	0.1	0.0	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Contingency	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.3	0.2	0.2	0.2
Overall balance	-2.5	-3.6	-4.1	-4.5	-6.6	-6.4	-6.6	-6.2	-6.5	-6.5	-5.3
Financing	2.0	3.3	3.6	4.6	6.6	6.4	6.6	6.2	6.5	6.5	5.3
External financing (net)	2.0	2.2	1.3	1.2	5.4	4.8	5.1	5.4	5.6	5.6	4.8
Disbursement	2.3	2.5	1.6	1.6	5.8	5.2	5.6	5.8	6.4	6.4	5.3
Budget support	0.2	0.5	0.0	0.0	0.0	0.0	0.3	0.3	0.0	0.0	0.0
Concessional project loans	1.8	2.0	1.6	1.6	1.7	1.6	2.2	2.6	1.5	2.0	1.5
Non-concessional borrowing	0.3	0.0	0.0	0.0	4.1	3.6	3.1	2.5	4.6	4.4	3.8
Revolving Credit								0.4	0.4		
Amortization (–)	-0.3	-0.3	-0.3	-0.3	-0.5	-0.4	-0.4	-0.4	-0.8	-0.8	-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	3.3	1.3	1.6	1.4	0.9	0.8	0.9	0.4
Bank financing	-2.1	0.8	0.9	1.7	1.0	0.9	0.7	0.5	0.3	0.3	0.2
Bank of Uganda[6]	-2.0	-0.1	-0.3	1.4	0.7	0.3	0.4	0.2	0.1	0.1	0.0
Of which: Petroleum fund withdrawals	0.0	0.0	0.0	2.0	0.2	-0.1	0.2	-0.1	0.0	0.0	0.0
Of which: Energy fund withdrawals	0.1	-0.7	0.0	0.7	0.2	0.2	0.0	0.0	0.0	0.0	0.0
Of which: Government Securities[5]	0.0	0.6	0.0	0.3	0.2	0.2	0.4	0.4	0.1	0.1	0.0
Commercial banks	-0.1	0.9	1.2	0.3	0.3	0.6	0.3	0.3	0.2	0.2	0.2
Nonbank financing	2.1	0.2	1.4	1.6	0.3	0.7	0.7	0.4	0.6	0.6	0.2
Errors and omissions/financing gap (- is gap, + is surplus)	-0.5	-0.3	-0.5	0.1	0.0	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	-3.0	-2.0	-2.3	-3.0	-3.5	-1.8	-2.1	-1.5
Petroleum Fund (end period stock)[7]	2.7	2.5	2.3	0.2	1.2	0.3	1.1	0.4	0.4	0.3	0.3
Energy fund (end period stock)	0.5	1.2	1.1	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public domestic debt[8]	8.8	11.0	12.8	13.8	13.0	13.8	13.2	13.5	13.2	12.9	12.1

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] The balances of the Oil Fund were transferred to the UCF and in line with the PFM Act, a new Petroleum Fund was opened with balances from recent oil revenue deposits.

[8] 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, 2014/15–2015/2016[1,2]

(Billions of Ugandan Shillings)

	2015/16					2016/17				
	Q1 Proj.	Q2 Proj.	Q3 Proj.	Q4 Proj.	Annual Proj.	Q1 Proj.	Q2 Proj.	Q3 Proj.	Q4 Proj.	Annual Proj.
Total revenue and grants	2,986	3,363	3,097	3,762	13,208	3,249	4,191	3,490	4,141	15,071
Revenue	2,509	3,082	2,838	3,318	11,747	2,921	3,416	3,232	3,816	13,386
Tax	2,364	2,946	2,715	3,015	11,040	2,756	3,252	3,076	3,501	12,585
International trade taxes	254	289	293	284	1,120	310	346	323	340	1,319
Income taxes	729	1,128	901	1,082	3,840	829	1,212	969	1,306	4,316
Excises	502	598	680	710	2,490	660	709	780	814	2,963
Value-added tax	865	913	823	916	3,518	936	964	982	1,020	3,902
Infrastructure levy	15	17	18	22	72	21	21	21	21	85
Nontax	145	136	123	178	582	164	165	156	188	674
Oil revenue	0	0	0	125	125	0	0	0	127	127
Grants	477	280	259	444	1,460	328	775	257	325	1,685
Budget support[3]	159	61	92	21	334	75	46	73	98	292
Project grants	318	220	167	423	1,127	254	728	184	227	1,393
Expenditures and net lending	3,832	4,760	4,565	5,432	18,590	4,839	6,584	4,494	4,957	20,875
Current expenditures	2,125	2,274	2,182	2,414	8,996	2,272	2,340	2,454	2,589	9,656
Wages and salaries	712	766	717	795	2,989	827	827	827	827	3,307
Interest payments	360	375	443	515	1,692	614	479	456	453	2,002
Other current	1,054	1,133	1,022	1,105	4,314	831	1,035	1,171	1,310	4,347
Development expenditures	1,076	1,751	1,901	2,289	7,017	1,756	3,663	1,738	1,929	9,087
Externally-financed projects	432	766	461	781	3,489	688	1,976	500	616	4,705
Of which: Non-concessional borrowing	0	202	450	395	1,047	168	483	122	151	925
Government of Uganda investment	643	783	990	1,112	3,528	899	1,204	1,116	1,163	4,382
Net lending and investment	610	711	441	735	2,497	773	557	153	300	1,782
Other spending	20	24	41	-5	80	39	24	149	139	350
Overall balance	-846	-1,398	-1,468	-1,670	-5,382	-1,590	-2,393	-1,004	-816	-5,804
Financing	809	1,535	1,367	1,670	5,382	1,590	2,393	1,004	816	5,804
External financing (net)	691	1,042	1,105	1,178	4,017	1,013	2,265	838	852	4,969
Disbursement	798	1,109	1,176	1,273	4,356	1,104	2,367	938	943	5,352
Concessional project loans	442	401	294	178	1,315	435	1,248	316	389	2,387
Non-concessional borrowing	357	708	881	1,095	3,041	583	1,032	275	467	2,357
Revolving Credit						87	87	87	87	347
Amortization (–)	-100	-68	-71	-101	-339	-104	-98	-100	-87	-388
Exceptional financing	-8	2	0	6	0	12	-3	0	-4	5
Domestic financing (net)	118	493	262	492	1,365	577	128	166	-36	835
Bank financing	35	30	217	483	765	577	-97	25	-2	503
Bank of Uganda	303	41	-6	-73	265	850	-325	-125	-177	223
Commercial banks	-268	-11	223	556	500	-273	228	150	175	280
Nonbank financing	83	463	45	9	600	0	225	141	-34	332
Errors and omissions/financing gap (- is gap, + is surplus)	-37	138	-101	0	0	0	0	0	0	0
Memorandum Items:										
Overall deficit excluding large infrastructure projects financed by non-concessional external borrowing and BoU recapitalization	-236	-485	-577	-666	-1,963	-649	-1,353	-729	-493	-3,224

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]

(Billions of Ugandan Shillings unless otherwise indicated)

	2011/12	2012/13	2013/14	2014/15	2015/16		2016/17		2017/18	2018/19	2019/20
					5th Rev	Proj.	5th Rev	Proj.	Proj.	Proj.	Proj.
					Depository Corporations Survey[3]						
Net foreign assets	7,901	8,427	8,844	9,656	10,699	10,740	10,280	11,559	12,284	13,122	13,928
Bank of Uganda	6,845	8,305	9,455	10,092	10,809	10,309	10,702	11,137	12,914	14,481	15,740
Commercial banks	1,056	122	-611	-436	-111	432	-422	422	-629	-1,359	-1,811
Net domestic assets	3,395	3,621	5,291	6,733	7,984	8,196	11,214	9,817	12,171	15,028	18,313
Claims on public sector (net)[4]	-496	-17	623	1,911	2,738	2,658	3,405	3,161	3,458	3,828	4,078
Claims on central government (net)	-569	-105	539	1,827	2,654	2,576	3,321	3,079	3,376	3,746	3,996
Claims on the private sector	7,532	8,011	9,124	10,986	13,116	12,762	15,132	14,831	17,265	20,108	23,440
Other items (net)[5,6]	-3,641	-4,373	-4,456	-6,163	-7,870	-7,224	-7,323	-8,176	-8,552	-8,909	-9,205
Money and quasi-money (M3)	11,296	12,047	14,142	16,389	18,683	18,937	21,494	21,376	24,456	28,149	32,242
Broad money (M2)	7,721	8,932	10,195	11,095	12,050	13,060	14,186	14,849	17,526	20,549	23,633
Foreign exchange deposits	3,575	3,115	3,947	5,294	6,632	5,877	7,308	6,527	6,929	7,600	8,609
					Bank of Uganda						
Net foreign assets	6,845	8,305	9,455	10,092	10,809	10,309	10,702	11,137	12,914	14,481	15,740
Net domestic assets	-3,832	-4,760	-5,363	-5,039	-4,995	-4,416	-4,095	-4,567	-5,465	-6,011	-6,067
Claims on public sector (net)[4]	-2,749	-2,858	-3,059	-1,995	-1,439	-1,731	-1,072	-1,508	-1,408	-1,308	-1,308
Claims on central government (net)	-2,750	-2,858	-3,059	-1,995	-1,439	-1,731	-1,072	-1,508	-1,408	-1,308	-1,308
Claims on commercial banks	-1	-518	-889	-161	1,322	628	1,221	1,206	583	297	539
Other items (net)[5,6]	-1,082	-1,383	-1,415	-2,883	-2,560	-3,312	-4,252	-4,264	-4,640	-5,000	-5,298
							-4,104				
Base money	3,013	3,545	4,092	5,053	5,814	5,893	6,607	6,570	7,448	8,470	9,672
Currency in circulation	2,204	2,453	2,746	3,232	3,368	3,650	3,964	4,150	4,898	6,305	7,252
Commercial bank deposits[7]	808	1,092	1,346	1,822	2,446	2,243	2,642	2,421	2,550	2,165	2,421
					Other Depository Corporations						
Net foreign assets	1,056	122	-611	-436	-111	432	-422	422	-629	-1,359	-1,811
Net domestic assets	8,318	9,805	12,439	14,113	15,905	15,375	18,515	17,395	20,884	23,989	27,705
Of which Claims on central government (net)	2,168	2,753	3,598	3,830	4,093	4,307	4,393	4,587	4,784	5,054	5,304
Of which Claims on private sector	7,471	7,964	9,069	10,922	13,052	12,693	15,068	14,762	17,196	20,039	23,371
Deposit liabilities to the non-bank public	9,373	9,927	11,828	13,677	15,794	15,806	18,093	17,816	20,254	22,630	25,894
Shilling deposits	5,798	6,812	7,881	8,383	9,162	9,929	10,785	11,289	13,325	15,029	17,285
Foreign exchange accounts	3,575	3,115	3,947	5,294	6,632	5,877	7,308	6,527	6,929	7,600	8,609
Memorandum items:											
(Annual percentage change)											
Base money	1.5	17.7	15.4	23.5	15.1	16.6	13.6	11.5	13.4	13.7	14.2
M3	7.2	6.6	17.4	15.9	14.0	15.5	15.0	12.9	14.4	15.1	14.5
Credit to the private sector	11.5	6.4	13.9	20.4	19.4	16.2	15.4	16.2	16.4	16.5	16.6
Memorandum items:											
Base money-to-GDP ratio (percent)	5.1	5.5	6.0	6.8	6.8	7.0	7.1	7.1	7.3	7.5	7.8
M3-to-GDP ratio (percent)	19.0	18.9	20.6	22.0	22.0	22.5	23.0	23.0	23.9	25.0	26.0
Base money multiplier (M2/base money)	2.6	2.5	2.5	2.2	2.1	2.2	2.1	2.3	2.4	2.4	2.4
Credit to the private sector (percent of GDP)	12.7	12.5	13.3	14.7	15.4	15.1	16.2	16.0	16.9	17.9	18.9
Gross reserves of BoU (US$ millions)	2,644	2,912	3,394	2,895	2,645	2,745	3,005	2,910	3,320	3,670	3,921.9
Velocity (M3)	5.3	5.3	4.8	4.5	4.5	4.5	4.3	4.3	4.2	4.0	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[1,2,3]

(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
					5th Rev	Proj.	5th Rev	Proj.	Proj.	Proj.	Proj.
Current account	-2,042	-1,582	-2,110	-2,189	-2,073	-2,357	-2,653	-2,850	-2,888	-3,386	-3,304
Trade balance	-2,574	-2,123	-2,367	-2,250	-2,113	-2,169	-2,540	-2,505	-2,516	-2,744	-2,689
Exports, f.o.b.	2,667	2,912	2,706	2,738	2,967	2,687	3,135	2,691	2,976	3,465	3,840
Of which: coffee	444	423	404	401	373	342	380	308	343	362	382
Imports, f.o.b.	-5,241	-5,035	-5,074	-4,988	-5,080	-4,856	-5,675	-5,196	-5,493	-6,209	-6,528
Of which: oil	-947	-1,028	-1,090	-933	-693	-671	-761	-641	-763	-854	-941
Of which: government	-483	-438	-361	-224	-371	-644	-388	-489	-321	-357	-312
Services (net)	-412	-405	-331	-675	-672	-632	-680	-718	-545	-645	-563
Income (net)	-471	-528	-616	-671	-681	-759	-867	-884	-1,038	-1,217	-1,324
Of which: interest on public debt	-35	-39	-49	-52	-83	-71	-131	-123	-209	-321	-395
Transfers	1,414	1,473	1,204	1,407	1,392	1,202	1,434	1,257	1,211	1,220	1,271
Private transfers	838	1,130	999	1,173	1,166	1,001	1,223	1,028	1,053	1,084	1,137
Of which: workers' remittances (inflows)	584	817	696	792	789	769	829	790	806	827	864
Official transfers	576	343	205	234	226	201	211	230	158	136	135
Of which: budget support (including HIPC)	224	71	83	99	105	96	87	84	74	78	78
capital gains tax	176	7	7	44	8	6	8	8	8	8	8
Capital and financial account	2,116	1,519	1,793	1,730	1,834	2,218	3,016	3,018	3,298	3,736	3,556
Capital account	18	33	91	99	224	226	207	264	147	101	99
Of which: project grants	18	33	91	99	224	226	207	264	147	101	99
Financial account	2,098	1,486	1,702	1,631	1,610	1,992	2,810	2,754	3,151	3,635	3,457
Foreign direct investment	1,244	940	1,096	1,112	838	1,055	1,254	1,132	1,442	1,970	2,420
Portfolio investment	277	-46	6	-157	-13	-10	97	97	107	122	144
Other investment	577	592	609	684	785	948	1,459	1,526	1,602	1,543	893
Of which:											
Public sector (net)	745	534	313	292	1,215	1,196	1,339	1,556	1,702	1,690	1,569
SDR allocation	0	0	0	0	0	0	0	0	0	0	0
Build-up (-)/drawdown (+) of petroleum fund	273	-7	-7	-7	-8	0	0	127	127	0	0
Loan disbursements	546	617	403	385	1,328	1,294	1,452	1,540	1,801	1,935	1,740
Project support (loans)	392	497	322	385	383	379	562	687	414	608	489
Budget support (loans)	49	120	0	0	0	0	75	75	0	0	0
Non-concessional borrowing	105	0	81	0	946	915	815	778	1,387	1,327	1,250
Amortization due	-75	-76	-83	-86	-105	-98	-113	-112	-226	-236	-162
Commercial banks (net)	-240	380	282	-103	-104	-255	95	5	288	191	111
Other private (net)	350	-322	14	361	-325	13	18	100	-253	-338	-786
Errors and omissions	673	402	695	384	0	0	0	0	0	0	0
Overall balance	746	338	378	-75	-239	-139	363	169	410	350	252
Financing	-746	-338	-378	75	239	139	-363	-169	-410	-350	-252
Of which:											
Central bank net reserves (increase = –)	-743	-334	-374	75	250	150	-359	-165	-410	-350	-252
Of which: SDR allocation	0	0	0	0	0	0	0	0	0	0	0
Use of Fund credit	-2	-2	-2	-2	0	0	0	0	0	0	0
Memorandum items:											
Gross offical reserves	2,644	2,912	3,394	2,895	2,645	2,745	3,005	2,910	3,320	3,670	3,922
Months of imports of goods and services	4.2	4.5	5.1	4.5	3.6	3.9	3.8	4.0	4.1	4.3	4.5
Donor support											
Of which: Budget support (loans and grants)	273	191	83	99	105	96	162	159	74	78	78
Project support (loans and grants)	410	530	413	484	719	605	885	951	561	709	588
Current account balance (percent of GDP)	-8.8	-6.4	-7.8	-8.3	-9.1	-9.7	-10.2	-10.7	-10.3	-11.2	-10.1
Current account balance (excluding grants)	-9.8	-6.7	-8.1	-8.7	-9.6	-10.1	-10.5	-11.0	-10.5	-11.6	-10.5
Trade balance (percent of GDP)	-11.1	-8.6	-8.8	-8.5	-9.3	-8.9	-9.7	-9.4	-9.0	-9.1	-8.2
Exports of goods (percent of GDP)	11.5	11.8	10.0	10.4	13.0	11.1	12.0	10.1	10.6	11.5	11.7
Imports of goods (percent of GDP)	22.6	20.4	18.8	18.9	22.3	20.0	21.7	19.4	19.6	20.5	20.0

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] This table uses a classfication different from the 5th review Staff Report (IMF Country Report No. 15/321), regarding official transfers and capital account, to be in line with the published data by the authorities.

Table 5. Uganda: Banking Sector Indicators, March 2012–March 2016

	2012				2013				2014				2015				2016
	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	Sep-15	Dec-15 (Prel.)	Mar-16 (Prel.)
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	19.7	21.0	21.8
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	17.3	18.6	19.1
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	3.9	6.5	6.9
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	2.9	3.9	4.9
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	45.4	41.6	47.2
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	69.6	69.2	70.1
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	43.5	40.9	42.2
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	140.8	123.5	123.9
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	2.7	2.6	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	17.2	16.0	16.8
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	11.0	11.3	11.6
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	3.3	3.3	3.4
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	68.5	69.2	68.4
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	42.7	41.9	41.1
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	46.0	46.4	42.5
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	-3.4	-5.9	-7.6
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	60.8	59.2	59.3
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	102.0	101.8	97.4

Source: Bank of Uganda.

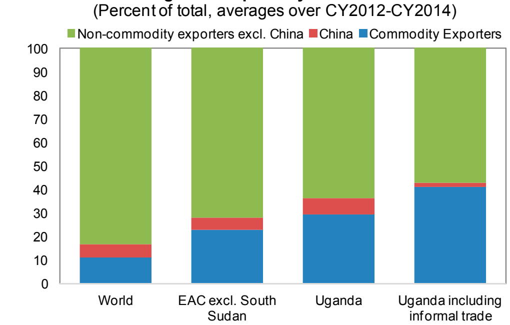
Annex I. Spillovers from China

A moderate growth slowdown in China is unlikely to produce a significant deterioration in the current account through direct trade links between Uganda and China, while indirect effects through commodity prices warrant close monitoring. The capital and financial accounts could be negatively affected given the relatively high importance of China as a source of FDI and loans financing large infrastructure projects. However, in case Chinese funding sources were to become scarce, infrastructure-related imports would also decline, limiting the overall impact on the balance of payments. In contrast, the effects on economic activity could be more significant, affecting long-term potential growth, as there are no clear cost-effective financing alternatives.

Trade links

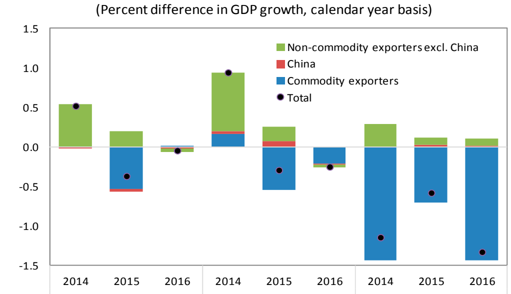
Direct trade links with China are small but the impact of a growth slowdown in China to the current account through commodity prices could be non-negligible. Ugandan exports to China comprise 2½ percent of total exports while imports are about 15 percent of total imports—mostly financed by loans from China. However, it is noteworthy that over 40 percent of Ugandan exports (including informal) go to commodity-exporting countries—particularly South Sudan, an oil-dependent economy (Figure 1). This suggests that a slowdown in China may have indirect effects through lower global commodity prices by weakening demand for Ugandan exports originating from commodity-dependent countries. In fact, slow growth in commodity exporting countries in 2014 and 2015 significantly pulled down growth in Uganda's trading partners and the weak performance is expected to continue in 2016 (Figure 2). In the first nine months of FY2015/16, Ugandan exports to commodity-exporting countries declined by 7 percent compared to the same period of the previous year. If this performance continues through the rest of the current fiscal year, exports would decline by about $70 million (⅓ percent of GDP).

Figure 1: Exports by Destination
(Percent of total, averages over CY2012-CY2014)



Sources: Bank of Uganda, Direction of Trade Statistics, World Economic Outlook (WEO), and IMF staff estimates.
Note: PPP-GDP weighted averages are used for country groups. Commodity exporters are defined as fuel and primary commodity exporters under the WEO classification. South Sudan is excluded owing to data availability, except for the fourth bar, which includes South Sudan as Uganda's export distination.

Figure 2: Trading Partners' Growth Changes
(Percent difference in GDP growth, calendar year basis)

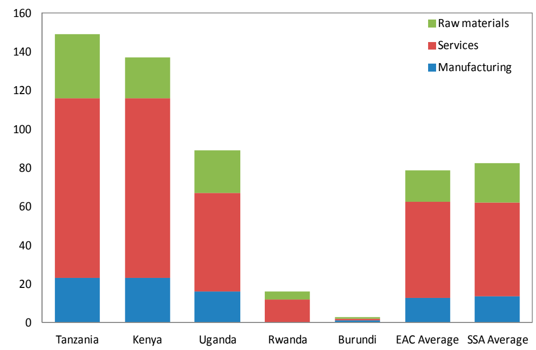


Sources: Bank of Uganda, Direction of Trade Statistics, World Economic Outlook, and IMF staff estimates.
Note: Export weights are 3-year averages of exports of goods in the previous year. PPP-GDP weighted averages are used for country groups. Commodity exporters are defined as fuel and primary commodity exporters under the WEO classification. South Sudan is excluded owing to data availability, except for the last three bars which include South Sudan as Uganda's export distination.

Financial links

Financial links are important as China has become over the years one of the major sources of investment in Uganda. According to data from the Ugandan Investment Authority (UIA), China´s FDI reached $400 million in the first half of 2014. Moreover, China ranked first in terms of planned FDI to Uganda by value over the past two years, with large investments in the manufacturing and constructions sectors, accounting for about 30 percent of all new projects. China also ranks second by number of projects, with 53 projects in FY2013/14, only behind India. Between 1993 and 2012, 310 Chinese enterprises were registered in Uganda with planned investments of $683 million, creating 33,000 job opportunities for locals in the process (UIA). Chinese companies are present in nearly every sector of the economy, including farming, retail, telecommunications and mobile telephone networks. Furthermore, China, mostly through Eximbank, is a key source of financing of large infrastructure projects, including the two HPPs Karuma and Isimba, the toll highway between Entebbe International Airport and Kampala, and the rehabilitation of the Entebbe airport. China is also active in the oil sector through the China National Offshore Oil Corporation (CNOOC).

Figure 3. Chinese Investments in Africa
(number of projects)



Source Data: Chen, W., Dollar, D., Tang, H. 2015. "Why is China Investing in Africa? Evidence from the Firm Level." *www.brookings.edu.*

A moderate growth slowdown in China is unlikely to significantly affect the economy. Given the above trade and financial links, Uganda's balance of payments is unlikely to be strongly affected by spillovers from China. In contrast, growth would be hurt if the Chinese slowdown were to lead to a substantial decline in FDI; and the impact could be particularly more severe in case of delays or a reconsideration of China´s involvement in the financing of Uganda´s key infrastructure projects. The projects are necessary to remove energy and transportation bottlenecks and are expected to unleash Uganda's growth potential during their construction phase and thereafter. Delays in financing could lead to large project cost overruns and relying on alternative financing sources would likely result in a higher debt burden, since alternative cost-effective options are not immediately available. Nevertheless, FDI from China (or projects financed by China and/or executed by Chinese firms) may benefit from the ample resources available to Eximbank and the comparatively stronger economic fundamentals of Uganda relatively to other SSA countries that previously received substantial FDI from China.

Appendix I. Letter of Intent

Kampala, Uganda,
May 18, 2016

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

Dear Madame Lagarde:

On behalf of the Government of Uganda, we would like to provide you with an update on the progress we have achieved under our economic program supported by the IMF's Policy Support Instrument (PSI). In FY2015/16 economic growth was supported by our program of public investments. Despite a challenging environment, our decisive policies improved market confidence helping to preserve low inflation and stabilize the exchange rate. Fiscal performance was in line with the budget, and international reserves remain adequate.

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

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

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

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

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

Sincerely yours,

/s/	/s/
Honorable Matia Kasaija Minister of Finance, Planning, and Economic Development	Prof. E. Tumusiime Mutebile Governor Bank of Uganda

Attachments
Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

A. Introduction

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

B. Recent Economic and Policy Developments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

C. Performance under the PSI

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

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

D. Macroeconomic Outlook and Risks

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

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

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

E. Economic Policies

Fiscal Policy

The Fiscal Stance

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

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

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

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

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

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

Continuing our efforts to boost Tax Revenue

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

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

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

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

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

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

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

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

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

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

j) Increase various fees under the Mining Act 2003.

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

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

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

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

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

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

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

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

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

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

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

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

Containing Current Spending Growth and *Implementing Infrastructure Projects*

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

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

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

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

Enhancing Social protection

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

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

Monetary and Financial Sector Policies

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

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

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

33. To preserve financial sector stability, the BoU will further strengthen its prudential oversight to guard against potential market, liquidity and operational risks, as well as vulnerabilities emerging from credit sector concentration and currency mismatches. Specifically, we plan to implement certain aspects of post crisis regulation measures like the capital conservation buffer, capital charge for systemically important banks and liquidity coverage ratio. The recently amended FIA Act will give BoU powers to implement additional capital buffers. BOU will also conduct macroprudential regulation to identify and assess potential systemic risks to the structure and functioning of the Ugandan financial system and, develop measures to reduce or mitigate those risks.

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

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

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

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

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

F. Structural Reforms

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

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

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

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

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

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

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

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

44. Progress towards EAC regional integration will continue. We prepared a medium term convergence program that will guide our transition to the convergence criteria. The program outlines: the medium-term macroeconomic and fiscal objectives; and strategies and policies to ensure that the Ugandan economy attains a high degree of monetary and economic convergence and compatibility with other EAC Partner States, and follows a stable and sound trajectory towards meeting the agreed Performance Convergence Criteria by 2021. The MTCP will be presented for discussion in the meeting of the EAC Sectoral Council on Finance and Economic Affairs (SCFEA) which will be held in May 2016.

G. Program Monitoring

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

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

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

	September 30, 2015 [2]				December 31, 2015 [2]				March 31, 2016 [2]	June 30, 2016 [2]	September 30, 2016 [3]	December 31, 2016 [3]	March 31, 2017 [3]
	Program	Adjusted Target	Outturn	Result	Program	Adjusted Target	Outturn	Result	Program	Proposed Program	Proposed Program	Proposed Program	Proposed Program
							(Billions of Ugandan shillings)						
Assessment criteria													
Ceiling on the overall deficit of the Central Government	1,682	1,150	1,143	Met	2,346	2,113	2,325	Not met	3,814	5,382	1,590	3,983	4,988
							(Millions of US dollars)						
Ceiling on the stock of external payment arrears incurred by the public sector	0		0	Met	0		0	Met	0	0	0	0	0
Minimum increase in net international reserves of the Bank of Uganda (US$mn)[4]	49	50	-140	Not Met	-225	-262	31	Met	-281	-150	41	83	124
								(Percent)					
Share of oil revenue placed in the Petroleum Fund	100		100	Met	100		100	Met	100	100	100	100	100
Indicative targets							(Billions of Ugandan shillings)						
Ceiling on cumulative changes in temporary advances from Bank of Uganda to the central government[5]	n.a.				268		182	Met	118	0	n.a.	n.a.	n.a.
Floor on tax revenue	2,441		2,364	Not Met	5,282		5,310	Met	7,997	11,040	2,756	6,008	9,084
Expenditures on poverty alleviating sectors	768		782	Met	1,570		1,488	Not met	2,367	3,032	893	1,824	2,782
Ceiling on the issuance of guarantees by the Government/Bank of Uganda	0		0	Met	0		0	Met	0	0	0	0	0
Net change in the stock of domestic arrears[6]	-20		n.a.	Not met	-39		n.a.	Not met	-80	-80	n.a.	-62	n.a.
Ceiling on withdrawals from energy and petroleum funds	70	149	122	Met	173	140	140	Met	253	n.a.	n.a.	n.a.	n.a.
							(Annual percentage change)						
Inflation consultation clause													
Outer band (upper limit)	8.0				8.0				8.0	8.0	8.0	8.0	8.0
Inner band (upper limit)	7.0				7.0				7.0	7.0	7.0	7.0	7.0
Core inflation target[7]	5.0		4.1	Met	5.0		5.2	Met	5.0	5.0	5.0	5.0	5.0
Inner band (lower limit)	3.0				3.0				3.0	3.0	3.0	3.0	3.0
Outer band (lower limit)	2.0				2.0				2.0	2.0	2.0	2.0	2.0

[1] Defined in the Technical Memorandum of Understanding (TMU). Values for December 31, 2015, June 30, 2016, and December 31, 2016 are quantitative assessment criteria except as marked. Values for other dates are indicative targets.
[2] Proposed targets are measured as the change from June 2015, except as marked.
[3] Proposed targets are measured as the change from June 2016, except as marked.
[4] The NIR outturn is assessed using program exchange rates.
[5] As the issues regarding this target have been addressed by the Amendments to the PFM Act (2015), the target is set up until June 2016. This target is expected to be dropped in the next review.
[6] The outturns are not available because a reconcilation process has not been completed yet. This target will be measured semiannually for quarters ending June 30 and December 31 since the seventh review.
[7] Annual percentage change, twelve-month period average core inflation.

Table 1.2. Structural Benchmarks

Policy Measure	Macroeconomic Rationale	Date[1]	Status	Proposed Revised date
Ministry of Finance to submit to Parliament amendments to the Bank of Uganda Act containing provisions to support implementation of inflation targeting in line with international best practices, including establishing the capital of the BoU as an adequate percent of monetary liabilities, and limiting the size of intra-year advances to the government to 10 percent of tax revenues of the previous year.	To strengthen monetary policy independence and credibility of the central bank.	April 2016	Not met. Draft Cabinet Memo on the Principles for Amending the BoU Act to be presented to Cabinet, thereafter, Bill to Parliament	September 2016
Government to continue with annual recapitalizations of the Bank of Uganda with marketable securities to bring capital to the statutory level until amendments to the Bank of Uganda Act come into force, on the basis of the BoU's commitment to implement its business plan to contain operational and administrative costs.	To enhance central bank efficiency. To enhance central bank discipline and monetary policy independence.	November 2015	Met. However, information on progress on the implementation of the plan of the BoU to contain operational and administrative costs is lacking.	NA
Ministry of Finance to publish quarterly reports signed by the PS/ST on the stock of unpaid bills of all government entities contained in the central government votes.	To facilitate control and reduction of unpaid bills.	November 15, 2015 for quarter ending September 30, 2015. February 15, 2016 for quarter ending December 31, 2015. May 15, 2016 for quarter ending March 31, 2016.	Not met; work was ongoing on the reconciliation of the stocks	Proposed to change to semi-annual reports

Table 1.2. Structural Benchmarks (continued)

Policy Measure	Macroeconomic Rationale	Date[1]	Status	Proposed Revised date
Ministry of Finance to publish a semi-annual report signed by the PS/ST on the stock of unpaid bills of all government entities contained in the central government votes	To facilitate control and reduction of unpaid bills.			June 2016 March 2017
Ministry of Finance to publish a report signed by the PS/ST on the stock of domestic arrears of all government entities contained in the central government votes.	To facilitate control and reduction of expenditure arrears.	December 2015	Not met. Government working on reconciliation of figures	June 2016
Regulations for implementation of the PFM Act in line with international best practice to become effective.	Ensure efficient PFM implementation and oil revenue management by providing guidelines, clarifying and making specific those aspects that are general in the law.	March 2016	Not met. The content of the initial set of Regulations was not in line with international practices	June 2016
Ministry of Finance to send to Parliament the charter of fiscal responsibility.	To improve fiscal and macroeconomic management.	April 2016	Not met. Current draft under internal discussion.	September 2016
Ministry of Finance to develop the Public Investment Management Guidelines and Procedures.	To strengthen the capacity of MDAs in the preparation of feasibility studies, project preparation, analysis and appraisal, and financing assessments.	December 2015	Met	NA
Ministry of Finance to include 30 local governments in the TSA structure.	Provide a key milestone for full TSA implementation.	March 2016	Met	NA
Ministry of Finance to introduce specific rules and controls on the intra-year use and balances of the Uganda Consolidated Fund (UCF) and UCF/TSA and institutionalize those rules in a framework agreement with	To improve fiscal and macroeconomic management.	April 2016	Not met. However, new rules and controls on the intra –year use and balances	

Table 1.2. Structural Benchmarks (concluded)

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

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

Attachment II. Technical Memorandum of Understanding

A. Introduction

1. This memorandum defines the quarterly quantitative assessment criteria (QAC) and indicative targets (ITs) described in the Memorandum of Economic and Financial Policies (MEFP) for the economic program supported by the IMF Policy Support Instrument (PSI) over the period of June 30, 2016—March 31, 2017, and sets forth the reporting requirements under the instrument. The stock of all foreign assets and liabilities will be converted into U.S. dollars at each test date using the cross exchange rates referred to in text table 1 below for the various currencies, and then converted into Uganda shillings using the program U.S. dollar-Uganda shilling exchange rate for end-June 2015, unless otherwise indicated in the text.

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

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

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

B. Consultation Mechanism on Inflation (QAC)

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

Text Table 2. Inflation Targets

	Jun. 2016	Sep. 2016	Dec. 2016	Mar. 2017
Outer band (upper limit)	8.0	8.0	8.0	8.0
Inner band (upper limit)	7.0	7.0	7.0	7.0
Core inflation target	5.0	5.0	5.0	5.0
Inner band (lower limit)	3.0	3.0	3.0	3.0
Outer band (lower limit)	2.0	2.0	2.0	2.0

3. Should the observed average CCPI inflation for the test date linked to a PSI program review (i.e., end-June 2016 for the seventh review and end-December 2016 for the eighth review) fall outside the outer band as specified in the above table, the authorities will complete a consultation with the Executive Board of the Fund on their proposed policy response before requesting completion of the review under the program. The authorities will not be able to request completing a review under the PSI-supported program if the average CCPI inflation has moved outside of the outer band as of the test date linked to such review, until the consultation with the Executive Board has taken place. In line with the accountability principles, the BoU will report to the public the reasons for any breach of the outer bands, and its policy response. In addition, the BoU will conduct discussions with Fund staff when the observed average CCPI inflation falls outside the inner band, as specified for June 2016 and December 2016 in Text Table 2.

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

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

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

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

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

5. The NDF of the central government is defined from below the line on a cash basis as the sum of:

a. *the change in net claims on the central government by the banking system:* Net claims on the central government by the banking system is defined as the difference between the outstanding amount of bank credits to the central government and the central government's deposits, excluding deposits in the Energy and Petroleum Funds and project accounts with the banking system and the central bank. Credits comprise bank loans and advances to the government and holdings of government securities and promissory notes.

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

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

All changes will be calculated as the difference between end-of-period stocks, net of any valuation changes resulting from currency movements. NDF will be calculated based on data from balance sheets of the monetary authority and deposit corporations and government liabilities to nonbank institutions and households as per the deposit corporations' survey (DCS).

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

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

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

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

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

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

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

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

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

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

Purpose, definition, and measurement of this indicative target

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

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

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

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

15. The indicative target on the floor on poverty alleviating expenditures includes domestic expenditures inclusive of wages and salaries in the Health, Education, Water and Environment and Agriculture sectors, as defined by the Government of Uganda functional budget classification, excluding those which are externally financed. Compliance with the indicative floor for poverty alleviating expenditures will be verified on the basis of releases.

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

16. The indicative target on issuance of guarantees by the GoU or the BoU aims to prevent accumulation of contingent liabilities by the GoU (including entities such as ministries, agencies and authorities). Included against the ceiling are any direct, contingent liabilities of the GoU (including entities that are part of the GoU such as ministries, agencies and authorities). This excludes guarantee programs which have explicit budget appropriations.

I. Tax Revenue (IT)

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

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

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

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

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

K. Adjustors

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

Adjustor related to budget support

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

Schedule A: Budget Support[1]

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

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

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

Adjustor on Inflows into the Petroleum Fund

23. The ceilings on the cumulative increase in overall deficit will be adjusted upward (downward) by the amount by which inflows into the Petroleum Fund (excluding valuation changes) falls short of (exceeds) the projected amounts as set out in Schedule B.

Schedule B: Inflows into Petroleum Fund

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

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

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

Schedule C: Recapitalization of the Bank of Uganda

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

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

Adjustor related to externally financed projects

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

Schedule D: External Financing Tied to Projects

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

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

Adjustor related to contingent reimbursement under the Hoima refinery project

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

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

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

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

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

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

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

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

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

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

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

(b) Under the definition of debt set out in point 8(a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

28. The ceiling on the accumulation of new external payments arrears is zero. This limit, which is to be observed on a continuous basis, applies to the change in the stock of overdue payments on debt contracted or guaranteed by the public sector from their level at end-June 2015. External debt payment arrears consist of external debt service obligations (reported by the Statistics Department of the BoU, the Macro Department of the Ministry of Finance) that have not been paid at the time they are due as specified in the contractual agreements but shall exclude arrears on obligations subject to rescheduling.

M. Monitoring and Reporting Requirements

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

Attachment Table II.1. Summary of Reporting Requirements

Reporting institution	Report/Table	Submission Frequency	Submission Lag
I. Bank of Uganda	Issuance of government securities, repurchase operations and reverse repurchase operations.	Weekly	5 working days
	Operations in the foreign exchange market and the level of the BoU's international reserves.	Weekly	5 working days
	Interest rates (7 day interbank, commercial bank prime lending rate, government securities).	Weekly	5 working days
	Private sector credit growth by shilling and forex, and excess reserves of commercial banks.	Monthly	5 working days
	Disaggregated consumer price index.	Monthly	2 weeks
	Balance sheet of the BoU, consolidated accounts of the commercial banks, and depository corporations' survey.	Monthly	4 weeks
	Monthly balances of net foreign assets, net domestic assets, and base money of the BoU.	Monthly	4 weeks

Attachment Table II.1. Summary of Reporting Requirements (continued)			
Reporting institution	**Report/Table**	**Submission Frequency**	**Submission Lag**
	Details on the government position at the central bank including deposits broken down by i) net public debt, ii) government project accounts, iii) Petroleum Fund (specifying the currency), iv) Energy Fund, v) government ministries accounts, and the remainder in vi) other deposits. In addition, liabilities broken down by i) appropriation account (UCF), ii) other drawdown accounts, iii) government securities accounts and the remainder in iv) other liabilities. Detailed information about the recording of the recapitalization of the BoU.	Monthly	4 weeks
	Monthly foreign exchange cash flow table of BoU.	Quarterly	4 weeks
	Statement of (i) cash balances held in project accounts at commercial banks; (ii) total value (measured at issue price) of outstanding government securities from the Central Depository System (CDS); and (iii) the stock of government securities (measured at issue price) held by commercial banks from the CDS.	Quarterly	6 weeks
	Summary of (i) monthly commodity and direction of trade statistics; (ii) disbursements, principal and interest, flows of debt rescheduling and debt cancellation, arrears, and committed undisbursed balances—by creditor category; and (iii) composition of nominal HIPC Initiative assistance.	Quarterly	6 weeks
	Summary of stock of external debt, external arrears, and committed undisbursed loan balances by creditor.	Quarterly	6 weeks
	Standard off-site bank supervision indicators for deposit money banks.	Quarterly	4 weeks
	Summary table of preliminary program performance comparing actual outcome with adjusted program targets for (i) net claims on central government by the banking system; (ii) new non-concessional external borrowing; and (iii) net international reserves.	Quarterly	6 weeks
	Currency composition of the BoU's international reserves in unit of each currency at each end of quarter.	Quarterly	6 weeks

Attachment Table II.1. Summary of Reporting Requirements (concluded)			
Reporting institution	**Report/Table**	**Submission Frequency**	**Submission Lag**
II. Ministry of Finance	Summary of central government accounts. Revenues shall be recorded on a cash basis, with a breakdown including infrastructure levy. Expenditures shall be recorded when checks are issued, except for domestic and external debt-service payments[4], cash transfers to districts, and externally funded development expenditures. Expenditures on domestic interest will be recorded on an accrual basis and external debt service will be recorded on a commitment basis (i.e., when payment is due).	Monthly	4 weeks
	Summary of the stock of arrears (or unpaid bills) by government entities contained in the central government votes as reported by the Accountant General and signed by the PS/ST.	Semi-annually	3 months
	Summary of contingent liabilities of the central government and the BoU. For the purpose of the program, contingent liabilities include all borrowings by statutory bodies, government guarantees, claims against the government in court cases that are pending, or court awards that the government has appealed.	Quarterly	6 weeks
	Detailed monthly central government account of disbursed budget support and project grants and loans (less change in the stock of project accounts held at the BoU and commercial banks), HIPC support, and external debt service due and paid.	Quarterly	4 weeks
	Detailed central government account of disbursed donor project support grants and loans.	Monthly	6 weeks
	Statement on new external loans contracted or guaranteed by the central government and the BoU during the period according to loan agreements. Parliament resolutions on any new loans.	Quarterly	6 weeks
	Updated national accounts statistics (real and nominal) according to UBOS and medium-term projections.	Quarterly	12 weeks
	Releases of domestic expenditures on wages and salaries in the Health, Education, Water and Environment and Agriculture sectors, as defined by the Government of Uganda's functional budget classification, with a breakdown based on financing (domestically financed or externally financed).	Quarterly	6 weeks

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

INTERNATIONAL MONETARY FUND

UGANDA

SIXTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT AND REQUEST FOR A ONE-YEAR EXTENSION—INFORMATIONAL ANNEX

May 20, 2016

Prepared By

The African Department
(in consultation with other departments)

CONTENTS

FUND RELATIONS

Uganda: Financial Position in the Fund as of April 30, 2016

Summary of IMF members' quota, reserve tranche position, SDR holdings, outstanding credit, recent lending arrangements, projected payments due to the IMF, and historical transactions with the IMF.

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

General Resources Account:	**SDR Million**	**%Quota**
Quota	361.00	100.00
IMF's Holdings of Currency (Holdings Rate)	361.01	100.00
Reserve Tranche Position	0.00	0.00

SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	173.06	100.00
Holdings	47.25	27.30

Outstanding Purchases and Loans: None

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 17, 1997	120.51	120.51

[1/] Formerly PRGF.

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

	Forthcoming				
	2016	2017	2018	2019	2020
Principal					
Charges/Interest	0.05	0.07	0.07	0.07	0.07
Total	0.05	0.07	0.07	0.07	0.07

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

Implementation of HIPC Initiative:

	Original Framework	Enhanced Framework	Total
I. Commitment of HIPC assistance			
Decision point date	Apr 1997	Feb 2000	
Assistance committed			
by all creditors (US$ Million) [1/]	347.00	656.00	
Of which: IMF assistance (US$ million)	68.90	91.00	
(SDR equivalent in millions)	51.51	68.10	
Completion point date	Apr 1998	May 2000	
II. Disbursement of IMF assistance (SDR Million)			
Assistance disbursed to the member	51.51	68.10	119.61

Interim assistance	--	8.20	8.20
Completion point balance	51.51	59.90	111.41
Additional disbursement of interest income [2/]	--	2.06	2.06
Total disbursements	51.51	70.16	121.67

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

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

Implementation of Multilateral Debt Relief Initiative (MDRI):

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

II. Debt Relief by Facility (SDR Million)

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

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

Implementation of Catastrophe Containment and Relief (CCR): Not Applicable

As of February 4, 2015, the Post-Catastrophe Debt Relief Trust has been transformed to the Catastrophe Containment and Relief (CCR) Trust.

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

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

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

Prepared by Finance Department

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-April, 2016 the official exchange rate was USh 3325.55 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, in the fiscal area, in March and April 2016, a series of missions led by East AFRITAC collected information and covered issues related to budget transparency. Following up on this early work, an FAD mission was held in May 2016 to conduct a fiscal transparency review.

[1] For a description of technical assistance provided prior to December 2015, see the staff report for Uganda: Fifth Review Under the Policy Support Instrument (IMF Country Report No. 15/321). 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; to 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; and to the 2015 Article IV Consultation and Fourth Review Under the Policy Support Instrument (IMF Country Report No. 15/175) for technical assistance for the first half of 2015.

An East AFRITAC technical assistance mission in May 2016 assisted the BoU to strengthen its oversight responsibilities for financial market infrastructures. Another East AFRITAC mission in May 2016 assisted the BoU with recommendations to help developing the REPO market.

In the area of National Accounts, East AFRITAC fielded a mission to continue developing quarterly GDP estimates in January 2016. Another AFE mission in January provided assistance on price statistics. In April 2016, STA led a mission to help harmonize monetary data.

Resident Representative:

The Fund has maintained a resident representative in Uganda since July 1982. Currently, the Resident Representative is Ms. Clara Mira.

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 a net commitment of $2.1 billion in national and $182 million in regional projects. The disbursement rate remains low, with $1.6 billion undisbursed. Transport and energy infrastructure investments take the bulk of the portfolio - about 33 percent of total, even though it reduced significantly with the cancellation of the transport projects. Other key sectors include agriculture, water, urban development, education, health, and private sector competitiveness. Both the Skills development and agricultural cluster project were approved by the Bank Board during FY2014/15 but are still not effective. The new regional project for trade facilitation in the Great Lakes region, approved in FY 2015/16, is also awaiting parliamentary approval. 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, however, these resources are expected to finance FY2016/17 budget.	Appraisal mission ongoing	Board presentation date to be determined upon completion of appraisal
	The Public Investment Management project (with support from the DFID trust fund) closed in December 2015. The Bank will be looking for follow-up funding to continue the support in streamlining analysis and appraisal of projects, as well as building capacity to this end.	Ongoing	

	Economic update (two series) Special focus of the next one is PIM	Mission ongoing with the dissemination of the economic update with special focus on public investment management.	Next update expected in June 2016.
Fund Work Program	Sixth review of the PSI	April 2016	June 2016
	Seventh review of the PSI	October 2016	December 2016
	TA priorities:		
	• Fiscal Transparency Evaluation	April 2016	May 2016
	• Strengthening Oversight Responsibilities for Financial Market Infrastructures	April 2016	May 2016
	• Developing the REPO Market	May 2016	June 2016
	• Harmonization of Monetary Data	April 2016	May 2016
	• Cash Management	June 2016	July 2016
	• GDP Forecasting	July 2016	August 2016
	• Strengthening medium-term budget frameworks	August 2016	September 2016
	• Developing an Operational Model and Strategy for Recruiting Taxpayers from the Informal Sector	October 2016	November 2016
	• Cash Management and TSA	January 2017	February 2017
	• Revenue Forecasting	January 2017	February 2017
	• PIM and program-based budgeting	March 2017	April 2017
Joint Work Program	Joint DSA update	March/April 2016	June 2016

STATISTICAL ISSUES

(as of May 20, 2016)

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. The rebased GDP estimates (FY2009/10) were released in November 2014. In January 2016 a mission assisted with developing quarterly expenditure approach accounts in current and constant prices. In March 2016, an STA mission provided TA on developing financial accounts showing transactions and balance sheets by institutional sector for a planned dissemination of data for September 2016, and Uganda participated in an STA workshop on residential property price indexes (RPPI) and other property price indexes. Uganda has developed the region's first RPPI. **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 limitations, these data are compiled with a two-year lag. The **consumer price index** (CPI) series released in January 2010 was replaced in June 2014 by the new CPI series that uses 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. A January 2016 mission assisted with developing export and import price indexes and improving the producer price index for hotels and restaurants.
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 2014 (GFSM 2014). 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. With the support of East AFRITAC, the authorities have recently achieved substantial progress in the area of GFS. They have expanded the coverage to the general government sector and plan to publish general government annual GFS by June 2016. In addition, according to current plans, Uganda will disseminate estimates of the stock of financial assets and liabilities by 2017 and will complete implementation of GFSM 2014 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, including insurance companies, pension funds, non-deposit taking microfinance institutions, and foreign exchange bureaus. 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.

Financial sector surveillance: The BOU reports all 12 core financial soundness indicators (FSIs) and 7 of the 13 encouraged FSIs for deposit takers, an FSI for households, and 2 FSIs for real estate markets. All FSIs are reported on a quarterly basis, except sectoral distribution of loans to total loans reported on a monthly basis, for posting on the IMF's FSI website.

External Sector Statistics (ESS): The BOU compiles quarterly balance of payments and international investment position (IIP) statistics on the basis of *BPM6*. The oldest time series of *BPM6*-based quarterly balance of payments and IIP are Q1-2001 and Q1-1999, respectively. Adjusting the coverage and valuation of trade in goods and services could improve the current account deficit. Separating balance of payment transactions from other flows, such as revaluation and other volume changes, may improve measurement of IIP financial stocks.

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 a 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 2014 framework for the GFS Yearbook, but does not report any high frequency data for inclusion in the International Financial Statistics (IFS). The BoU regularly reports 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.

Statement by Ms. Kapwepwe, Executive Director for Uganda
June 6, 2016

The Ugandan authorities continue to value the engagement with the Fund and thank staff for the constructive policy dialogue during the mission for the sixth review of the economic program under the Policy Support Instrument (PSI) in Kampala. The authorities welcome staff's objective view of the country's macroeconomic policies and challenges and broadly agree with the assessment.

The Ugandan economy has continued to perform well despite a complex global and domestic environment characterized by low global commodity prices, slow growth in major emerging market economies, and volatility in the global financial markets. In addition, domestic election-related uncertainties weighed down economic activity. Sound macroeconomic policies instituted by the authorities have, however, enabled strong growth and improved market confidence.

The second National Development Plan (NDP II), which came into force in June 2015, constitutes the main policy framework underpinning the government's macroeconomic and development policy agenda over the period FY 2015/16 – FY 2019/20, with the aim of achieving middle income status by 2020. The plan prioritizes opportunities in agriculture, tourism, mining, oil and gas and identifies infrastructure and human capital as fundamental areas of development in need of attention to achieve these priorities.

Program Performance

Performance under the PSI remained on track. All end-December 2015 Quantitative Assessment Criteria (QAC) were met, with the exception of the QAC on the overall deficit which was missed with a minor slippage. The floor on the accumulation of international reserves was met and inflation was kept well within the inflation consultation clause. Similarly, all indicative targets were met with the exception of the target on poverty-reducing expenditure which was missed due to a reallocation of resources towards security-related expenditure in an electoral environment. The indicative target on reduction in the stock of arrears was also missed.

Notable progress has been made on structural benchmarks, including on the development of public investment guidelines and the extension of the Treasury Single Account (TSA) to local governments. However, there were delays in issuing the Public Financial Management (PFM) Act regulations, and sending the Charter of Fiscal Responsibility (CFR) and the Bank of Uganda (BOU) Act amendments to Parliament. These delays emanated from the need for further consultations with key stakeholders and development partners in a bid to ensure consistency with international best practices.

In light of the satisfactory performance of the program under the PSI and the continued commitment to it, the authorities request the support of Executive Directors for the completion of its sixth review and a waiver of the non-observance of the ceiling on the overall deficit of the central government. Additionally, the authorities are requesting for a one-year extension of the current PSI arrangement to facilitate policy continuity and allow sufficient time to make progress on the implementation of on-going structural reforms. To provide impetus to realization of the reform objectives and accelerate the implementation of structural reforms, the authorities have agreed to new structural benchmarks. Specifically, importance will be placed on the attainment of these benchmarks set on exiting the Financial Action Task Force (FATF) gray list, and finalization and publication of the Public Investment Project Appraisal User Manual and its accompanying Development Committee guidelines.

Recent Economic Developments and Outlook

Economic growth is expected to reach 5 percent in 2015/16, supported by ongoing public investment and strengthened private demand. Strong performance in the manufacturing sector has continued while activity in the tourism and telecommunications sectors has rebounded from recent headwinds. In 2016/17, economic growth is expected to increase to 5.5 percent, subject to downside risks from the difficult external environment, low commodity prices, and subdued activity in major emerging market economies.

Inflation rose in 2015 due to the pass through of the sharp exchange rate depreciation and supply side shocks. During the period from end May 2015 to September 2015, the shilling depreciated by 21 percent, reflecting the adjustment warranted by external and domestic fundamentals, although non-fundamental factors may have caused the exchange rate to overshoot its equilibrium. The exchange rate has since appreciated by over 10 percent through March 2016, supported by proactive monetary stance and a correction to the overshooting.

Headline and core inflation dropped to 5.1 and 6.4 percent year-on-year, respectively, in April, from 6.2 and 6.9 percent, respectively, in March, benefitting from lower food and energy prices. At its Monetary Policy Committee (MPC) meeting in April, the BOU considered a gradual and carefully timed easing cycle. As a result, the MPC reduced the Central Bank Rate (CBR) by 1 percentage point to 16 percent on the back of the improved inflation outlook and weaker domestic demand.

The current account deficit is projected at 9.7 percent of GDP in 2015/16, underpinned by the widening of the trade deficit, higher dividend income outflow, and lower remittances. Export earnings remained sluggish, reflecting a difficult external environment for major trading partners. An increase in infrastructure-related imports was partly offset by the lower international oil prices. Capital and financial account surpluses, driven by project and budget support loans, however, moderated the impact of the widening current account deficit on the balance of payments position. The international reserve position continued to be adequate equivalent to 3.9 months of prospective imports.

The financial sector remains sound and profitable with stress tests carried out by the BOU revealing that the system remains resilient. Non-performing loans (NPLs) increased largely on account of an increase in forex NPLs and the volatility in interest and exchange rates.

Fiscal Policy

Consistent with the need to foster growth, increase economic efficiency and reduce the cost of doing business, the fiscal stance for FY2015/16 focused on addressing infrastructural constraints in the economy. Accordingly, the fiscal deficit for 2015/16 is expected to widen to 6.4 percent of GDP. This figure, however, is lower than the 6.6 percent predicted at the time of the 5th Review, on account of the appreciation of the shilling that made import-intensive infrastructure projects more affordable.

For the 2016/17 budget, the authorities intend to strengthen revenue performance and restrain non-priority expenditure to allow sufficient fiscal space for poverty-alleviating and growth-enhancing capital expenditures. In this respect, a deficit of 6.2 percent of GDP is envisaged. Fiscal consolidation will continue, on the back of non-recurrence of once-off election expenditures and a strong package of revenue measures included in the 2016/17 budget. The new measures introduced in the 2016/17 tax package, comprising a mix of tax policy and administrative reforms, are expected to yield an increase of tax-to-GDP ratio of about 0.5 percent of GDP.

The macroeconomic policy framework for FY2016/17 prioritizes infrastructure investment projects which are necessary to facilitate private sector development and unlock the economy's productive potential. The framework is consistent with the need to maintain Uganda's debt profile on a sustainable path. The management of current spending will ensure completion of on-going projects and taking on new ones on a replacement basis. Public investment reforms are also being undertaken to address implementation constraints, including the development of Public Investment Management Systems (PIMS) guidelines and procedures that will direct sectors on project identification, appraisal, monitoring and evaluation criteria.

The authorities remain committed to enhancing social protection and intend to increase the allocations to the Poverty Action Fund (PAF) by 11 percent in 2016/17. Releases to the four sectors that form the basis for the PSI indicative target on poverty alleviating sectors, namely, agriculture, education, health, water and environment - will also increase. The government has also allocated an additional 90 billion shillings as a dedicated fund for women and youth with a view to empower them and create additional employment opportunities.

Monetary and Financial Sector Policies

The BOU will continue to adjust the monetary policy stance in line with the inflation forecast and careful assessment of both domestic and external risks, consistent with the medium term inflation target of 5 percent. It also remains committed to the flexible exchange rate regime, with interventions only confined to the smoothening of excess volatility.

In addition, the BOU will continue to strengthen its prudential oversight to preserve financial sector stability, particularly in view of vulnerabilities emerging from credit sector concentration and currency mismatches. Financial inclusion activities will continue under four pillars: financial literacy, financial consumer protection, financial innovations, and data and management. Within this context, the Financial Institutions (Amendment) Act, 2016 was passed by Parliament and assented to by the President in January 2016. Further, the government is developing a comprehensive legal framework to support the development of the mobile money industry, which has become increasingly important, with transactions of about 38 percent of GDP. This framework is envisaged to strike a fine balance between supporting the development of the mobile money industry and ensuring the stability of the financial sector.

The authorities are taking the necessary steps to ensure the country's removal from the FATF gray list of jurisdictions with strategic deficiencies on the legal framework for combating money laundering and the financing of terrorism (AML/CFT). In this regard, the Anti-Money Laundering (Amendment) Bill and the Insurance Act have been presented to parliament and a structural benchmark has been included in the program to ensure timely implementation of the remaining measures.

Structural Reforms

The PFM Act was enacted on March 6, 2015 and amended in November 2015, among other things, to incorporate new rules and controls in the intra-year use of balances of the consolidated fund. The regulations to smoothen the implementation of the PFM Act will be finalized by end June 2016. The Act requires local governments and state owned enterprises to report on arrears stock on a half year basis, in line with the financial reporting requirements. In this regard, progress has been made on the verification and reconciliation of the stock of arrears. In addition, procedures to ensure timely reporting and avoidance of their accumulation are being strengthened, including sanctions for all accounting officers who accumulate new arrears and the full utilization of the Integrated Financial Management and Information System (IFMIS) to ensure that no obligations are committed outside the system.

Further, Cabinet will soon be considering the principles for amending the BOU Act prior to its submission to Parliament by September 2016. In the meantime, a memorandum of understanding (MoU) has been drawn to ensure smooth and coordinated operations between the Ministry of Finance, Planning and Economic Development (MOFPED) and BOU. The MoU will take into account the new PFM Act, amendments to the BOU Act (once enacted) and the East Africa Monetary Union (EAMU) protocol.

Finally, progress towards the East African Community (EAC) integration is continuing. A Medium Term Convergence Program (MTCP) was presented, together with the MTCPs of other partner states, to the EAC Sectoral Council of Finance and Economic Affairs (SCFEA) in May 2016 and was adopted. The program outlines the strategies for the Ugandan economy to attain a high degree of monetary and economic convergence and comparability with the other EAC partner states.

Conclusion

The Ugandan economy has remained resilient due to the formulation of sound macroeconomic policies that have enabled strong growth and supported the building of adequate buffers. The attainment of these strides has benefitted from the implementation of an economic reform program supported by IMF's Policy Support Instrument. Going forward, the authorities' overarching macroeconomic goal remains to deliver macroeconomic stability to support inclusive and sustainable growth and socio-economic transformation. In this regard, the Ugandan authorities look forward to the Executive Board's approval of the requested extension of the current PSI by one year. The authorities continue to appreciate and remain committed to engagement with the Fund in pursuance of the country's development agenda.