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Uganda: 2004 Article IV Consultation, Fourth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Request for Waiver of Performance Criteria—Staff Report; Staff Statement; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for Uganda

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2004 Article IV consultation with Uganda, the fourth review under the three-year arrangement under the Poverty Reduction and Growth Facility, and request for a waiver of performance criteria, the following documents have been released and are included in this package:

- the staff report for the combined 2004 Article IV consultation, fourth review under the three-year arrangement under the Poverty Reduction and Growth Facility, and request for waiver of performance criteria, prepared by a staff team of the IMF, following discussions that ended on October 27, 2004, 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 January 31, 2005. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a staff statement of February 23, 2005 updating information on recent economic developments.
- a Public Information Notice (PIN) and Press Release, summarizing the views of the Executive Board as expressed during its February 23, 2005, discussion of the staff report on issues related to the Article IV consultation and the IMF arrangement, respectively.
- a statement by the authorities of 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*
*May also be included in Staff Report

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

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UGANDA

Staff Report for the 2004 Article IV Consultation, Fourth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Request for Waiver of Performance Criteria

Prepared by the African Department
(In collaboration with other departments)

Approved by Michael Nowak and Mark Plant

January 31, 2005

- While macroeconomic performance remains relatively strong, a number of slippages have occurred under the program. The mission reached agreement on a package of front-loaded measures to address these slippages, at a time of growing budgetary pressures related to the forthcoming presidential elections in early 2006.
- Discussions for the 2004 Article IV consultation and the fourth review under the Poverty Reduction and Growth Facility (PRGF) arrangement were held in Kampala during October 13-27, 2004 by a staff team comprising Messrs. Clément (head), Mikkelsen, and Peiris (all AFR), Mr. Espejo (PDR), Ms. Gonzalez (FAD), and Ms. Rondon (assistant, AFR). The team was assisted by Mr. Allum, the Senior Resident Representative in Uganda. The mission met with President Museveni; the then Minister of Finance, Planning, and Economic Development, Mr. Gerald Ssendaula; the Vice-Governor of the Bank of Uganda; and other senior government officials. The staff also met with representatives of the civil society, including members of parliament, nongovernmental organizations, the private sector, and the international community. The mission coordinated its work with an overlapping World Bank mission.
- The attached letter of intent from the Minister of Finance (Appendix I) reviews the performance under the PRGF arrangement during April-September 2004 and sets out program targets through June 2005. The authorities are requesting waivers for four quantitative performance criteria.
- At the conclusion of the 2002 Article IV consultation on February 12, 2003, Executive Directors commended the authorities for their sustained pursuit of sound financial policies. They also noted the consistent implementation of a comprehensive country-owned poverty reduction strategy. In this respect, however, they suggested that achieving the long-term goals for poverty reduction would require higher growth rates, underpinned by higher private investment, enhanced mobilization of domestic resources, improved governance and budget management, and strengthened financial intermediation.

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EXECUTIVE SUMMARY

- The performance under the program supported by the Poverty Reduction and Growth Facility (PRGF) was mixed. Four quantitative performance criteria for end-June 2004 were missed. While the two structural performance criteria for June and September were met, eight out of ten benchmarks were missed. The authorities are requesting waivers for nonobservance of the four performance criteria based on corrective actions, including eight prior actions.
- Uganda is at a crossroad. The impressive economic recovery over the past decade, driven by a first wave of reforms, has tapered off. Now, Uganda needs to launch a second wave of reforms to sustain high economic growth and poverty reduction.
- In 2003/04, real GDP grew by an estimated 5.9 percent, while population grew by 3.4 percent—one of the highest in the world. Inflation remained low, although prices have picked up recently because of higher food prices. Strong growth in noncoffee exports contributed to a decline in the external current account deficit, while aid inflows were greater than anticipated and private capital inflows held steady. International reserves grew faster than envisaged to the equivalent of about 6½ months of imports. The Uganda shilling has appreciated by about 10 percent in real effective terms since December 2003.
- The fiscal consolidation envisaged in the program for 2003/04 was not achieved. This reflected a combination of excess spending, covering public administration and net lending operations to private enterprises, and low tax revenues. While base money slightly missed the program target for 2003/04, it was in line with the program in September 2004.
- The outlook for the economy in 2004/05 remains favorable, although real GDP growth is projected to decline due to the ongoing drought. The program envisages fiscal consolidation of about 1 percent of GDP through strengthened revenue mobilization and expenditure management. At the same time, the government will strengthen policies to monitor and reduce domestic arrears and implement a comprehensive restructuring program of the Uganda Revenue Authority (URA). The authorities are also determined to revive public administration reforms. The monetary program aims to maintain low inflation. The Bank of Uganda (BOU) will continue to pursue a flexible exchange rate policy and sterilize liquidity injections through a combination of foreign exchange sales and issuance of treasury bills. To foster private investment, the authorities will continue to implement measures to deepen the financial system, including by selling a minority share and management responsibilities of the Uganda Development Bank Limited (UDBL) and reforming of the pension system. Moreover, they will adopt an anti-money laundering law that conforms with international standards.
- The government intends to complete the privatization program within the next couple of years, and it is seeking an agreement with private investors to launch a major hydropower project. As part of the government's anti-corruption policy, constitutional reforms are under way to strengthen the powers of the Inspector General of Government (IGG).

I. Introduction

1. **Uganda, a post-conflict and landlocked country, is at a crossroad.** The impressive economic growth and poverty reduction achieved over the past decade—through a first wave of far-reaching political, institutional, and economic reforms—have tapered off in recent years. Uganda now needs to launch a second wave of reforms to achieve higher export-led growth, reduce poverty, and decrease aid dependency. Moreover, the reinforcement of the ongoing democratization process and a return to peace in northern Uganda and in the Great Lakes region would support this process. Against this background, the government is revising its Poverty Eradication Action Plan (PEAP).

2. **The government has pledged that presidential and parliamentary elections in 2006 will be contested on a multi-party basis.** This issue is currently subject to a constitutional review process together with the possibility of lifting the two-term presidential limit. The government plans to put these issues to a referendum in 2005.

Poverty and Inequality Trends 1/

	1992/93	1999/00	2002/03
Proportion of population living below poverty line (in percent):			
National	56	34	38
Rural	60	37	42
Urban	17	10	12
Of which: Northern region	72	64	63
Gini coefficient:			
National	0.36	0.40	0.43
Rural	0.33	0.33	0.36
Urban	0.40	0.43	0.48

Sources: Uganda Bureau of Statistics, Household Surveys.
1/ Five regions in conflict are not covered.

3. **The lack of security continues to affect the northern parts of the country**. The 18-year insurgency by the Lord's Resistance Army (LRA) has displaced 1.6 million persons (about 6 percent of the total population) in the North, where 63 percent of the population lives below the poverty line. About 80 percent of the LRA fighters are reported to be children. This situation has led to continued pressures on defense expenditures.

4. The Article IV discussions on key lessons from the past decade and medium-term challenges for the future are presented in Section II. Recent economic developments and performance under the program are presented in Section III, and policy discussions on the medium-term framework and the program for 2004/05 are in Section IV. Program monitoring and risks are discussed in Section V. The staff appraisal is in Section VI.

II. Key Lessons and Medium-Term Challenges

5. **In the context of the Article IV discussions,** the staff has looked backward, with the authorities and representatives of the civil society and the international community, to assess the positive aspects of, and the difficulties encountered in, Uganda's implementation of its economic reform agenda in the past decade. From this analysis, key lessons have been drawn and future challenges discussed for the government's poverty reduction and growth strategy, as formulated in the forthcoming revised PEAP.

Key lessons

6. **After more than a decade of declining per capita income, Uganda has experienced an impressive post-conflict recovery since the mid-1980s.** Initially, the improved security situation stimulated economic growth, but inflation remained high and investments were still sluggish. However, economic performance gained momentum in the 1990s with the implementation of a strong macroeconomic stabilization program and extensive liberalization (see table below).[1] As a result, real GDP per capita grew by 3.5 percent a year in the decade from 1992/93, more than offsetting the losses of the 1970s[2] and supporting a remarkable reduction in poverty.

Uganda and Sub-Sahara Africa: Selected Economic Indicators

	Average 1992/93-2001/02		Average 2002/03-2003/04	
	Uganda	Sub-Sahara Africa	Uganda	Sub-Sahara Africa
	(In annual percentage change)			
Real GDP (factor cost)	6.6	2.7	5.3	3.7
Agriculture	4.1	...	3.7	...
Industry	10.6	...	6.4	...
Services	8.1	...	6.3	...
Real GDP growth per capita (market prices)	3.5	-0.1	1.8	1.1
CPI inflation	4.1	29.5	5.4	11.8
	(In percent of GDP)			
Central government balance	-3.5	-3.9	-3.0	-2.1
(Excluding grants)	-9.1	-5.0	-11.3	-3.3
Revenue (excluding grants)	10.6	20.6	12.4	22.4
Grants	5.6	1.1	8.3	1.2
Expenditures and net lending	19.6	25.6	23.7	25.8
Gross domestic investments	17.7	17.3	21.2	17.2
Gross domestic savings	6.0	12.7	8.6	12.6
External savings	11.7	4.5	12.6	4.5
External current account (incl. grants)	-5.5	-3.2	-4.0	-3.3

Sources: Ugandan authorities; and IMF staff estimates.

7. **However, the authorities expressed concern about the slower pace of economic growth in recent years.** Combined with rising population growth, real GDP per capita growth fell to about 2 percent while the declining trend in poverty started to be reversed. These developments suggest a number of weaknesses that will need to be addressed if sustainable economic growth and poverty reduction are to be achieved.[3] Regarding economic growth, two main issues arise:

[1] With an overall IMF trade restrictiveness rating of 2 (with 10 being the most restrictive) Uganda's trade regime is among the most liberal in Africa.

[2] Real GDP per capita declined by about 35 percent in the 1970s.

[3] With a 2 percent GDP per capita growth rate, it will take about 35 years to double GDP per capita. A 1 percentage point increase in the growth rate will reduce the required time by about 10 years.

- **Evidence suggests that the contribution to real GDP growth from total factor productivity (TFP) growth has been minor**, while the accumulation of capital has been the main contributor since the mid-1980s.[4] This raises the concern that it may be difficult to sustain growth beyond the catching-up effects from the conflict years.

- **The high population growth has levied a burden on economic development.** Despite slower growth in the mid-1990s due to the increasing prevalence of HIV/AIDS, the population grew on average by 3.2 percent during 1985-2003. Together with very low TFP growth, this significantly limits Uganda's ability to rapidly boost living standards.

8. **Although macroeconomic stability was achieved, the fiscal deficit, excluding grants, increased markedly since the mid-1990s, led by a donor-supported expansion in poverty-reducing spending.** The deficit averaged about 9 percent of GDP in the decade since 1992/93 and has since risen further. The authorities agreed with staff that the sterilization needs resulting from the liquidity injection have caused currency appreciation pressure and domestic interest rates to rise. Moreover, given that tax revenues have stagnated at 11-12 percent of GDP since the mid-1990s, the large donor inflows (about 50 percent of total government expenditures) have made the budget vulnerable to uncertain aid disbursements. At the same time, public expenditure management needs to be strengthened (Box 1), although Uganda's public expenditure management systems perform relatively well compared with those of other African countries (Appendix VI).

9. **Although Uganda has made remarkable progress in establishing the basis for a sound and profitable financial system, financial intermediation remains low.**[5] The health of the banking system improved substantially following the closure of several distressed banks and the privatization of the Uganda Commercial Bank in September 2002. However, the authorities noted that the bank's balance sheets still reflect their preference for liquid and low-risk assets related to a number of structural impediments (including contract enforcement problems, poor credit discipline, and limited use of collateral). By regional standards, interest spreads are also high because operating costs and credit risk are high, and competition is weak. Despite growing micro finance institutions (MFIs), gaps remain in the provision of financial services to agriculture, small- and medium-sized enterprises (SMEs), and infrastructure.

10. **The authorities concurred that the flexible exchange rate regime has served Uganda well**, helping to cushion the impact of exogenous shocks while maintaining external competitiveness.[6]

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[4] See Uganda—Selected Issues and Statistical Appendix (1/31/05). In Chapter 1, total factor productivity is estimated to have contributed to economic growth by only 0.3 percent annually.

[5] See Chapter 3 in Uganda—Selected Issues and Statistical Appendix (1/31/05).

[6] See Box 5 in Country Report No. 04/289.

Box 1. Efficiency of Public Expenditures

Raising the efficiency of public expenditure is a crucial step in the strive for fiscal consolidation while achieving poverty reduction. A concerted effort is required to overcome problems that have undermined the efficiency of public spending in recent years:

- **The public service reform and pay reform have stalled.** The growing public administration has become fragmented, with a significant duplication of functions, and pay scales are inadequate. Efforts to streamline the public administration have faced repeated delays because some reforms require passing constitutional amendments.
- **Intra-year budget reallocations have become widespread,** because of under-budgeting in some areas and pressures from certain powerful spending units, including the State House. Reallocations have normally been implemented through supplementary budgets with prior approval from parliament, but ex-post approvals are becoming more frequent. Overruns in some areas are mostly financed by cuts in others, which distorts the original budget intentions, weakens the public expenditure management systems, and causes an irregular cash flow to spending units, generating domestic arrears. These irregularities have also undermined the execution of external development projects by reducing funds for counterpart financing.
- **Management of arrears remains weak.** Mechanisms for controlling arrears have limited coverage and are ineffective. The Commitment Control System (CCS) does not cover wages, pensions, or statutory and local government expenditure. There is no systematic tracking and reporting of the overall stock of arrears, and accounting officers who do not comply with CCS requirements are not sanctioned.
- **Local governments' administration capacity are weak.** They have significant capacity constraints in budget formulation, execution, and reporting, and internal and external auditing procedures are weak.

Critical steps are needed to address these challenges, including

- revitalizing the public service reform and the pay reform;
- improving budget formulation and management, and minimizing intra-year budget reallocations;
- integrating donor-funded projects into the budget ceilings to enhance efficiency;
- strengthening planning capacity through the rollout of the integrated financial management system (IFMS) to the central government and the largest districts;
- adopting a comprehensive approach to the control of arrears, including reducing the outstanding stock; and
- strengthening administrative capacity at the local government level.

Medium-term challenges

11. **The authorities noted that the main challenge facing Uganda is to sustain poverty reduction by maintaining strong economic growth.** To meet this challenge, the authorities agreed with the staff on a need to strengthen policies that stimulate higher productivity growth and private investment, including through:

- **Gradual fiscal consolidation without jeopardizing poverty reduction.** This should be achieved primarily by collecting more domestic revenue while improving the allocation and effectiveness of government spending. There is ample room for raising

revenue through tax administration reform and a well-designed tax policy, including the abolition of ad hoc tax exemptions.

- **Supporting measures to boost investments and productivity, particularly in the agricultural sector**. These include: (i) fiscal consolidation to help reduce financing costs; (ii) improvements in the transportation network and power generation; and (iii) more effective policies to reduce corruption. There is a need to accelerate agricultural reforms, including land reform, and improve marketing networks and rural roads.[7] Moreover, the restoration of security in the North is essential to improve agricultural output from that region and, in turn, the livelihood of the people affected by the conflict.

- **Maintaining stable monetary conditions, in the face of continued large inflows of foreign aid.** While keeping base money as the nominal anchor, this would require a judicious mix of monetary policy instruments, primarily between issuances of treasury bills and foreign exchange sales, in sterilizing excess liquidity to avoid excessive interest rate volatility.

- **Fostering a more efficient and deeper financial system** by ameliorating the structural impediments to lending, promoting competition, and minimizing distortions in the form of subsidized and/or directed lending while maintaining an effective supervisory regime. Key longer-term challenges are to restructure the pension system, promote long-term financing through nondistortionary channels, and develop capital markets.

- **Strengthening regional cooperation and integration.** Broader regional economic integration and openness to markets are important for attracting foreign direct investment (FDI), increasing competition, and promoting export diversification. In this respect, the establishment of the East African Community (EAC) customs union, with about 90 million consumers, will be an important step. Initially, the implementation of the Common External Tariff (CET) will raise Uganda's average tariff. Uganda will need to continue to pursue a reduction in the CET schedule.[8]

12. **In the light of the challenges set out above, the authorities are completing a revision of the PEAP, and a group of major donors are streamlining their support to help increase aid efficiency** (Box 2). Moreover, the authorities are eager to meet these challenges, but at the same time reduce their dependence on aid (including, in time, from the Fund), through fiscal consolidation and measures to increase efficiency of donor support.

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[7] See Chapter 1 in Uganda—Selected Issues and Statistical Appendix (1/31/05) for an analysis of the scope for raising productivity in agriculture and promoting growth in agro-processing. Also, the challenges of raising agriculture output are spelled out in the government's Plan for Modernization of Agriculture (PMA).

[8] See Box 3 in Country Report No. 04/289 for more information on the EAC customs union.

Box 2. The Poverty Eradication Action Plan (PEAP) and Donor Assistance

The government is revising its PEAP to reinforce policies for poverty reduction and meeting the Millennium Development Goals (MDGs). The four core challenges of the PEAP are to (i) restore security, (ii) restore sustainable growth in the incomes of the poor, (iii) promote human development, and (iv) use public resources transparently and efficiently to eradicate poverty. The polices of the PEAP are grouped under five pillars:

- **Economic management**—with the focus on maintaining macroeconomic stability and domestic resource mobilization, including by reducing the fiscal deficit, and promoting private sector growth.
- **Production, competitiveness, and income**—with the focus on modernizing agriculture and implementing the Medium-Term Competitiveness Strategy (MTCS).
- **Security, conflict resolution, and disaster management**—with the focus on defense and security reforms, disarmament, and rehabilitation and reconstruction of conflict areas.
- **Governance**—with the focus on human rights, judicial reforms, public service reform, and decentralization.
- **Human development**—with the focus on health, education, and social protection.

In a collaborative effort, the World Bank Group, the African Development Bank, and five major bilateral donors have for the first time prepared the Uganda Joint Assistance Strategy (UJAS). The UJAS will replace the World Bank's Country Assistance Strategy (CAS) as its core strategic document. It is designed to increase donor efficiency in supporting the implementation of the policies outlined in the forthcoming PEAP.

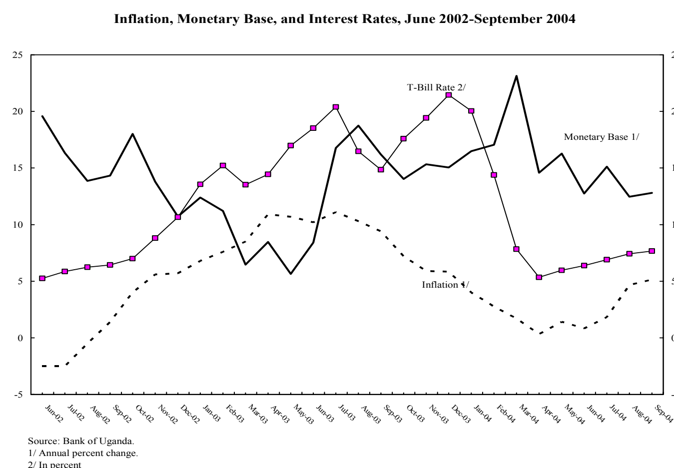
The UJAS partners and other major donors have subscribed support for implementation of the PEAP through 2005/06, though with overwhelming presence in the governance and human development pillars, while the economic management and security and conflict resolution pillars have received limited attention. On a preliminary basis, the projected base case financial support from the UJAS partners amounts to US$800 million (about 9 percent of GDP) a year during 2005/06-2008/09, while a low case could entail support of about US$550 million (about 6.5 percent of GDP) a year.

Donors broadly agree on the key risks to PEAP implementation:

- **A difficult political transition around the 2006 elections** could lead to a period of instability with policy slippages and lower investor confidence.
- **Continuing insecurity** could lead to increased inequality and high poverty, particularly in the North.
- **Escalating corruption** would constrain investments and jeopardize efforts to improve public sector efficiency.
- **Continued rapid population growth** would make it difficult to achieve the goals for GDP per capita and poverty reduction.
- **Exogenous shocks**, including adverse weather and a terms of trade deterioration, could derail the macroeconomic objectives.

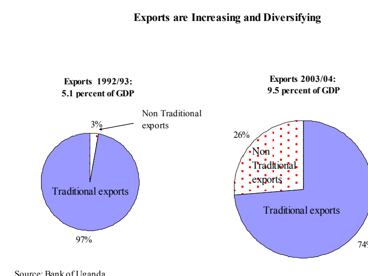
III. Recent Economic Developments and Performance Under the Program

13. **Although the economy performed better in 2003/04, there were several slippages under the program.** Overall, four quantitative performance criteria for end-June 2004 were missed (Memorandum of Economic and Financial Policies (MEFP), Table 2, Appendix I). Real GDP grew by an estimated 5.9 percent. The economic expansion was led by strong growth in construction and communication, and better weather contributed to a rebound in agriculture (Table 1 and Figure 1). After peaking at 10.2 percent by the end of 2002/03, annual headline inflation fell sharply during 2003/04 to 5.1 percent through September 2004, driven by restrained money growth and lower food prices. The easing of inflationary expectations also contributed to a reduction of interest rates.



Source: Bank of Uganda.
1/ Annual percent change.
2/ In percent

14. **Strong growth in noncoffee export volumes and improved terms of trade helped narrow the external current account deficit, excluding grants, to 11.8 percent of GDP in 2003/04.** Greater-than-anticipated donor support and private capital inflows more than covered the deficit, allowing international reserves to build up faster than envisaged, to about 6½ months of imports. Following a large depreciation in 2002/03, the Ugandan shilling has appreciated in real effective terms by about 10 percent since December 2003. Buoyant export proceeds, demand for domestic currency from donor-funded projects, and increased sales of foreign exchange by the BOU contributed to the exchange rate appreciation.



Source: Bank of Uganda

15. **The fiscal consolidation envisaged in the program for 2003/04 was not achieved.** The overall central government deficit, excluding grants, remained at 11.3 percent of GDP in 2003/04, or 0.6 percent higher than programmed (Table 2b and Figure 2). The domestic deficit fell short of the program target by a similar magnitude. While tax revenues were lower than envisaged, reflecting weak VAT and trade tax collections, the higher deficit primarily reflected an excess in spending (about 0.4 percent of GDP) for public administration needs, including from the presidency, and net lending to private enterprises.

Selected Fiscal Indicators, 2002/03–2003/04
(In percent of GDP)

	2002/03	2003/04 Prog.	2003/04 Est.
Total revenue and grants	19.1	22.6	22.2
Tax revenue	11.3	11.9	11.7
Grants	7.0	9.7	9.6
Total expenditure and net lending	23.4	23.6	23.9
Total defense expenditure	2.2	2.4	2.3
Total public administration expenditure	3.3	2.8	2.8
Poverty Action Fund	5.4	5.7	5.5
Overall balance excluding grants	-11.3	-10.7	-11.3
Domestic balance	-5.2	-4.6	-5.1
Total savings	-1.1	-0.8	-1.5

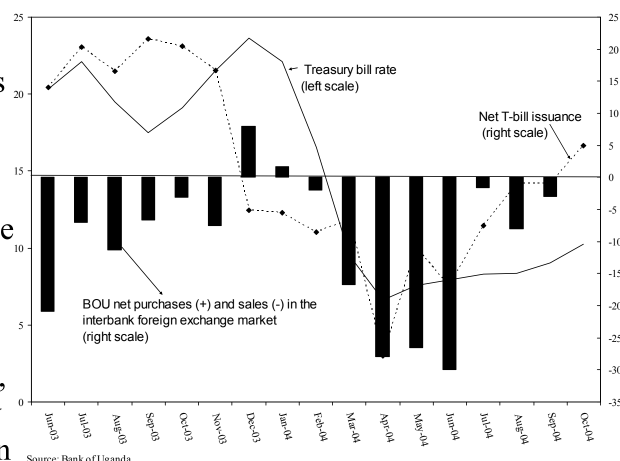
Source: Table 2b.

As a result, the quantitative performance criterion on net credit to the government for end-June 2004 was missed by nearly 0.8 percent of GDP. The indicative ceiling on public administration spending and the performance criterion on domestic arrears accumulated under the Commitment Control System (CCS) were also missed.[9] However, the core poverty-reducing outlays of the Poverty Action Fund (PAF) remained above their indicative floor.

16. **Based on preliminary information, the overall central government deficit, excluding grants, was slightly smaller than projected during the first quarter of 2004/05.** Although revenue collection remained in line with the program, development expenditures were lower than envisaged. However, at the same time, it seems that further accumulation of arrears occurred under the CCS.

17. **The program ceiling for base money growth was slightly missed for end-June 2004, but broad money growth and excess reserves have declined as programmed** (Table 3 and Figure 3). Domestic credit to the private sector maintained its robust growth at 17 percent. Large variations in government liquidity injections, volatile currency demand, and the Bank of Uganda's (BOU) shift in emphasis between sterilization tools led to substantial interest rate volatility. However, treasury bill rates fell significantly in the third quarter of 2003/04 and remained relatively stable thereafter due to intensified sterilization through foreign exchange sales and a steadier execution of the base money program. As of September, base money was below the target. Recently, however, the BOU once again shifted away from foreign exchange sales for sterilization purposes, with a risk of placing an excessive burden on treasury bill issuances to meet monetary targets.

Uganda: Interest rates, treasury bill issuance and foreign exchange sales, June 2003-October 2004
(Annualized yield, U Sh billions, and US$ millions)



Source: Bank of Uganda.

18. **The banking sector remains sound** (Table 4). The banking system's profitability and capital base has remained high with a very low level of nonperforming loans, as highlighted by the recent Financial Sector Assessment Program (FSAP) update mission. Stress tests confirm that the banking system can weather plausible macroeconomic shocks.

19. **The nonbank financial institutions (NBFIs) show strong growth, but are more vulnerable.** Recent trends in the insurance industry raise concerns about the adequacy of reserves, given the robust growth of policy liabilities and large share of illiquid investments in real estate. The performance and governance of the National Social Security Fund have

[9] At end-June 2004, the estimated total stock of outstanding domestic arrears, including on wages and pensions, amounted to 3.7 percent of GDP.

continued to be poor with negative real returns. On the positive side, a number of MFIs are being licensed under the Micro-Finance Deposit-Taking Institutions Act 2003.

20. **Uganda has made progress in obtaining debt relief.** Thirty-one creditors have agreed to provide debt relief to Uganda accounting for 96 percent of total assistance under the Heavily Indebted Poor Countries (HIPC) Initiative. The authorities will continue to engage the remaining creditors, particularly Libya and India, to provide debt relief under the HIPC Initiative (Table 7).

21. **Although the structural performance criteria for June and September were met, progress in implementing the structural program has been slower than envisaged** (MEFP, Table 1).[10] In particular, eight out of ten structural benchmarks were missed, including the measures to modernize the Uganda Revenue Authority (URA), clear domestic arrears under the CCS, and streamline the public administration. With respect to the measures for the URA and on domestic arrears, the failure to meet the benchmarks of the program primarily reflected weak administrative capacity (Box 1 and 3), as well as weak program monitoring. The benchmark on soliciting bids from investors for a minority share and management responsibilities of the Uganda Development Bank Limited (UDBL) was observed, and the regulations for the Financial Institutions Act will be issued with some delay.

Summary of Missed Benchmarks and Corrective Actions

Measures	Actions
Fiscal	
Revenue mobilization:	
• Complete initial stage of the modernization of URA (four benchmarks missed)	Implementation of Fund TA recommendations on the restructuring of URA (four prior actions and one performance criteria)
Expenditure management:	
• Pay-off domestic arrears (one benchmark missed)	Strengthening government monitoring of domestic arrears and pay-off arrears (two benchmarks)
• Streamlining public administration (one benchmark missed)	Revive public administration reform (one benchmark)
Financial sector	
Issue the implementing regulations for the new Financial Institutions Act (one benchmark missed)	Prior action
Governance	
Strengthening transparency and Governance (one benchmark missed)	Prior action

IV. Policy Discussions

22. **In addition to examining Uganda's medium-term challenges (Section II), the policy discussions focused on the 2004/05 program.** The government acknowledged the seriousness of the slippages and agreed to a number of corrective front-loaded measures, including eight prior actions (MEFP, Table 3). These measures aim particularly at strengthening revenue mobilization, notably through a restructuring of the URA (Box 3), and enhancing expenditure management (Box 1). Moreover, the government recognized the need to strengthen the monitoring of its program. To this effect, the inter-ministerial program monitoring committee has been strengthened and will meet on a monthly basis.

[10] See Box 1 in Country Report No. 04/289 on structural conditionality.

Box 3. Reforming the Uganda Revenue Authority (URA)

The URA was established in 1992 as one of the first semiautonomous revenue authorities. The main purpose for granting URA semiautonomy was to create a more effective and professional institution.

After impressive growth in the early years of the URA, revenue collection decelerated. Revenues rose from about 6½ percent of GDP in 1991/92 to 10½ percent by 1996/97. Tax revenues continued to increase, albeit at a slower pace, to about 11-12 percent of GDP in recent years.

The URA has undergone several attempts of reform since its inception. In the late 1990s, technical assistance (TA) from the Fund identified a need for modernization, including an enhanced audit program and the establishment of a large taxpayer unit. Some of these recommendations were initially implemented, but were subsequently reversed and a different structure was established in 2001.

In recent years, the URA has experienced severe problems, including corruption. In addition, the organization is highly fragmented, resulting in a duplication of functions and a lack of accountability.

The authorities have now agreed to implement the recommendations of a recent IMF TA mission, including:

- **Undertake measures to minimize opportunities for corruption**, including (i) designing a clear, well-understood policy framework; (ii) establishing simple and transparent procedures; (iii) improving the design of performance standards; (iv) finishing and widely disseminating a code of conduct; and (v) establishing an effective internal audit function.
- **Amend the URA Act**, focusing the Board's role on strategic issues while leaving the Commissioner General (CG) to manage operations.
- **Reorganize the URA to provide a platform for modernizing the revenue administration.** The new structure would be based on five main reports to the CG: (i) domestic taxes; (ii) customs; (iii) corporate services; (iv) litigation management, policy and rulings, and taxpayer appeals; and (v) internal audit functions.
- **Consolidate all tax administration within a domestic tax department and all customs operational activities within the customs department,** to eliminate the existing fragmentation. In particular, the domestic tax department should fully integrate the collection of direct and indirect taxes.
- **Establish a large taxpayer office within the domestic tax department,** to strengthen control over 70-80 percent of tax revenue generated by the largest 300-350 taxpayers, identified by turnover. Also, over the medium term, strengthen control over the medium-sized taxpayers by establishing taxpayer offices.
- **Improve tax administration operations** by (i) preparing to introduce a new tax identification number (TIN) as part of a new integrated tax administration system (ITAS); (ii) strengthening enforcement against corporate nonfilers; (iii) improving return and payment procedures; and (iv) strengthening VAT refund procedures through a risk-based approach for review of refund claims.
- **Strengthen customs operations** by (i) implementing changes to the customs organization, including of the revenue protection service units; (ii) eliminate blockages to further deployment of ASYCUDA++; and (iii) ensure that transit is adequately covered.
- **Approve the new information technology strategy,** and (i) fully deploy ASYCUDA++; (ii) acquire and customize ITAS; and (iii) build a robust data network to link critical sites.

A. The Medium-Term Framework

23. **Over the medium term, annual real GDP growth is expected to increase to 6-6½ percent, while inflation will be kept below 5 percent** (Table 1). The macroeconomic policy strategy hinges on a more ambitious fiscal consolidation path than previously envisaged to free up resources for the private sector. Measured by the domestic balance, a

fiscal consolidation of about 2 percentage points of GDP is projected over the next three years resulting from a combination of (i) stronger revenue collections in line with the implementation of the URA reform and a broadening of the tax base, and (ii) a modest increase in nominal spending. The projected annual revenue effort will be 0.5 percent of GDP, though this amount will be partly offset by the revenue losses stemming from the EAC customs union, which will become effective in January 2005.

24. **The external current account deficit, excluding grants, is projected to narrow gradually over time** (Table 5). Exports will strengthen, reflecting an expansion of nontraditional exports, while nonproject-related imports will increase in line with GDP. Net disbursements of donor loans and grants are projected to remain steady in nominal terms, but will decline gradually in percent of GDP. FDI inflows are projected to remain at 3.5 percent of GDP. Official international reserves would be kept above six months of imports of goods and services.

25. **To lower the external debt burden, the authorities will continue to exercise prudent debt management and will seek to replace loans with more grant financing.** The NPV of debt to exports is projected to decline to 217 percent in 2007/08 (still above the HIPC threshold).[11] However, the NPV of debt to GDP and the debt service-to-exports ratio will decline to 26 percent and 9 percent, respectively, by 2007/08, well within the HIPC Initiative threshold (Appendix V).

B. Macroeconomic Outlook and Policies for 2004/05

26. **Real GDP growth is expected to decline slightly to 5½ percent, reflecting lower growth in agriculture because of the current drought, as well as the adverse effects of reduced hydroelectric output.** Underlying inflation is projected to remain at about 4 percent, although higher food prices are expected to increase headline inflation to about 6 percent. Despite continued export growth, the external current account deficit, excluding grants, is projected to widen to about 12 percent of GDP, reflecting a strong increase in project-related imports.

Fiscal policies and reform

27. **The fiscal targets for 2004/05 are unchanged.** Therefore, discussions focused on fiscal measures to ensure their achievement. For the remainder of this fiscal year, the government identified the following key priorities: (i) reinvigorating revenue mobilization through reforms of the URA; (ii) identifying expenditure cuts to accommodate additional spending on arrears clearance and wage adjustments; and (iii) strengthening policies to monitor and reduce domestic arrears.

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[11] This ratio has risen substantially in recent years (Table 6), largely on account of a lower discount rate and the depreciation of the U.S. dollar.

28. **Despite mounting spending pressures, the government emphasized its commitment to control the fiscal deficit to maintain macroeconomic stability.** With revenue collections projected to remain in line with the program, the overall fiscal deficit, excluding grants, is targeted at 10 percent of GDP, consistent with a domestic deficit of 4 percent of GDP. Nonpriority expenditures will be cut by about 0.5 percent of GDP (MEFP, paragraph 11) to finance (i) a 13 percent increase in the minimum wage of primary school teachers, and (ii) the clearance of domestic arrears on goods and services under the CCS through 2004/05. The authorities will communicate to line ministries the related changes on their spending ceilings.

29. **On the revenue side, measures will be implemented to address the weaknesses of the URA in line with the recent Fund technical assistance (TA) report.** The measures aim to modernize tax administration, with clear accountability (Box 3). A number of prior actions have been set, including the appointment of a new management of the URA; and the adoption of a new organizational structure and a detailed timetable for its implementation (MEFP, paragraph 15). In addition, the government will submit amendments to the URA Act to parliament by June 2005. These measures will gradually strengthen revenue collections and help mitigate revenue losses stemming from the implementation of the EAC customs union (about 1 percent of GDP in 2005/06).[12]

30. **On the expenditure side, measures will be implemented to strengthen expenditure management and prevent an accumulation of arrears** (MEFP, paragraphs 12 and 13). These measures will ensure that proper procedures are followed when spending exceeds budget appropriations, including ex-ante parliamentary approval; integrate donor projects into the budget; and cease lending and government guarantees to the private sector. Further, the authorities are committed to improving their control and reporting of domestic arrears by producing quarterly verified reports of nonwage, nonpension arrears and ensuring that any arrears accumulated in a given quarter are cleared within the spending ceilings of the next quarter.

31. **To make public expenditures more efficient, the authorities are determined to revive public administration reforms.** As a first step, they will, in consultation with the World Bank and other development partners, complete a cabinet paper on civil service pay reform, seek an agreement between ministries and development partners on a public service reform program for 2005-09, and develop a program to limit the size of the public administration (MEFP, paragraph 14). On fiscal decentralization, the authorities will, with assistance from the Fund, continue to strengthen local government administration (MEFP, paragraph 18).

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[12] The revenue loss is explained by a shortfall of customs revenue on trade within the EAC, the elimination of excises and fees currently charged on imports regardless of origin, and changes in the valuation regulations.

Monetary and financial sector policies

32. **The monetary program for 2004/05 is largely unchanged.** With underlying inflation evolving broadly as programmed, the targeted annual growth rate of broad and reserve money of about 15 percent and 13 percent, respectively, is retained.

33. **The BOU is committed to continue following a flexible exchange rate policy to maintain reserves at a healthy level.** Interventions in the foreign exchange market will be conducted only to smooth out short-term fluctuations and will not go against fundamentals. The staff expressed concern, however, about the BOU's recent decision to suspend temporarily foreign exchange sales for sterilization purposes. The authorities noted that, for the moment, the foreign exchange market was unable to absorb more sales without causing an excessive appreciation of the exchange rate, which would weaken export competitiveness. The staff noted that too much reliance on net treasury bill issuance would push up interest rates and further exacerbate appreciation pressures.[13] The liquidity impact of donor inflows should be sterilized largely, but not exclusively, by foreign exchange sales in order to avoid undue pressure on real interest rates. The authorities were aware of the situation and indicated their willingness to resume foreign exchange sales as soon as more opportune market conditions emerged.

34. **The staff commended the authorities on their progress made in implementing the recommendations of a recent Fund TA mission on monetary operations and market development.** The management of monetary policy has been enhanced through progress in developing daily liquidity forecast, changing the computation and level of reserve requirements, improving the primary market dealership framework, and issuing longer term treasury bonds.

35. **To facilitate the conduct of monetary policy, the authorities intend to move the accounts of externally financed government projects from commercial banks to the BOU in a phased manner** (MEFP, paragraph 20). The staff noted that according to the preliminary analysis of the FSAP update mission, the benefits of short-term liquidity management are likely to be outweighed by complications in managing liquidity injections in the long term, the negative balance sheet effects on commercial banks of moving existing project accounts, and a shallower foreign exchange market.

36. **The staff impressed on the authorities that further deepening of the financial sector is crucial to foster private investment.** In line with the recommendations of the recent FSAP update mission, the authorities intend to implement a number of measures to help strengthen the financial sector and mobilize domestic financial resources (MEFP, paragraphs 21-22), including the sale of a minority share and management responsibilities of the UDBL.

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[13] Preliminary analysis by the staff suggests that the optimal mix of sterilization instruments would entail both foreign exchange sales and treasury bill issuances, while the use of a single instrument is damaging for private sector growth (see Chapter 2 in Selected Issues and Statistical Appendix, 1/31/05).

Trade policy

37. **The authorities are implementing a comprehensive strategy to increase and diversify exports aiming at achieving a sound external position over the medium term.** A central element of this strategy is making the EAC customs union fully operational by January 2005. The authorities believe that creating this extended market and improving infrastructure will promote Ugandan exports, in particular of food crops.[14] Accordingly, the authorities are increasing micro credit and extension services to small producers as envisaged in the Strategic Exports Program (SEP) and the PMA. The staff generally supported the authorities' efforts to develop an effective regional market, but noted that for implementation of the CET to succeed the technical specifications of goods under the EAC Protocol must be finalized; the EAC common customs management law must be completed; and comparability issues arising between EAC states and other integration blocs must be clarified.

38. **To support export growth and attract FDI, the authorities plan to introduce export-processing zones (EPZs).** The Fund and World Bank staffs stressed that to be successful the new EPZ law should ensure that the legal and regulatory frameworks are consistent with international best practices and Uganda's implementation capacity. The staff emphasized that to ensure the integrity of these operations, a proper ring fencing of the zones with strict implementation of customs duties and other taxes on sales to Ugandan residents are required. To prevent harmful tax competition for investment in the EAC, competitive tax holidays should be avoided, and the participating countries should agree on a regional code of conduct for investment incentives.[15]

Social policies

39. **The human development pillar of the forthcoming PEAP outlines policies to reinforce recent progress on the social front.** Given the impressive achievements in primary school enrollment (close to 90 percent), the government now faces the challenges of improving the quality of primary education and providing better opportunities for post-primary education. In the health sector, which is slowly recovering from the decline in service delivery in the 1970s and 1980s, the priorities include strengthening the immunization program, controlling malaria, instituting family planning programs, and preventing HIV/AIDS. Although the prevalence of HIV/AIDS has been reduced significantly to about 6 percent, the government acknowledges that another round of sustained measures is necessary to battle new transmissions and further reduce prevalence. Finally, Uganda is making progress toward meeting several of the Millennium Development Goals (MDGs) (Table 9 and Figure 6).

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[14] Ugandan's trade with Kenya and Tanzania amounted to 42 percent of total trade in 2003/04.

[15] With World Bank financing, efforts are under way to provide more detailed recommendations on the overall and regulatory framework for EPZs.

Other structural policies

40. **With the majority of public enterprises already privatized, the government intends to complete the privatization program within a couple of years.** Of the remaining 30 public enterprises, only a few are significant in size. Moreover, the Uganda Railway Corporation is being offered for concession jointly with the Kenya Railway Corporation, and a transaction could be completed by June 2005. In addition, the government is preparing to privatize the public water and sewerage enterprise. To increase power generation, the government intends to seek an agreement with private investors to launch the hydropower project at the Bujagali Falls.

41. **The authorities intend to renew their efforts to address governance and corruption problems** (MEFP, paragraph 23, and Box 4). In particular, constitutional reforms currently before parliament would substantially strengthen the powers of the Inspector General of Government (IGG).

V. Other Issues

42. **The authorities intend to request technical assistance from the Fund in several areas.** In the fiscal area, the authorities will seek assistance on expenditure management, including monitoring and controlling domestic arrears, and on the restructuring of the URA. Technical assistance from the Fund's AFRITAC East will continue, and the Fund will undertake a Poverty and Social Impact Analysis of possible tax policies. On statistics, there are concerns about deterioration of the quality of data provided by Uganda Bureau of Statistics (UBOS) because of insufficient resources. This concern will be addressed in the scheduled data module of the Report on the Observance of Standards and Codes (ROSC) in early 2005.

VI. Program Monitoring and Risks

43. **The fifth review will assess Uganda's performance with respect to quantitative performance criteria and indicative targets for December 2004 and the structural performance criteria and benchmarks through March 2005** (MEFP, Tables 2 and 3). The attached Technical Memorandum of Understanding (Appendix I, Attachment II) details the design of the program.

44. **Over the medium term, a key risk is that fiscal policies will not be adequately strengthened to support macroeconomic stability and pro-poor growth.** Continued insecurity in northern Uganda and the Great Lakes region could threaten the overall business climate and deter private investment. Moreover, insufficient progress in addressing corruption could also impede private sector growth and investment and lead to a shortfall in donor support.[16]

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[16] An alternative scenario with external budget support declining to 50 percent of current commitments (down from the 85 percent assumed in the baseline) shows that international reserves could drop by one full month of imports by 2007/08.

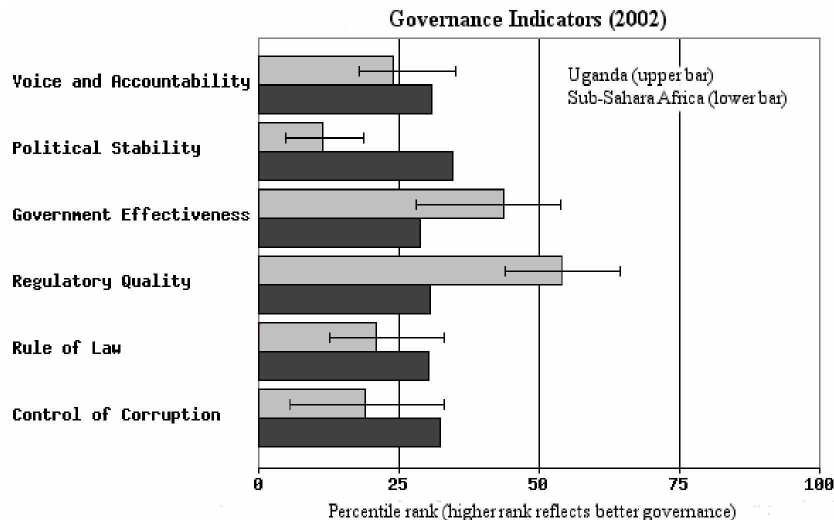
Box 4. Corruption and Governance Issues

Corruption is a serious business impediment in Uganda. It is reported to be the sixth most serious constraint for Ugandan businesses in the World Bank's 2003 Investment Climate Assessment; it is particularly serious for foreign companies and exporters, in which corruption is ranked the second and third most serious obstacle, respectively. Although the Transparency International survey of global corruption perceptions shows an improvement in Uganda's corruption score for the third successive year in 2004, this is relative to a particularly poor 2001 rating, and Uganda's current rating is no better than eight years ago and remains in the category characterized as "rampant corruption." More broadly, on the World Bank's governance indicators, Uganda ranks better than the average for Sub-Sahara Africa in only two out of six categories (see chart below).

Corruption also poses risks to the budget. Procurement irregularities raise expenditure costs at both the national and (in particular) local government level. There are reports of inflated expenditures in the defense and education sectors on account of "ghost" soldiers and students. Large compensation payments and court awards recently charged against the national budget are suspected to have involved corruption. And corruption in the tax authorities weakens the business climate and reduces revenue yields.

A number of anti-corruption measures have experienced setbacks. Inquiries into military exploitation of the Congo and helicopter procurement abuses appear stalled. The powers of the Inspector General of Government (IGG) to enforce the Leadership Code Act, including compulsory asset declarations by top officials, have been weakened by an adverse court decision, and an inquiry into corruption in the URA was struck down by the courts following disagreements among members of the Commission of Inquiry. Funding for anti-corruption agencies has also been inadequate.

The forthcoming PEAP includes a number of policy measures to strengthen governance. Notably, the Leadership Code Act will be strengthened, to increase the power and independence of the IGG, and codes of conduct will be introduced throughout the public sector.



Source: World Bank, Governance Indicators

VII. Staff Appraisal

45. **Uganda's performance under the program was mixed, with several program slippages in 2003/04.** Notably, the fiscal performance diverged from the program, reflecting strong spending pressures and revenue shortfalls, and new domestic arrears accumulated. Furthermore, the implementation of structural reforms was slower than envisaged, particularly the measures to modernize the URA, monitor and clear arrears, and streamline the public administration. The authorities acknowledge the seriousness of the slippages and are committed to implementing a strong set of front-loaded measures to bring the program back on track and enhance monitoring through a strengthening of the inter-ministerial committee.

46. **Uganda is at a crossroad.** The impressive economic growth and poverty reduction it achieved through a first wave of reforms has started to taper off in recent years. The country now needs to launch a second wave of reforms and consolidate peace throughout its territory to (i) increase the rate of growth; (ii) address the challenges stemming from its high population growth—one of the highest in the world; and (iii) continue to reduce poverty. Without strong commitment of the authorities to implement the reforms there is a risk that the appropriate growth will not be achieved, which could lead to social tensions.

47. **The staff concurs that fiscal consolidation will continue to be a cornerstone of the program.** Over the medium term, the government's fiscal consolidation strategy rests appropriately on increasing revenue mobilization and enhancing expenditure management, including at the local government level. In particular, successful implementation of the restructuring of the URA is key to the program.

48. **The staff appreciates the authorities' commitment to revive the public administration reform.** This reform should improve efficiency in the public sector, including in priority sectors, while helping ensure appropriate salaries for public employees.

49. **The authorities intend to attract more FDI and strengthen export performance by introducing EPZs.** While generally supporting this idea, the staff stresses the importance of ensuring that the legal and regulatory framework meets international standards. In particular, to avoid undermining fiscal revenue mobilization, the zones should be ring fenced with strict implementation of customs duties and other taxes on sales to Ugandan residents. The staff supports the authorities' plan to work closely with other EAC partners to establish a common code of conduct for investment incentives.

50. **The staff encourages the authorities to be steadfast in addressing governance issues.** Corruption continues to be a serious constraint for business and poses risks to the budget, including at the local level. Nevertheless, progress is being made; the authorities' intention to strengthen the role of the Inspector General of Government and to strictly implement the code of conduct for all civil servants is particularly welcome.

51. **The staff commends the authorities for pursuing an appropriate monetary policy stance, which is essential to maintain a stable macroeconomic environment.** The staff agreed that the floating exchange rate regime has served the country well and helped to

maintain a comfortable level of international reserves. However, the authorities are encouraged to implement a more balanced mix of foreign exchange sales and issuances of treasury bills to sterilize excess liquidity to avoid erratic changes in interest rates as observed in the past.

52. **The staff commends the authorities for maintaining a sound banking system.** The strengthening of the financial sector—including through the implementation of the new Financial Institutions Act and Anti-Money Laundering Law, liberalization of the pension system, and sale of minority shares and management responsibilities of the UDBL—should help mobilize additional domestic resources for productive private sector activity. In addition, the government should focus its efforts in the MFI sector to capacity building and the establishment of an appropriate regulatory framework to facilitate the provision of financial services to rural and urban households that have difficulty accessing commercial banks.

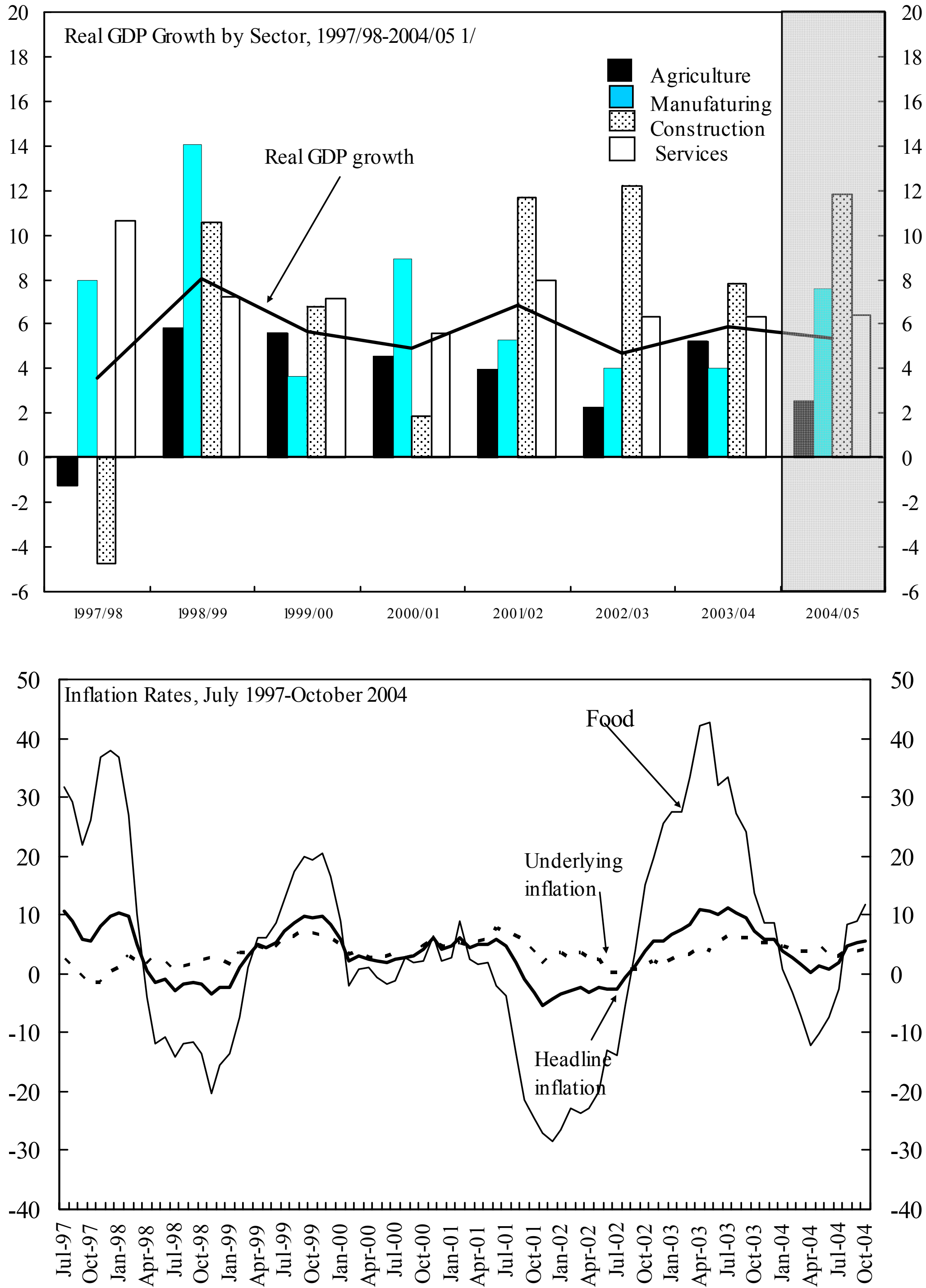
53. **The staff shares the authorities' concern about the sustainability of external debt.** In this regard, the staff supports the authorities' strategy to diversify exports and their intention to seek more grants while strictly limiting new loans to finance productive projects. The staff strongly supports the authorities' efforts to reach agreement with creditors that have not yet provided debt relief under the HIPC Initiative.

54. **On risks to the program,** the staff notes its concern about the unsettled security situation in the North and expenditure pressures related to the forthcoming elections, which could jeopardize the government's fiscal and poverty reduction targets.

55. **The staff recommends completion of the fourth review under the PRGF arrangement and supports the authorities' request for waivers for the nonobservance of four quantitative performance criteria.** The staff notes that the authorities recognize that the performance under the program has weakened, and that they are committed to take strong corrective actions to address the slippages while pursuing an appropriate overall policy framework for 2004/05.

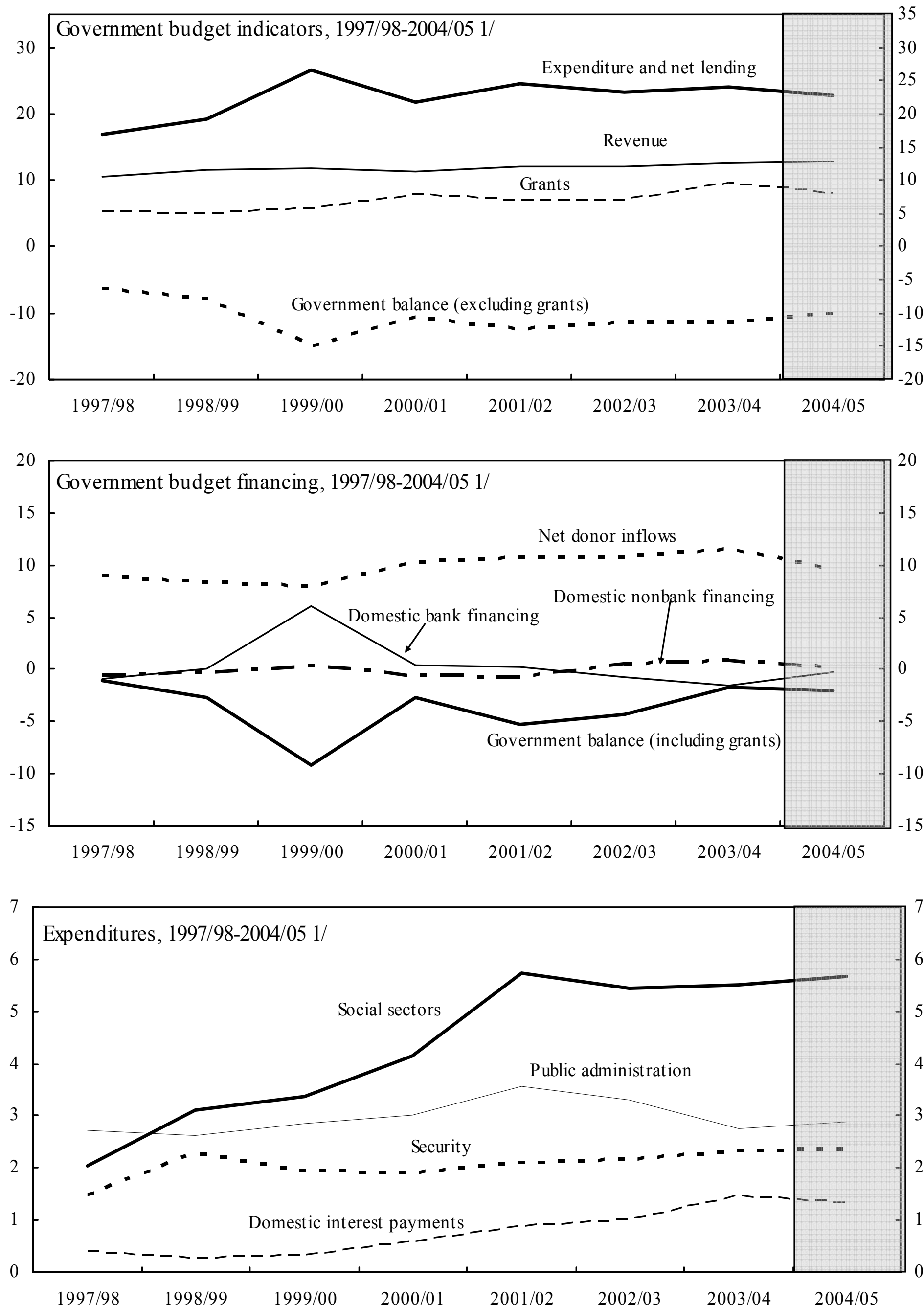
56. **The staff welcomes the intention of the authorities to make public the staff report, the letter of intent, and the MEFP.** It is proposed that the next Article IV consultation be held on the 24-month cycle.

Figure 1. Uganda: Real Sector Indicators 1/
(Annual percentage changes)



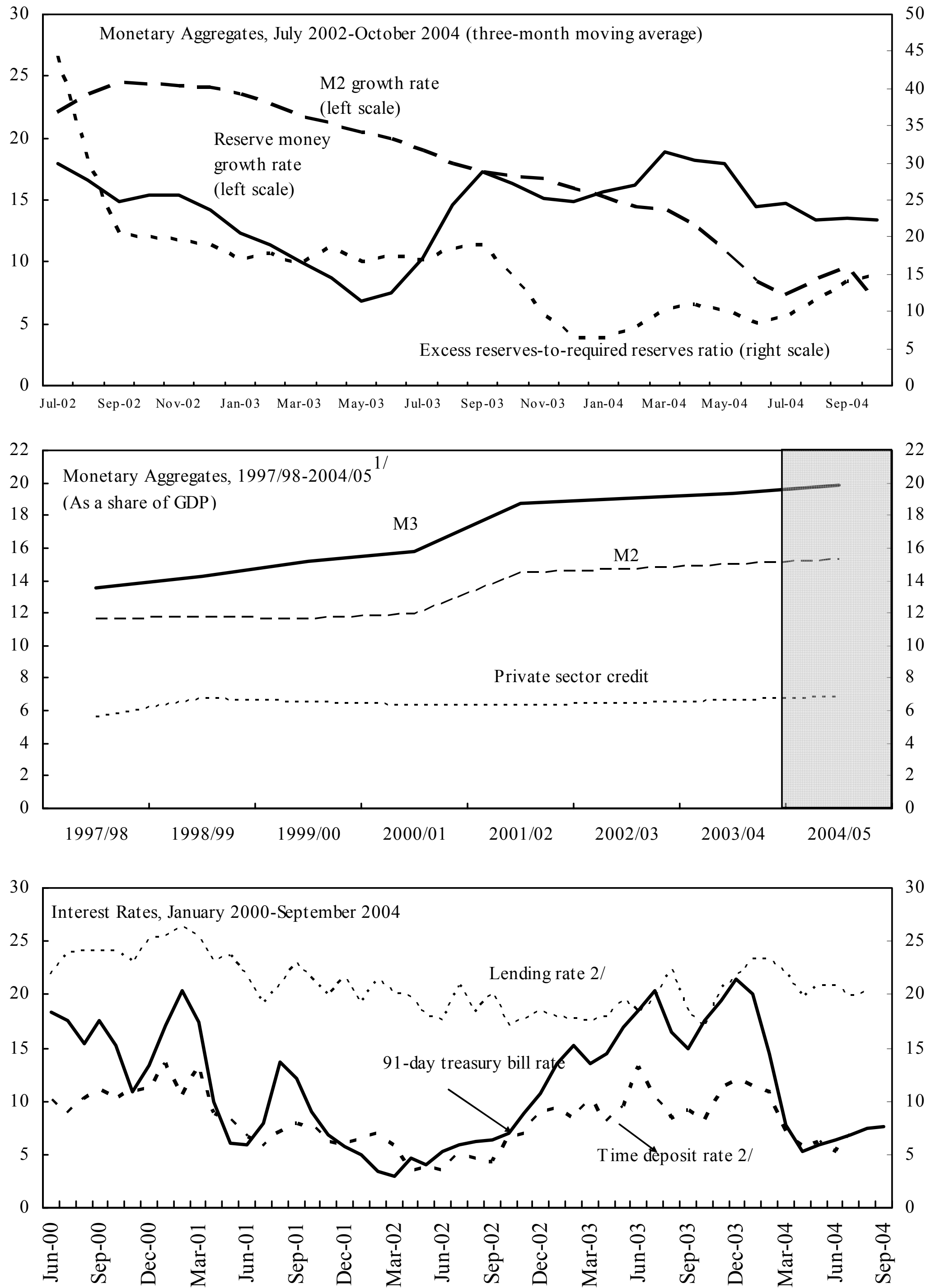
Sources: Ugandan authorities; and IMF staff estimates.
1/ Fiscal year begins in July.

Figure 2. Uganda: Fiscal Indicators 1/
(As a share of GDP at market price, in percent)



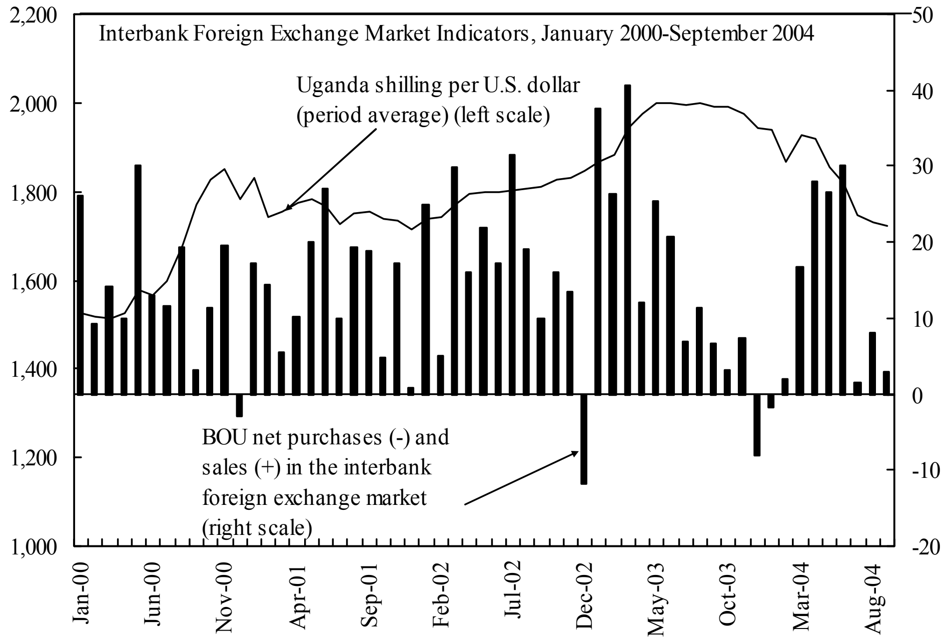
Sources: Ugandan authorities; and IMF staff estimates.
1/ Fiscal year begins in July.

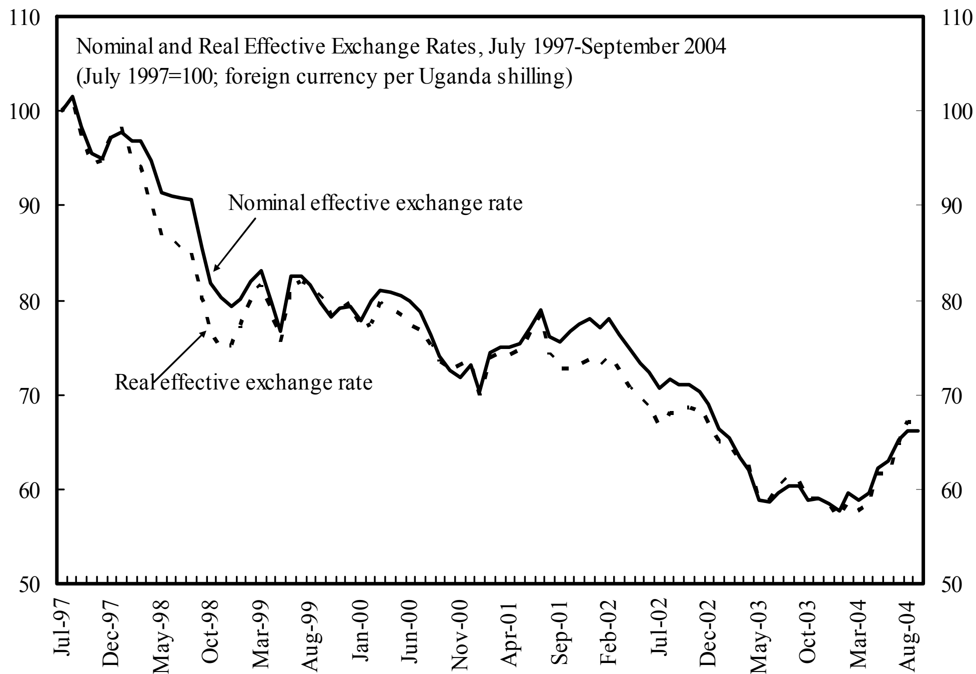
Figure 3. Uganda: Monetary Aggregates and Interest Rates
(In percent, end of period)



Source: Uganda authorities; and IMF staff estimates.
1/ Fiscal year begins in July.
2/ Weighted averages for Uganda shilling denominated assets and liabilities.

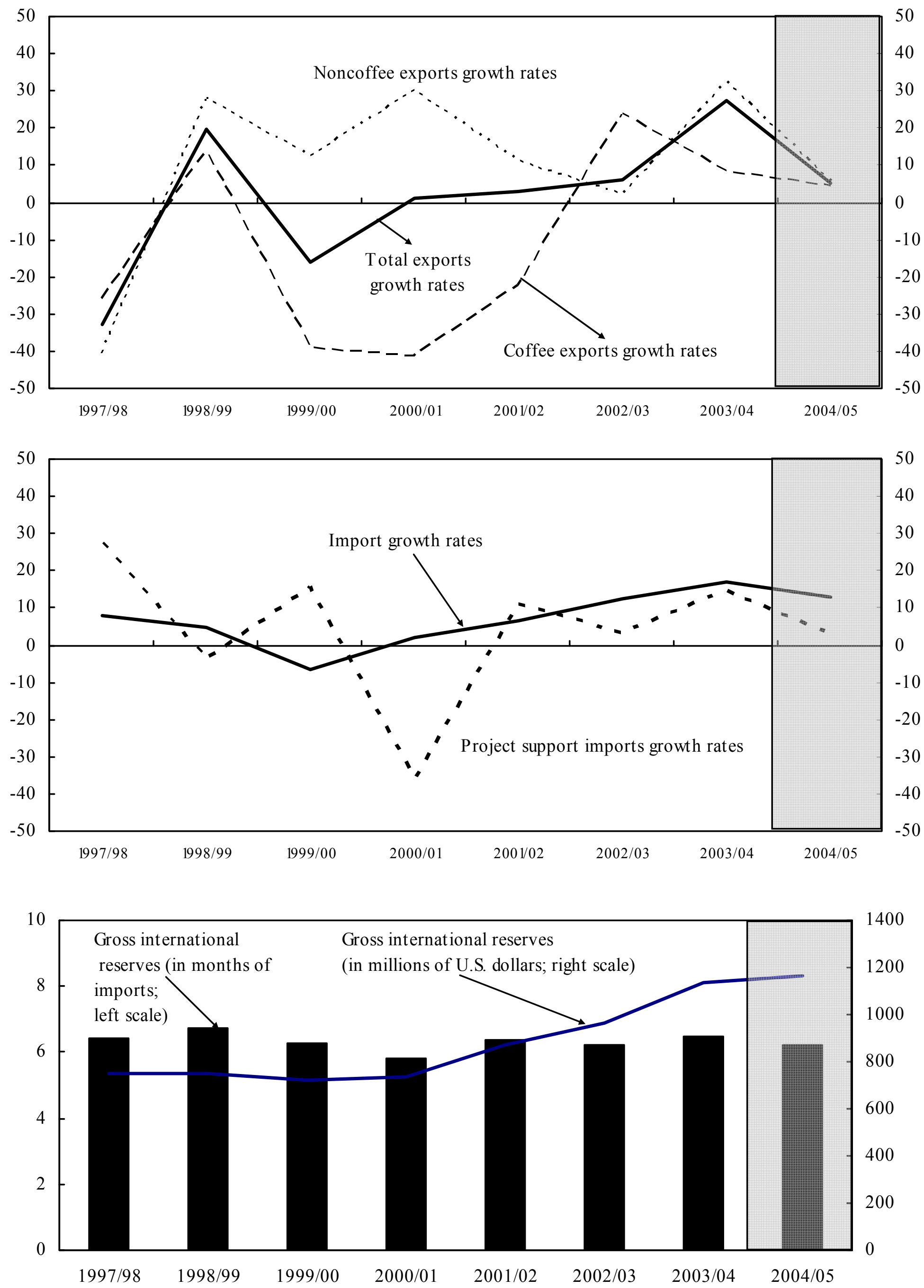
Figure 4. Uganda: Interbank Foreign Exchange Market Indicators, Real and Nominal Effective Exchange Rate





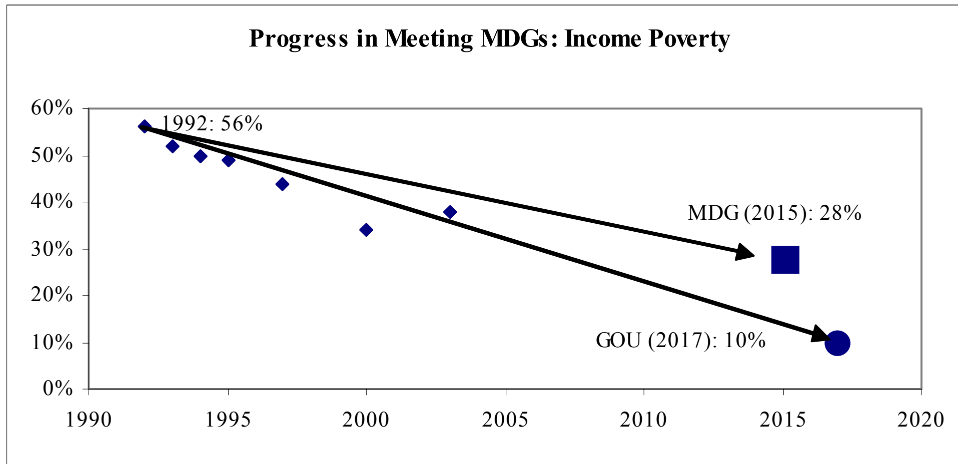
Sources: Ugandan authorities; IMF staff estimates; and INS, Information Notice System.

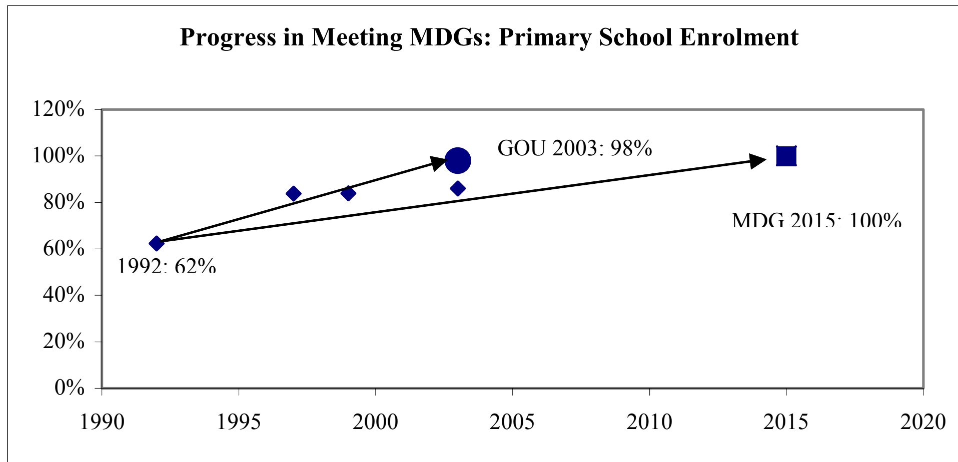
Figure 5. Uganda: External Sector Indicators, 1997/98-2004/05 1/
(Annual growth rates in percent, unless otherwise indicated)

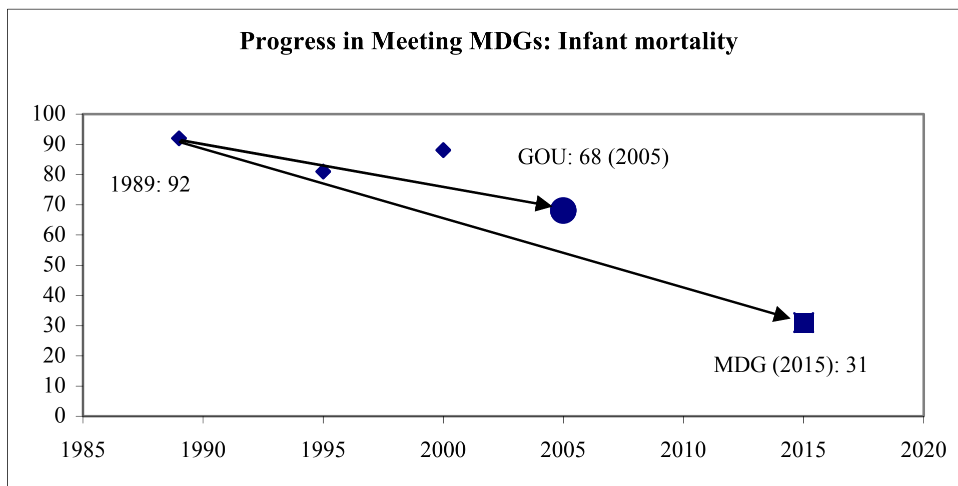


Sources: Ugandan authorities; and IMF staff estimates.
1/ Fiscal year begins in July.

Figure 6. Uganda: Progress in Meeting MDGs







Source: The World Bank and Uganda Bureau of Statistics.

Table 1. Uganda: Selected Economic and Financial Indicators, 2002/03–2007/08 1/

	2002/03	2003/04		2004/05		2005/06	2006/07	2007/08
		CR 04/289	Est.	CR 04/289	Proj.	Proj.	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)							
National income and prices								
GDP at constant prices	4.7	5.9	5.9	5.9	5.4	6.2	6.1	6.6
GDP deflator	10.1	5.7	5.4	3.2	4.8	3.8	3.7	3.5
GDP at market prices								
(in billions of Uganda shillings)	11,859	13,066	13,235	14,453	14,610	16,107	17,720	19,566
Consumer prices								
Headline (end of period)	10.2	1.9	0.9	3.5	6.2	3.5	3.5	3.5
Underlying (end of period)	5.4	3.0	3.1	4.0	4.3	4.0	4.0	4.0
Headline (average)	5.7	5.9	5.1	3.5	5.9	3.5	3.5	3.5
Underlying (average)	2.4	5.6	5.1	4.0	4.1	4.0	4.0	4.0
External sector								
Exports (volume)	-6.0	4.2	8.4	10.4	7.6	7.9	6.2	6.4
Imports (volume)	4.1	4.5	7.9	9.6	8.5	9.0	7.7	7.5
Terms of trade (deterioration -)	5.3	2.1	6.9	-2.6	-4.8	1.7	0.7	0.2
Average exchange rate								
(in Uganda shillings per U.S. dollar)	1,883	...	1,935	...	...	...	...	...
Effective exchange rate (average) 2/								
Nominal (depreciation -)	-12.7	...	-10.1	…	…	…	…	…
Real (depreciation -)	-10.6	...	-8.5	…	…	…	…	…
	(Annual changes in percent of beginning-of-period stock of money, unless otherwise indicated)							
Money and credit								
Net foreign assets	28.5	13.2	11.0	9.4	10.0	14.3	15.5	11.3
Net domestic assets	-5.2	-0.1	-1.7	5.3	4.8	0.9	0.3	5.0
Domestic credit	4.9	3.3	-2.4	8.7	4.6	3.4	1.5	3.1
Central government	-4.8	-2.1	-8.7	2.9	-1.3	-4.0	-7.7	-7.5
Private sector	9.7	5.5	6.0	5.8	6.1	7.5	9.2	10.6
Money and quasi money (M3)	23.3	13.1	9.3	14.8	14.8	15.2	15.8	16.3
M2	17.3	12.5	11.0	15.1	14.8	15.5	15.8	16.3
Velocity (GDP/M2) 3/	7.3	7.0	7.2	6.7	7.0	6.7	6.4	6.1
Interest rate (in percent) 2/, 4/	9.6	...	14.1	...	...	...	...	...
	(In percent of GDP at market prices)							
National income accounts								
Gross domestic investment	20.7	23.2	21.7	22.9	23.3	24.1	25.8	27.1
Public	4.7	5.2	5.2	5.2	5.4	4.9	4.7	4.7
Private	16.0	18.1	16.5	17.7	17.9	19.2	21.1	22.3
Gross domestic savings (excluding grants)	7.3	9.6	10.0	9.9	11.1	12.9	15.1	16.3
Public	-6.6	-5.5	-6.1	-5.7	-4.6	-3.6	-2.5	-2.1
Private	13.9	15.2	16.1	15.6	15.7	16.5	17.6	18.3
Gross national savings (including grants)	14.5	19.3	19.8	17.1	19.2	18.7	20.6	21.4
External sector								
Current account balance								
Including official grants	-6.2	-3.9	-1.9	-5.8	-4.1	-5.4	-5.2	-5.6
Excluding official grants	-13.4	-13.6	-11.8	-13.1	-12.2	-11.2	-10.7	-10.8
External debt (including Fund)	66.5	66.5	54.8	58.7	51.6	52.1	52.3	50.5
Government budget								
Revenue 5/	12.1	12.9	12.6	12.9	12.8	12.9	13.3	13.6
Grants	7.0	9.7	9.6	6.7	8.0	5.8	5.4	5.1
Total expenditure and net lending	23.4	23.6	23.9	23.8	22.8	21.4	20.4	20.4
Government balance (excluding grants)	-11.3	-10.7	-11.3	-10.9	-10.0	-8.5	-7.1	-6.8
Government balance (including grants)	-4.3	-1.0	-1.7	-4.2	-2.0	-2.7	-1.7	-1.7
Domestic balance	-5.2	-4.6	-5.1	-4.0	-4.0	-3.0	-1.9	-1.9
Net foreign financing	4.3	1.3	2.3	3.4	1.9	3.2	3.0	3.0
Domestic bank financing	-0.8	-0.4	-1.6	0.6	-0.2	-0.7	-1.5	-1.5
Domestic nonbank financing	0.6	0.2	0.8	0.3	0.3	0.2	0.2	0.2
Net donor inflows	10.8	10.4	11.5	10.1	9.6	8.7	8.3	7.9
	(In percent of exports of goods and nonfactor services, unless otherwise indicated)							
Debt indicators								
Net present value of external debt 6/	262.5	223.3	242.5	237.2	224.5	216.6	220.1	222.4
External debt service ratio 7/								
Including Fund obligations	7.9	10.0	9.7	10.2	9.8	10.3	10.1	6.8
Excluding Fund obligations	2.3	3.8	4.2	4.7	4.7	6.0	6.7	4.7
Stock of domestic debt (in percent of GDP)	9.0	8.1	9.5	8.4	9.7	9.2	8.2	6.9
Interest on domestic debt (in percent of GDP)	1.0	1.4	1.5	1.5	1.3	1.3	1.2	1.1
	(In millions of U.S. dollars, unless otherwise indicated)							
Overall balance of payments	112	72	213	20	80	128	169	134
External payments arrears (end of period)	0	0	0	0	0	0	0	0
Gross foreign exchange reserves	964	995	1,133	1,120	1,167	1,243	1,353	1,461
In months of imports of goods and nonfactor services	6.2	6.3	6.5	6.2	6.2	6.2	6.3	6.4

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

1/ Fiscal year begins in July.

2/ The 2003/04 figure is provisional.

3/ Nominal GDP divided by average of current-year and previous-year end-period money stocks.

4/ Weighted annual average rate on 91-day treasury bills.

5/ The revenue projections are based on a revenue target as a share of GDP and accordingly include unidentified revenue measures.

6/ Ratio of three-year average of exports. Ratios for 2002/03 and thereafter are based on CIRRs and exchange rates at end-June 2003 .

7/ The debt-service ratios reflect actual debt service paid, i.e., after debt relief, including that attributable to the HIPC Initiative; deferment of payments to non-Paris Club creditors, with whom bilateral agreements have not yet been reached; and the settlement of arrears.

Table 2a. Uganda: Fiscal Operations of the Central Government, 2002/03–2007/08 1/

	2002/03	2003/04		2004/05		2005/06	2006/07	2007/08
		CR 04/289	Est.	CR 04/289	Proj.	Proj.	Proj.	Proj.
	(In billions of Uganda shillings)							
Total revenue and grants	2,264.1	2,948.0	2,939.2	2,841.8	3,039.1	3,011.7	3,313.0	3,657.3
Revenue 2/, 3/	1,433.7	1,683.1	1,669.2	1,866.6	1,864.6	2,085.4	2,348.1	2,655.3
Tax	1,337.9	1,560.1	1,550.5	1,742.4	1,739.6	1,969.7	2,220.4	2,516.8
International trade taxes	133.8	153.3	135.3	162.9	146.1	168.4	167.6	167.8
Income taxes	349.8	407.4	436.9	531.8	539.3	615.4	698.2	778.7
Excises	388.7	445.1	447.2	474.1	518.8	567.8	597.2	625.1
VAT	465.6	554.3	531.0	573.6	535.4	585.7	665.6	749.8
Additional revenue effort	0.0	0.0	0.0	0.0	0.0	32.5	91.8	195.3
Nontax	95.8	123.0	118.7	124.2	125.0	115.7	127.7	138.6
Grants	830.4	1,264.9	1,269.9	975.2	1,174.4	926.3	964.9	1,002.0
Budget support	469.3	786.0	801.5	496.0	747.8	542.7	562.4	584.0
Project grants	361.1	478.9	468.4	479.1	426.7	383.6	402.5	426.7
Expenditures and net lending	2,774.7	3,100.3	3,169.5	3,446.0	3,325.1	3,448.7	3,613.4	3,988.2
Current expenditures	1,565.3	1,743.4	1,865.3	1,935.6	1,968.0	1,998.2	2,076.7	2,180.5
Wages and salaries	611.0	682.8	683.0	765.8	771.6	778.5	803.2	845.7
Interest payments	172.5	242.1	261.8	261.7	253.2	271.4	278.5	285.0
Domestic	117.9	184.7	192.8	193.5	193.5	208.2	212.2	216.2
External	54.6	57.4	69.0	68.2	59.7	63.2	66.3	68.8
Transfers to the Uganda Revenue Authority	62.8	57.7	59.2	57.7	57.7	58.5	58.7	58.8
Other current	719.0	760.9	861.3	850.5	850.5	889.8	936.4	991.0
Additional spending 4/	0.0	0.0	0.0	0.0	35.0	0.0	0.0	0.0
Development expenditures	1,167.6	1,271.2	1,189.2	1,437.1	1,322.7	1,320.6	1,395.6	1,475.6
Donor-supported projects	672.0	747.4	750.1	936.0	821.7	816.2	857.2	900.9
Domestic	495.6	523.8	439.2	501.1	501.1	504.4	538.5	574.8
Net lending and investment	-12.6	-9.3	33.8	-45.5	-43.6	-28.0	-28.0	-28.0
Other	54.4	95.0	81.2	118.8	155.0	157.9	169.1	360.0
Unidentified expenditure measures 6/	0.0	0.0	0.0	0.0	-76.9	0.0	0.0	0.0
Cash balances								
Overall balance								
Including grants	-510.6	-135.1	-230.4	-604.2	-286.0	-437.0	-300.4	-330.9
Excluding grants	-1,341.0	-1,400.0	-1,500.3	-1,579.3	-1,460.5	-1,363.3	-1,265.3	-1,332.8
Domestic balance 7/	-614.4	-595.2	-681.2	-575.1	-579.1	-483.9	-341.8	-363.2
Primary balance								
Including grants	-338.1	106.9	31.5	-342.5	-32.8	-165.6	-22.0	-45.9
Excluding grants	-1,168.5	-1,157.9	-1,238.5	-1,317.7	-1,207.2	-1,091.9	-986.8	-1,047.8
Domestic balance 7/	-496.5	-410.5	-488.4	-381.6	-385.6	-275.7	-129.6	-147.0
Domestic public savings	-131.6	-110.3	-196.1	-132.3	-166.7	14.4	202.4	214.8
Financing	494.4	135.0	199.3	604.2	286.2	437.0	300.5	330.9
External financing (net)	512.9	164.7	298.5	486.8	284.2	515.2	523.5	589.9
Disbursement	617.5	299.6	427.4	649.7	426.6	684.2	718.0	745.5
Budget support	360.1	31.2	57.0	192.8	31.6	239.1	250.9	260.5
Project loans	257.4	268.5	370.3	456.9	395.0	445.1	467.1	485.0
Amortization (-)	-143.0	-147.2	-144.0	-167.9	-146.4	-145.7	-152.9	-158.8
Exceptional financing	38.5	12.2	15.2	5.0	4.0	-23.3	-41.5	3.2
Domestic financing (net)	-18.5	-29.7	-99.2	117.4	2.0	-78.2	-223.0	-259.1
Bank financing	-91.6	-49.7	-206.2	80.4	-35.0	-118.2	-263.0	-299.1
Bank of Uganda	-207.4	-58.6	-175.3	13.1	-147.2	-128.8	-189.4	-161.4
Commercial banks	115.8	8.9	-30.9	67.3	112.2	10.6	-73.6	-137.7
Nonbank financing	73.1	20.0	107.0	37.0	37.0	40.0	40.0	40.0
Errors and omissions/Financing gap	16.2	0.2	31.1	0.0	-0.2	0.0	0.0	0.0

Sources and footnotes: See Table 2b.

Table 2b. Uganda: Fiscal Operations of the Central Government, 2002/03–2007/08 1/

	2002/03	2003/04		2004/05		2005/06	2006/07	2007/08
		CR 04/289	Est.	CR 04/289	Proj.	Proj.	Proj.	Proj.
	(In percent of GDP at market prices, unless otherwise indicated)							
Total revenue and grants	19.1	22.6	22.2	19.7	20.8	18.7	18.7	18.7
Revenue 2/, 3/	12.1	12.9	12.6	12.9	12.8	12.9	13.3	13.6
Tax	11.3	11.9	11.7	12.1	11.9	12.2	12.5	12.9
International trade taxes	1.1	1.2	1.0	1.1	1.0	1.0	0.9	0.9
Income taxes	3.0	3.1	3.3	3.7	3.7	3.8	3.9	4.0
Excises	3.3	3.4	3.4	3.3	3.6	3.5	3.4	3.2
VAT	3.9	4.2	4.0	4.0	3.7	3.6	3.8	3.8
Additional revenue effort	0.0	0.0	0.0	0.0	0.0	0.2	0.5	1.0
Nontax	0.8	0.9	0.9	0.9	0.9	0.7	0.7	0.7
Grants	7.0	9.7	9.6	6.7	8.0	5.8	5.4	5.1
Budget support	4.0	6.0	6.1	3.4	5.1	3.4	3.2	3.0
Project grants	3.0	3.7	3.5	3.3	2.9	2.4	2.3	2.2
Expenditures and net lending	23.4	23.6	23.9	23.8	22.8	21.4	20.4	20.4
Current expenditures	13.2	13.3	14.1	13.4	13.5	12.4	11.7	11.1
Wages and salaries	5.2	5.2	5.2	5.3	5.3	4.8	4.5	4.3
Interest payments	1.5	1.9	2.0	1.8	1.7	1.7	1.6	1.5
Domestic	1.0	1.4	1.5	1.3	1.3	1.3	1.2	1.1
External	0.5	0.4	0.5	0.5	0.4	0.4	0.4	0.4
Transfers to the Uganda Revenue Authority	0.5	0.4	0.4	0.4	0.4	0.4	0.3	0.3
Other current	6.1	5.8	6.5	5.9	5.8	5.5	5.3	5.1
Additional spending 4/	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.0
Development expenditures	9.8	9.7	9.0	9.9	9.1	8.2	7.9	7.5
Donor-supported projects	5.7	5.7	5.7	6.5	5.6	5.1	4.8	4.6
Domestic	4.2	4.0	3.3	3.5	3.4	3.1	3.0	2.9
Net lending and investment	-0.1	-0.1	0.3	-0.3	-0.3	-0.2	-0.2	-0.1
Other	0.5	0.7	0.6	0.8	1.1	1.0	1.0	1.8
Unidentified expenditure measures 6/	0.0	...	0.0	...	-0.5	0.0	0.0	0.0
Cash balances								
Overall balance								
Including grants	-4.3	-1.0	-1.7	-4.2	-2.0	-2.7	-1.7	-1.7
Excluding grants	-11.3	-10.7	-11.3	-10.9	-10.0	-8.5	-7.1	-6.8
Domestic balance 7/	-5.2	-4.6	-5.1	-4.0	-4.0	-3.0	-1.9	-1.9
Primary balance								
Including grants	-2.9	0.8	0.2	-2.4	-0.2	-1.0	-0.1	-0.2
Excluding grants	-9.9	-8.9	-9.4	-9.1	-8.3	-6.8	-5.6	-5.4
Domestic balance 7/	-4.2	-3.1	-3.7	-2.6	-2.6	-1.7	-0.7	-0.8
Domestic public savings	-1.1	-0.8	-1.5	-0.9	-1.1	0.1	1.1	1.1
Financing	4.2	1.0	1.5	4.2	2.0	2.7	1.7	1.7
External financing (net)	4.3	1.3	2.3	3.4	1.9	3.2	3.0	3.0
Disbursement	5.2	2.3	3.2	4.5	2.9	4.2	4.1	3.8
Budget support	3.0	0.2	0.4	1.3	0.2	1.5	1.4	1.3
Project loans	2.2	2.1	2.8	3.2	2.7	2.8	2.6	2.5
Amortization (-)	-1.2	-1.1	-1.1	-1.2	-1.0	-0.9	-0.9	-0.8
Exceptional financing	0.3	0.1	0.1	0.0	0.0	-0.1	-0.2	0.0
Domestic financing (net)	-0.2	-0.2	-0.7	0.8	0.0	-0.5	-1.3	-1.3
Bank financing	-0.8	-0.4	-1.6	0.6	-0.2	-0.7	-1.5	-1.5
Bank of Uganda	-1.7	-0.4	-1.3	0.1	-1.0	-0.8	-1.1	-0.8
Commercial banks	1.0	0.1	-0.2	0.5	0.8	0.1	-0.4	-0.7
Nonbank financing	0.6	0.2	0.8	0.3	0.3	0.2	0.2	0.2
Errors and omissions/Financing gap	0.1	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Memorandum items (in percent of GDP, unless otherwise noted):								
Total defense expenditures	2.2	2.4	2.3	2.4	2.4	2.2	2.1	2.0
Total public administration expenditure	3.3	2.8	2.8	2.9	2.9	2.8	2.5	2.5
Poverty Action Fund	5.4	5.7	5.5	5.7	5.7	5.3	5.1	4.9
Total HIPC assistance	1.4	1.4	1.3	1.3	1.1	0.9	0.8	0.7
Estimated total stock of arrears 8/ 9/	...	...	3.7	2.9	3.0	2.2	1.4	0.8
Nominal GDP at market prices	11,859	13,066	13,235	14,453	14,610	16,107	17,720	19,566

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

1/ Fiscal year begins in July.

2/ The revenue projections are based on a revenue target as a share of GDP, and accordingly include unidentified revenue effort.

3/ Revenue projections for 2004/05 onwards include collections costs due to EAC.

4/ In 2004/05, additional supplementary expenditures from potential spending pressures.

5/ Estimated arrears in goods and services accumulated under the CCS.

6/ In 2004/05, cuts to accommodate: supplementary expenditure pressures, increase in primary teacher wages and clearance of CCS arrears in goods and services.

7/ Revenues less expenditures, excluding external interest due and externally financed development expenditures.

8/ Includes wages, pensions, nonwage recurrent, development and court awards.

9/ Path assumes that arrears are cleared according to the plan prepared in June 2004.

Table 3. Uganda: Monetary Survey, 2002/03–2007/08 1/
(In billions of Uganda shillings; end of period, unless otherwise indicated)

	2002/03	2003/04	2003/04	2004/05	2004/05	2005/06	2006/07	2007/08
		CR 04/289	Est.	CR 04/289	Proj.	Proj.	Proj.	Proj.
				Banking system				
Net foreign assets (NFA)	2,101	2,415	2,362	2,747	2,620	3,046	3,578	4,027
Net domestic assets	272	269	231	397	357	383	395	593
Domestic credit	1,246	1,325	1,190	1,451	1,308	1,410	1,463	1,584
Claims on public sector (net) 2/	398	347	198	305	157	36	-228	-528
Claims on private sector	849	979	991	1,146	1,150	1,374	1,691	2,112
Valuation	-334	-376	-601	-366	-625	-740	-866	-889
Other items (net)	-640	-680	-358	-688	-325	-287	-202	-102
Broad money (M3)	2,373	2,684	2,593	3,144	2,977	3,430	3,973	4,620
M2	1,749	1,967	1,941	2,317	2,229	2,575	2,983	3,468
				Monetary authorities				
Net foreign assets	1,501	1,703	1,678	2,021	1,852	2,170	2,574	2,867
Foreign assets	1,990	2,105	2,047	2,348	2,133	2,386	2,721	2,961
Of which : foreign reserves	1,931	2,044	2,027	2,288	2,113	2,365	2,699	2,939
Foreign liabilities	490	402	369	327	281	216	147	95
Of which : liabilitites to IMF	485	397	365	322	277	211	143	90
Net domestic assets	-870	-910	-868	-1,102	-930	-1,130	-1,397	-1,529
Domestic credit	-155	-148	-339	-358	-429	-558	-748	-909
Claims on public sector (net) 2/	-191	-249	-368	-458	-515	-644	-834	-995
Claims on commercial banks (net)	36	102	29	100	86	86	86	86
Valuation	-339	-377	-595	-369	-617	-718	-830	-851
Other items (net)	-376	-386	61	-375	111	141	176	226
Base money	631	793	810	920	922	1,040	1,177	1,337
Currency outside banks plus cash in vaults	520	562	605	679	677	757	851	958
Commercial bank deposits with Bank of Uganda (BOU)	110	231	205	241	245	283	326	379
				Commercial banks				
Net foreign assets	601	712	684	725	768	876	1,004	1,160
Net domestic assets	1,311	1,477	1,381	1,851	1,606	1,883	2,220	2,622
Domestic credit	1,570	1,771	1,805	2,161	2,051	2,333	2,634	2,988
Claims on public sector (net) 2/	588	596	566	763	673	680	605	467
Claims on private sector	849	979	987	1,146	1,145	1,369	1,686	2,107
Of which : foreign exchange loans	190	215	216	248	224	257	297	346
Claims on BOU (net)	133	196	252	252	233	284	343	414
Total reserves	134	258	235	305	275	317	367	427
Required reserves	199	223	228	259	256	294	338	391
Excess reserves	-88	8	-23	14	-11	-11	-11	-11
Reservable cash-in-vault	24	27	31	32	30	35	41	48
Valuation	5	0	-6	3	-8	-22	-35	-38
Other items (net)	-264	-294	-419	-313	-436	-428	-378	-328
Deposit liabilities to nonbank residents	1,912	2,189	2,064	2,577	2,375	2,760	3,225	3,782
Shilling deposits	1,288	1,473	1,413	1,750	1,626	1,905	2,234	2,630
Foreign currency deposits	624	717	652	827	748	855	991	1,152
Memorandum items:								
Base money (12-month change in percent) 3/	0.2	10.6	13.0	13.2	13.4	12.8	13.2	13.6
Money and quasi money (12-month change in percent)	23.3	13.1	9.3	14.8	14.8	15.2	15.8	16.3
Broad money (12-month change in percent)	17.3	12.5	11.0	15.1	14.8	15.5	15.8	16.3
M3-to-GDP ratio (percent)	20.0	20.5	19.6	21.8	20.4	23.1	24.2	25.7
M2-to-GDP ratio (percent)	14.8	15.1	14.7	16.0	15.3	17.3	18.2	19.3
Credit to private sector-to-GDP ratio (percent)	7.2	7.5	7.5	7.9	7.9	9.2	10.3	11.7
Currency outside banks-to-M3 ratio (percent)	19.4	18.4	20.4	18.0	20.2	19.5	18.8	18.1
Foreign currency deposits-to-M3 ratio (percent)	26.3	26.7	25.1	26.3	25.1	24.9	24.9	24.9
Credit to the private sector (12-month change in percent)	28.2	15.3	16.8	16.0	16.0	19.4	23.1	24.9
Base money multiplier (M2/base money)	2.77	2.48	2.40	2.52	2.42	2.48	2.53	2.59
NFA of BOU (millions of U.S. dollars)	749	829	938	990	1023	1140	1290	1425
Gross reserves of BOU (millions of U.S. dollars)	964	995	1133	1120	1,167	1243	1353	1461
NFA of commercial banks (millions of U.S. dollars)	300	346	382	355	424	460	503	577
Foreign currency deposit (millions of U.S. dollars)	312	349	364	405	413	449	496	573
Foreign currency loans (millions of U.S. dollars)	95	105	121	121	124	135	149	172
Average change in M3 velocity (in percent)	-7.2	..	-3.5	..	-3.8	-4.3	-5.0	-5.0

Sources: Ugandan authorities; and Fund staff estimates and projections.
1/ Fiscal year begins in July.
2/ The public sector includes the central government, the public enterprises and the local government.
3/ The daily average of June of each financial year is used to calculate the annual percentage change from 2003/04 onwards.

Table 4. Uganda: Financial Soundness Indicators for Banking Sector, 2000-04
(In percent unless otherwise indicated)

	2000	2001	2002	2003	Sep. 2004
Capital adequacy					
Tier I capital ratio	17.4	20.5	18.0	14.2	18.7
Total regulatory capital/risk-weighted assets	20.5	23.1	20.7	16.7	20.6
Total regulatory capital/total assets	9.8	10.0	9.2	8.5	10.1
Asset quality					
Distribution by risk weight category					
0 percent	31.5	40.7	45.4	38.4	38.8
20 percent	27.4	22.7	18.3	23.4	24.9
50 percent	4.9	0.0	-	-	-
100 percent	36.3	36.6	36.3	38.2	36.3
Sectoral loan concentration					
Agriculture	9.9	9.9	8.1	9.6	10.5
Mining and quarrying	0.3	0.8	0.4	0.3	0.1
Manufacturing	40.0	36.5	27.6	26.2	23.4
Trade and commerce	20.4	23.1	26.1	22.6	14.9
Transport	6.4	5.6	6.9	7.2	7.4
Building and construction	4.2	3.7	3.0	3.2	4.1
Other services	18.8	20.5	27.9	30.9	39.6
Large exposures/total assets	28.5	25.6	26.9	28.3	27.6
Large exposure/total capital	225.6	169.1	175.0	157.7	120.6
Connected lending/total capital	7.2	4.5	4.6	4.6	1.9
Foreign exchange loans/total loans	21.7	26.9	28.9	25.0	24.6
NPLs/total gross loans (or exposures)	9.8	6.5	3.0	7.2	2.6
NPLs net of provisions/total capital	11.9	16.8	1.6	5.7	0.9
Provisions to NPLs	61.7	70.0	81.5	76.5	87.8
Profitability					
Return on (average) assets	4.4	4.4	2.7	3.3	4.5
Return on (average) equity	53.1	45.8	24.6	33.1	39.0
Interest margin/gross income	51.6	54.5	54.0	56.1	53.4
Expenses/revenues	70.1	72.4	65.6	64.2	58.8
Noninterest expenses/gross income	55.2	52.4	55.0	51.5	47.6
Personnel expenses to noninterest expenses	46.0	42.5	44.3	36.0	37.0
Trading and fee income to total income	12.3	12.9	12.4	12.7	15.0
Liquidity					
Loans to deposits	39.0	34.5	42.3	64.5	64.1
Liquid assets/total assets	60.1	63.4	63.7	43.9	43.1
Liquid assets/short-term liabilities	77.1	81.8	82.1	57.7	58.0
Funding volatility ratio (volatile liability-liquid assets/illiquid assets)	...	...	38.3	57.4	54.8
Demand deposits/total liabilities	52.5	54.6	47.6	49.7	49.6
Customer deposits to total (non-interbank) loans	256.5	290.2	284.9	281.7	287.7
Forex liabilities to total liabilities	30.7	26.1	25.3	29.7	28.7
Memorandum item:					
Net forex open position to total capital	13.5	4.5	1.5	-2.1	4.7

Source: Bank of Uganda.

Table 5. Uganda: Balance of Payments, 2002/03–2007/08 1/

(In millions of U.S. dollars)

	2002/03	2003/04		2004/05		2005/06	2006/07	2007/08
		CR 04/289	Est.	CR 04/289	Proj.	Proj.	Proj.	Proj.
Current account	-388	-255	-129	-422	-340	-475	-478	-550
Trade balance	-623	-724	-674	-845	-810	-876	-938	-1001
Exports, f.o.b.	508	567	647	652	682	738	797	863
Coffee	105	118	114	121	119	134	149	167
Noncoffee	402	449	533	531	563	605	647	696
Imports, f.o.b	-1131	-1,292	-1321	-1497	-1492	-1614	-1735	-1863
Government related	-140	-92	-161	-183	-166	-171	-173	-174
Private sector	-991	-1,199	-1161	-1313	-1326	-1443	-1562	-1689
Services (net)	-240	-225	-198	-254	-250	-263	-295	-331
Inflows	269	306	345	320	363	374	386	397
Outflows	-509	-531	-543	-574	-613	-637	-681	-729
Income (net)	-149	-136	-141	-180	-170	-140	-130	-132
Inflows	20	29	40	31	38	72	93	101
Outflows	-169	-165	-181	-211	-207	-211	-223	-233
Of which: interest on public debt	-31	-29	-37	-36	-35	-36	-35	-35
Of which: HIPC savings due to cancellation 2/	6	6	6	5	6	5	5	4
Transfers	624	830	884	857	890	804	884	915
Private transfers	166	207	209	331	214	296	380	406
Of which: nongovernmental organizations	133	125	144	192	160	229	261	283
Official transfers	458	623	674	525	675	508	504	508
Of which: project support	192	237	242	243	243	209	209	209
Of which: budget support	181	326	359	178	360	237	237	237
Of which: HIPC assistance 2/	68	62	62	72	68	58	54	54
Capital and financial account	420	326	329	441	420	603	648	684
Capital account	0	0	0	0	0	0	0	0
Financial account	420	326	329	441	420	603	648	684
Foreign direct investment (FDI)	192	160	197	198	223	259	289	319
Portfolio investment	1	0	10	12	19	21	22	23
Other investment	227	166	123	231	177	323	337	341
Medium and long-term	252	138	147	235	158	298	313	318
Public sector (net)	252	75	148	236	160	293	293	293
Disbursements	328	148	222	320	243	372	372	372
Project support	137	133	191	225	225	242	242	242
Budget support	191	15	31	95	18	130	130	130
Amortization due	-76	-73	-74	-84	-84	-79	-79	-79
HIPC savings due to cancellation 2/	14	16	16	16	17	15	15	4
Private sector (net)	0	62	0	-2	-2	5	20	25
Short-term	-25	28	-25	-3	19	25	24	24
Errors and omissions	79	0	13	0	0	0	0	0
Overall balance	112	72	213	20	80	128	169	134
Financing	-112	-72	-213	-20	-80	-128	-169	-134
Central bank reserves (- = increase)	-133	-78	-221	-23	-82	-118	-150	-136
Of which: gross reserve change	-91	-31	-169	25	-34	-75	-110	-109
Of which: IMF (net)	-41	-47	-52	-48	-48	-43	-40	-27
Of which: HIPC rescheduling 2/	3	3	3	3	2	2	2	2
Memorandum items:								
Gross international reserves 3/	6.2	6.3	6.5	6.2	6.2	6.2	6.3	6.4
Current account balance (in percent of GDP)								
Including official transfers	-6.2	-3.9	-1.9	-5.8	-4.1	-5.4	-5.2	-5.6
Excluding official transfers	-13.4	-13.6	-11.8	-13.1	-12.2	-11.2	-10.7	-10.8
Debt service (in percent of exports)								
Before debt relief (including IMF)	21.9	20.4	19.0	20.2	18.7	14.7	13.1	12.4
After debt relief (including IMF)	7.9	10.0	9.7	10.2	9.8	10.4	10.1	6.8
Coffee price (U.S. cents per kg.)	58.7	65.1	64.3	65.7	65.7	68.6	70.9	73.4
Coffee export volume (in millions of 60-kg. bags)	2.9	3.0	2.4	2.6	2.6	2.7	2.9	3.1
Exports of goods and nonfactor services	777	873	992	972	1045	1112	1183	1260
(three-year moving average)	722	787	824	893	938	1050	1113	1185
Net donor support	682	673	788	729	803	765	762	767
Of which: import support	372	341	390	273	378	367	367	367
Of which: project support	329	369	434	469	469	451	451	451
Of which: total debt relief including HIPC assistance	91	94	87	94	94	58	54	58
Net donor support (in percent of GDP)	10.8	10.4	11.5	10.1	9.6	8.7	8.3	7.9
Debt service due before HIPC	151	178	166	174	172	163	155	142
Foreign direct investment—Gross Inflows (in percent of GDP)	3.8	3.9	3.5	3.8	3.5	3.5	3.6	3.6

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

1/ Fiscal year begins on July 1.

2/ Except for 2002/03 program figures, where debt relief including full HIPC assistance is included in exceptional financing, the components of debt relief are treated as separate items. HIPC grants are included in import support transfers, debt rescheduling is included in exceptional financing, and debt cancellation is included in amortization.

3/ In months of imports of goods and services of the following year.

Table 6. Uganda: Debt and Debt Service Indicators, 2002/03-2007/08 1/
(In millions of U.S. dollars)

	2002/03	2003/04 Est.	2004/05 Proj.	2005/06 Proj.	2006/07 Proj.	2007/08 Proj.
NPV of total debt 2/ and 5/	1,894	1,997	2,106	2,273	2,451	2,635
Existing debt	1,894	1,889	1,875	1,857	1,842	1,829
Multilateral	1,717	1,720	1,714	1,704	1,696	1,690
Paris Club bilateral	57	52	48	43	38	34
Non-Paris Club bilateral	98	99	100	100	101	102
Commercial	21	18	14	10	7	3
New debt	…	109	231	417	608	806
Total debt service	79	86	95	101	99	100
Existing debt	79	85	93	97	92	91
Multilateral	65	70	78	82	79	77
Paris Club bilateral	6	7	7	7	6	6
Non-Paris Club bilateral	2	4	4	4	4	4
Commercial	5	5	5	4	4	4
New debt	…	1	2	4	6	9
NPV of debt-to-exports ratio 2/ 3/	262.5	242.5	224.5	216.6	220.1	222.4
NPV of debt-to revenue ratio 2/	248.7	231.5	198.0	200.4	201.3	198.8
NPV of debt-to GDP ratio 2/	30.1	29.2	25.3	26.0	26.7	27.0
NPV of new debt-to-exports ratio 2/ 3/	…	13.2	24.6	39.7	54.6	68.0
Debt service-to-exports ratio	10.9	10.5	10.1	9.6	8.9	8.4
Debt service-to revenue ratio	10.3	10.0	8.9	8.9	8.1	7.5
Memorandum items:						
Gross domestic product	6,299	6,841	8,332	8,761	9,185	9,767
Exports of goods and services 4/						
Current year	777	992	1,045	1,112	1,183	1,260
Three-year average	722	824	938	1,050	1,113	1,185
Revenue	761	863	1,063	1,134	1,217	1,325
New borrowing annual flow	328	228	249	378	378	378

Sources: Ugandan authorities; and World Bank/Fund staff estimates and projections.

1/Assumes full delivery of HIPC relief.

2/ NPV ratios from 2002/03 are based on CIRRs (discount rate) and exchange rates at June 2003.

3/ In relation to the average of three consecutive years of exports of goods and services ending in the current year.

4/ Exports of goods and services as defined in the IMF *Balance of Payments Manual,* 5th edition, 1993.

5/ The comparable NPV of debt estimated for 2002/03 in the August 2002 debt sustainability analysis (DSA) using end-2000/01 data was US$1,410 million. This assumed annual disbursements of US$351 million and US$322 million, respectively. Actual disbursements during the period were US$318 million and US$328 million, respectively. Exports of goods and services are also US$45.1 million higher than that projected at the time of the August 2002 DSA.

Table 7. Uganda: Status of HIPC Agreements by Creditor 1/

	Enhanced HIPC Relief US$ millions	Agreement to Provide HIPC Relief	Modalities/Comments
Total	655.8		
Total relief agreed upon	630.6		There are agreements to provide 96 percent of the total HIPC Initiative relief committed.
Relief not agreed	25.3		Agreements are still subject to negotiations for 4 percent of relief identified under the HIPC Initiative.
Multilateral	545.7		
IDA	356.6	yes	Debt-service reduction on eligible stock outstanding as at 30/6/1999 except on PPFs and IDA administered EEC loan.
IMF	90.9	yes	Debt-service reduction on principal of stock outstanding as at 30/6/1999.
AfDB/F	59.3	yes	Debt-service reduction commenced January 2002 details at discretion of creditor.
IFAD	10.1	yes	Debt-service reduction on eligible stock. IFAD to advise details of application periodically.
EU/EIB	14.1	yes	One loan cancelled and another partially canceled.
NDF	3.7	yes	Reconciliation complete. Not servicing outside eligible period and awaiting final agreement.
OPEC Fund	5.1	yes	Agreement signed August 2003 for both HIPC I and II but is yet to be approved by parliament.
BADEA	4.1	yes	Delivering through rescheduling of all loans outstanding at completion point.
EADB	0.7	yes	Agreement signed June 14, 2004 for both HIPC I and II, but is yet to be approved by parliament.
IDB	0.5	yes	Delivering through rescheduling of all loans outstanding at completion point.
PTA Bank	0.5	no	No decision taken on participation.
Shelter Afrique	0.1	no	In June 2003, government paid in full to avoid court action that had been initiated.
Paris Club creditors	73.1		
Austria	6.8	yes	Agreement signed for 18 percent cancellation on post-cutoff debt.
Finland	1.1	yes	Cancelled the debt.
France	6.7	yes	100 percent cancellation on pre-cutoff-date debt. Initially cancelled 18 percent of post-cutoff-date debt. Recently signed new agreement for the balance of 82 percent.
Germany	0.4	yes	100 percent cancellation on pre-cutoff debt.
Israel	1.9	yes	100 percent cancellation on pre-cutoff debt.
Italy	20.3	yes	100 percent cancellation on pre-cutoff and post-cutoff debt.
Japan	16.5	yes	Agreed to cancel payments as they fall due.
Norway	0.1	yes	Agreement signed for 18 percent cancellation on pre-cutoff debt.
Spain	13.5	yes	Agreement signed for 18 percent cancellation on pre-cutoff debt.
Sweden	1.7	yes	Agreement signed for 18 percent cancellation on pre-cutoff debt.
U.K.	4.0	yes	Agreement signed for 100 percent cancellation for pre-cutoff debt.
U.S.A.	0.1	yes	Agreement signed for 100 percent cancellation for pre-cutoff debt.
Non-Paris Club creditors	29.0		
UAE	0.3	no	No response.
Burundi	0.1	no	World Bank/IMF have agreed to facilitate.
China	2.8	yes	Written-off part of the loan. Negotiating terms for remaining balance. 5 loans, 3 remain to be considered after other countries have received relief.
India	3.7	no	Cancelled government to government claims of US$4.9 million. Government seeking to obtain relief on US$50.6 million in export guarantees.
Iraq	0.0	no	Judgment reached. Court awarded US$6.4 million interest to accrue at 2.5 percent until paid. Government requested to the holders of the Powers of Attorney to renew them with the current Iraqi authorities. The new government of Iraq wrote to the authorities, and new contact has been established.
Kuwait	6.6	yes	Agreement signed for delivery of old HIPC and enhanced HIPC
Libya	8.2	no	The Libyan parliament did not approve country's participation in the HIPC Initiative; discussions are ongoing with the Libyan authorities.
Nigeria	0.9	no	No agreement in place and no communication.
North Korea	0.3	no	Repaid in full before enhanced HIPC Initiative.
Pakistan	0.3	no	No response.
Rwanda	0.6	yes	Loan has been cancelled.
Saudi Arabia	1.5	yes	Agreement signed for provision of enhanced HIPC relief.
South Korea	0.6	yes	Agreement signed October 2003 for delivery of old HIPC and enhanced HIPC.
Tanzania	3.2	partial	Bought back 15 percent, balance needs verification.
Commercial creditors	8.0		
Italy (Industrial Development)	0.1	no	Repaid in full before enhanced HIPC Initiative.
Panama	0.0	no	Repaid in full before enhanced HIPC Initiative.
Spain (Banco Arabe)	0.5	no	Judgment reached. Court awarded US$2.7 million. Government of Uganda has fully paid.
U.K.	5.0	no	Judgment reached and Court awarded US$9.4 million; however, the government of Uganda has negotiated a lower settlement figure of US$7.9 million, which was paid in 2003/04.
Yugoslavia (14 Oktobar and Sours Fab Famos)	2.4	no	Judgment reached and Court awarded US$10.3 million; the government of Uganda has fully repaid.

Sources: Ugandan authorities; and IMF staff estimates.

1/ Figures are based on end-June 1999 data, using end-June 1999 exchange rates and the six-month average Commercial Interest Reference Rate (CIRR) at end-June 1999.

Table 8. Uganda: Schedule of Disbursements Under the PRGF Arrangement

Date	Amounts in millions of SDRs	In percent of quota 1/	Conditions
September 2002	1.5	0.83	Board approval of PRGF arrangement.
June 2003	2.0	1.11	Observance of end-December 2002 performance criteria and completion of first review.
December 2003	2.0	1.11	Observance of end-June 2003 performance criteria and completion of second review.
July 2004	2.0	1.11	Observance of end-December 2003 performance criteria and completion of third review.
January 2005	2.0	1.11	Observance of end-June 2004 performance criteria and completion of fourth review.
June 2005	2.0	1.11	Observance of end-December 2004 performance criteria and completion of fifth review.
September 2005	2.0	1.11	Observance of end-June 2005 performance criteria and completion of sixth review.
Total	13.5	7.5	

1/ Uganda's quota is SDR 180.5 million.

Table 9. Uganda: Millennium Development Goals

	1990	1995	2001	2002
Eradicate extreme poverty and hunger	2015 target = halve 1990 $1 a day poverty and malnutrition rates			
Percentage share of income or consumption held by poorest 20 percent	...	...	5.9	...
Prevalence of child malnutrition (in percent of children under 5)	23.0	25.5	22.8	...
Population below minimum level of dietary energy consumption (in percent)	23.0	25.0	19.0	...
Achieve universal primary education	2015 target = net enrollment to 100			
Net primary enrollment ratio (in percent of relevant age group)	...	87.3	...	...
Youth literacy rate (in percent of ages 15-24)	70.1	74.7	79.4	80.2
Promote gender equality	2005 target = education ratio to 100			
Ratio of girls to boys in primary and secondary education (in percent)	76.8	81.0	...	...
Ratio of young literate females to males (in percent of ages 15-24)	75.8	80.4	85.0	85.7
Share of women employed in the nonagricultural sector (in percent)	43.2	...	...	...
Proportion of seats held by women in national parliament (in percent)	...	17.0	...	...
Reduce child mortality	2015 target = reduce 1990 under 5 mortality by two-thirds			
Under 5 mortality rate (per 1,000)	160.0	156.0	145.0	141.0
Infant mortality rate (per 1,000 live births)	93.0	92.0	85.0	83.0
Immunization, measles (in percent of children under 12 months)	52.0	57.0	61.0	77.0
Improve maternal health	2015 target = reduce 1990 maternal mortality by three-fourths			
Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	...	880.0	...
Births attended by skilled health staff (in percent of total)	38.3	37.8	39.0	...
Combat HIV/AIDS, malaria, and other diseases	2015 target = halt, and begin to reverse, AIDS, etc.			
Prevalence of HIV, female (in percent of ages 15-24)	...	...	4.6	...
Contraceptive prevalence rate (in percent of women ages 15-49)	4.9	14.8	22.8	...
Number of children orphaned by HIV/AIDS (in thousands)	...	...	880.0	...
Incidence of tuberculosis (per 100,000 people)	...	...	324.0	377.4
Tuberculosis cases detected under DOTS (in percent)	...	61.0	52.0	46.6
Ensure environmental sustainability	2015 target = various			
Forest area (in percent of total land area)	25.9	...	21.3	...
Nationally protected areas (in percent of total land area)	...	9.7	9.7	24.9
CO2 emissions (metric tons per capita)	0.0	0.0	0.1	...
Access to an improved water source (in percent of population)	45.0	...	52.0	...
Access to improved sanitation (in percent of population)	...	...	79.0	...
Develop the Global Partnership for Development	2015 target = various			
Fixed line and mobile telephones (per 1,000 people)	1.7	2.1	13.9	18.1
Personal computers (per 1,000 people)	...	0.5	2.9	3.3
General indicators				
Population (in millions)	17.4	20.3	23.9	24.6
Adult literacy rate (in percent of people ages 15 and over)	56.1	61.8	68.0	68.9
Total fertility rate (births per woman)	7.0	6.7	6.2	6.0
Life expectancy at birth (years)	46.8	43.8	42.5	43.1

Source: World Development Indicators database, October 2004.

Kampala, Uganda
November 10, 2004

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. de Rato:

1. On behalf of the Government of Uganda, I hereby transmit the attached memorandum of economic and financial policies (MEFP) that sets out the objectives and policies that the Government intends to implement in the remainder of the fiscal year 2004/05, as well as the underlying medium-term macroeconomic policy framework consistent with the forthcoming revision of the Ugandan Poverty Eradication Action Plan (PEAP). The attached technical memorandum of understanding (TMU) defines the terms and conditions of the program.

2. Although the Government of Uganda has made substantial progress in implementing the 2003/04 program supported by the three-year arrangement under the Poverty Reduction and Growth Facility (PRGF), which was approved by the Fund's Executive Board on September 13, 2002, several program slippages occurred during the current review. Four quantitative performance criteria for end-June 2004 were breached: (i) the ceiling on the increase in base money; (ii) the ceiling on the increase in net claims of the central government by the banking system; (iii) the continuous performance criterion on accumulation of new domestic arrears on expenditures covered by the commitment control system (CCS); and (iv) new lending by the Uganda Development Bank Ltd (UDBL). With respect to the ceiling on base money, the breach was relatively minor, and base money was below the program ceiling for end-September 2004. The breach of net claims on the central government by the banking system was primarily caused by one-time expenditures and there will be no carry-over effect to the 2004/05 budget; also, the Government is implementing new measures to strengthen expenditure management and limit the use of supplementary budget expenditures. With respect to the accumulation of new arrears under the CCS, the arrears will be eliminated by end-June 2005, and the Government will implement a comprehensive set of measures in the remainder of 2004/05 to strengthen the overall monitoring and control of domestic arrears. On the new lending by UDBL, although only two small loans were contracted, the breach reflected poor control by the Government of UDBL management. In addition, eight of the ten structural benchmarks were not met.

3. The Government of Uganda recognizes the significance of the program slippages and is determined to implement a range of far-reaching measures before end-December 2004, as described in the MEFP, to bring the program back on track.

4. On this basis, the authorities are requesting waivers for the nonobservance of the four missed quantitative performance criteria for June 2004.

5. In support of our objectives and policies, the Government of Uganda hereby requests the disbursement of the fourth loan under the PRGF in the amount of SDR 2 million (1.1 percent of quota) upon completion of the fourth review.

6. Looking ahead, the policies set out in the attached memorandum, together with continuing implementation of the broader policy agenda in the forthcoming revised PEAP, aim at achieving high sustainable economic growth and reducing poverty. The performance criteria and benchmarks for the fifth review will be based on end-December 2004 and end-March 2005 targets as set out in Tables 2 and 3 of the MEFP.

7. The Government of Uganda will provide the Fund with such information as the Fund may request in connection with the progress made in implementing the economic and financial policies and achieving the objectives of the program.

8. The Government of Uganda believes that the policies and measures set forth in the MEFP are adequate to achieve the objectives of its economic program for 2004/05 supported by the PRGF arrangement, but it will take further measures to that end if deemed necessary. During the implementation of the arrangement, the Government of Uganda will consult with the Managing Director on the adoption of these measures and in advance of revisions to the policies contained in the MEFP, at the initiative of the Government or whenever the Managing Director requests such a consultation.

9. The Government of Uganda authorizes the publication and distribution of this letter, the attached MEFP and TMU, and all reports prepared by Fund staff regarding the PRGF-supported program and Article IV consultation.

Sincerely yours,

/ s /

Gerald M. Ssendaula
Minister of Finance, Planning, and Economic Development

Attachments: Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

Memorandum of Economic and Financial Policies of the Government of Uganda for 2004/05

1. The Government of Uganda is committed to achieving sustained economic growth and poverty reduction through the pursuit of prudent macroeconomic policies and structural reforms. The strategy to achieve these goals is set out in the forthcoming revision of the Poverty Eradication Action Plan (PEAP). The Government's economic program is supported by the International Monetary Fund (IMF) with a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF), which was approved in September 2002. This memorandum of economic and financial policies (MEFP) reviews the performance under the program (April-September 2004) and describes the policies and targets for the remainder of the fiscal year 2004/05.

I. Recent Performance Under the PRGF-Supported Program

2. Since the early 1990s, Uganda has implemented sound macroeconomic policies and an ambitious program of economic reforms, supported by substantial donor assistance. These efforts have resulted in robust economic growth, accompanied by a significant reduction in poverty through the 1990s. The incidence of poverty, however, increased to an estimated 38 percent of the population in 2002/03 from 34 percent in 1999/2000. Factors that contributed to this setback include a slowdown in real GDP growth, a deterioration in the terms of trade, especially in agriculture, and an increase in average household size and dependency ratio.

3. The economy performed well in 2003/04. Real GDP growth is estimated to have increased by one percentage point to 5.9 percent, inflation fell, and the external position generally improved. The construction and communications sectors led a broad based economic expansion, while improved weather conditions contributed to a rebound in agriculture. Annual headline inflation declined from 10.2 percent in June 2003 to 5.1 percent in September 2004, as food crop prices fell sharply. Underlying annual inflation, which excludes food crops, eased from 5.4 percent in June to 3.9 percent in September 2004, in line with the program target. Strong growth in noncoffee export volumes and improved terms of trade helped to narrow the external current account deficit, excluding grants, to 11.8 percent of GDP. Greater-than-anticipated donor support and private capital inflows more than covered this deficit, allowing international reserves to build up to about 6½ months of imports. Following the large depreciation in 2002/03, the Ugandan shilling appreciated in real effective terms by about 10 percent since December 2003. Buoyant export proceeds and private remittances, demand for domestic currency from donor-funded projects, and increased sales of foreign exchange by the BOU contributed to the exchange rate appreciation.

4. The fiscal consolidation envisaged in the program for 2003/04 was not achieved. The overall central government deficit, excluding grants, remained at 11.3 percent of GDP in 2003/04, or 0.6 percent higher than programmed. The domestic balance fell short of the program target by a similar magnitude. While revenue collections were lower than programmed, reflecting weak VAT and trade tax collections, the higher deficit is primarily

explained by an excess in spending (0.4 percent of GDP), reflecting higher law and order and public administration needs, including from the State House, together with net lending to private enterprises. In addition, the composition of expenditures changed, but the core poverty-reducing outlays of the Poverty Action Fund (PAF) remained above their indicative floor at end-June 2004. The quantitative performance criterion on net credit to the government was breached by nearly 0.8 percent of GDP for end-June 2004. Moreover, the indicative ceiling on public administration spending and the performance criterion on domestic arrears accumulated under the Commitment Control System (CCS) were also breached. At end-June 2004, the estimated total stock of outstanding domestic arrears, including on wages and pensions, amounted to 3.7 percent of GDP.

5. Base money expanded more rapidly than programmed during the first three quarters of 2003/04. However, the performance criterion at end-June was breached only by a small margin, as growth moderated in the last quarter of 2003/04, and base money was in line with the program at end-September 2004. Credit growth to the private sector remained strong in 2003/04, after the large rebound led by the privatization of the Uganda Commercial Bank (UCB) to Stanbic. Money market rates have fallen sharply and become less volatile, declining from over 20 percent in December 2003 to about 7 percent in September 2004 due to the adoption of an appropriate monetary stance in line with the program, and increased sales of foreign exchange for sterilization purposes. The introduction of long-term government bonds deepened the securities market contributing to the sharp decrease in the 91-day treasury bill rate. However, the banks' lending rates have remained relatively flat. To improve monetary management, the computation and level of reserve requirements was changed in July 2004. The cash reserve ratio was unified at 9.5 percent from 9 percent and 10 percent on demand and term deposits, respectively, and the lag between reserve base and reserve maintenance period was reduced from two weeks to one week.

6. The banking sector remains sound with a significant decline in the nonperforming loans ratio in June 2004, although there has been a modest rise in foreign exchange exposure. The implementation of the newly enacted Financial Institutions Act should help further strengthen banking operations, particularly by reducing credit exposure concentration. Moreover, a number of microfinance institutions are in the process of being licensed to take deposits under the new Micro-Finance Deposit-Taking Institutions Act, which should further encourage rural financial intermediation. The nascent housing finance sector is recording strong growth with the entrance of new players and an increase in the capital base of the Housing Finance Corporation of Uganda (HFCU).

7. The implementation of structural reforms was much slower than envisaged in the program through end-September 2004 (Table 1). All the structural performance criteria were observed, but eight out of the ten structural benchmarks were breached. A number of prior actions have been set for the completion of the fourth review under the PRGF arrangement to correct for these slippages (Table 3).

II. The Policy Agenda for the Remainder of 2004/05

8. The Government acknowledges the seriousness of the program slippages and is ready to implement corrective measures immediately to bring the program back on track.

Furthermore, the Government intends to strengthen its monitoring of the program and will report on the progress in achieving the structural performance criteria, benchmarks, and other measures of the program to the IMF staff on a monthly basis.

9. Real GDP growth is expected to slow down slightly to 5½ percent in 2004/05, reflecting lower growth in agriculture related to the current drought. Underlying inflation is projected to remain low at around 4 percent, while higher food prices due to the drought are expected to push headline inflation up to about 6 percent. To achieve the inflation objective, the BOU intends to limit the rate of growth of base money to about 13 percent during the year. Consistent with the 2004/05 budget, the overall fiscal deficit, excluding grants, is projected to narrow by 1.3 percentage points to 10.0 percent of GDP. The domestic balance is projected to narrow by a similar magnitude. Despite continued export growth, the external current account deficit, excluding transfers, is projected to widen to 12.2 percent of GDP, reflecting a strong increase in imports. International reserves are expected to remain at a comfortable level of nearly 6½ months of imports. The flexible exchange rate policy, which has served Uganda well, will be maintained and, if needed, the BOU will only intervene to limit short-term exchange rate fluctuations.

10. For the remainder of 2004/05, emphasis in the fiscal area will be given to the following priorities: (i) strengthening policies to monitor and reduce domestic arrears; (ii) identifying expenditure savings to accommodate necessary additional spending in 2004/05 on arrears clearance and priority programs; and (iii) reinvigorating revenue collection through reforms of the Uganda Revenue Authority (URA) and identifying revenue measures for the 2005/06 budget.

11. To achieve the original fiscal consolidation in 2004/05, the Government has decided to cut nonpriority non-PAF and non-wage expenditures by U Sh 77 billion, or 0.5 percent of GDP. These cuts will compensate for (i) a package with a net cost of U Sh 5.8 billion in 2004/05 (and of U Sh 9 billion in 2005/06, assuming a budget ceiling of U Sh 241 billion for District Primary Education), comprising the recruitment of 6,065 new primary school teachers at a monthly wage of U Sh 140,000 (effective September 2004); the replacement of 5,115 licensed teachers with qualified teachers at a monthly wage of U Sh 130,000 (effective retroactively from July 2004); and the increase in the minimum primary school teachers' wages from U Sh 113,000 to U Sh 130,000 a month for 107,835 teachers (to be effective, non-retroactively, from January 2005); (ii) additional spending pressures for up to U Sh 35 billion; and (iii) clearance of domestic arrears on goods and services accumulated under the CCS in 2002/03, 2003/04, and 2004/05, currently estimated at U Sh 36 billion. In addition, the Government will strive to control arrears on membership fees for international and regional institutions by reviewing the merits of participating in those institutions, and arranging for a repayment plan with them. An exhaustive list of institutions and corresponding arrears of member fees will be prepared before end-December 2004. Revenues are projected to remain in line with the budget, which assumes a revenue loss from the launch of the EAC customs union by January 1, 2005 amounting to about ½ percent of GDP.

12. To reinforce public expenditure management practices, the following measures will be implemented:

- Cease all operations of all Deferred Accounts at the BOU immediately and submit the regularization of their closure to parliament before end-March 2005.

- Submit to parliament a statement of all expenditures to provide financing to specific private firms in 2003/04 including through the government's administered fund accounts at the BOU, by end-December 2004.

- Amend the regulations of the Public Finance and Accountability Act (PFAA) by end-December 2004 to: (i) ensure proper ex-ante and ex-post integration of donor projects into the budget; and (ii) clarify the responsibilities of all departments and agencies involved in contracting external debt, as well as in the operations of the broader debt management.

- Cease immediately lending or issuances of guarantees by the Government to private individuals or firms.

- Limit strictly supplementary requests to parliament by the security and public administration sectors to those that can be accommodated within the resources appropriated to these sectors, starting in November 2004.

- Ensure ex-ante parliamentary approval for all future expenditures in excess of the budget appropriations, starting in November 2004, and ensure that all emergency expenditures will be accommodated by the MFPED through front-loading of the quarterly cash ceilings for the same sector, in line with current regulations.

13. Clearing outstanding domestic arrears and preventing new arrears remains a priority. The Government intends to request IMF technical assistance in this area. The following steps will be taken to strengthen the procedures for reducing the existing arrears and prevent accumulation of domestic arrears:

- The Internal Auditor of the MFPED will certify and report on a quarterly basis the arrears for recurrent and development expenditures, starting end-September 2004. The report will be published within 2½ months of the end of each quarter. The cash limit for each spending unit will be adjusted to allow for the clearance of these arrears within the following quarter. The Government is committed to firmly implement, starting in November 2004, a first call on resources to pay the arrears out of the cash limits for each quarter.

- Reporting semi-annually on the implementation of the plan adopted by parliament to clear the overall stock of arrears certified by the Internal Audit Office at end-December 2004, with the first report to be issued by end-March 2005. The report will clearly show the clearance of the stock of arrears according to age profile and type, verifying consistency with the amounts allocated for arrears clearance in the annual budget.

- Starting implementation of the second phase of the Integrated Financial Management Information System (IFMIS) to the remaining line ministries and six local governments by end-June 2005.

- Completing an external audit and verification of the outstanding stock of pension arrears for all central government level units and the 10 districts for which partial data is currently available by end-June 2005.

- Prepayment arrangements for telephone services will be extended to all line ministries by end-December 2004, and similar arrangements will be implemented for consumption of electricity by end-March 2005.

- The MFPED will strictly implement the sanctions against noncomplying accounting officers, without exceptions, as envisaged in the PFAA.

14. To strengthen the efficiency of public expenditures and streamline the public administration, the Government is determined, in consultation with the World Bank and other development partners, to revive the public administration reform through:

- Approval by Cabinet of the Pay Policy Paper by end-December 2004 that should lead to savings in the wage bill.

- Reaching agreement between MFPED, the Ministry of Public Service and interested development partners on the priorities and funding modalities for the public service 2005-09 by end-December 2004.

- Submission of a paper to the Cabinet by the Ministry of Public Service in collaboration with MFPED on how to control the size of public administration and ensure cost efficiency by end-March 2005.

15. The Government will address the weaknesses of the URA by implementing the recommendations of the recent IMF technical assistance report, which are aimed at establishing a strong tax administration with clear accountability to eliminate duplication and fragmentation of functions. More specifically, among the measures to be implemented for the remainder of 2004/05 are:

- Appointment of the new Commissioner General of the URA by mid-November 2004.

- Adoption of the URA new organizational structure by the Government, consistent with the IMF technical assistance report by end-November 2004.

- Adoption by the MFPED of a timetable to restructure the URA in line with the recommendations of the IMF technical assistance report by early January 2005.

- Finalizing the staff code of conduct and disseminating it widely, requiring all staff irrespectively of past service to sign an understanding that they are familiar with their obligations and are bound by them by end-December 2004.

- Submit to parliament amendments to the URA Act in line with the IMF technical assistance report by June 2005.

16. In addition, the Government is committed to continue its fiscal consolidation efforts and will take appropriate tax measures in the 2005/06 budget to raise revenue equivalent to cover the expenditure pressures noted above, including any new expenditures adopted in 2004/05.

17. The Government is committed to avoiding actions that could undermine revenue collection, such as granting preferential tax treatment to specific investors or firms. In addition, to achieve greater transparency in the Government's policy of encouraging industrial development, the MFPED will submit to Parliament a comprehensive list of companies that have benefited from tax expenditures, government subsidies, loan guarantees, and other incentives before end-December 2004. The list would identify the nature of the benefits received and their costs, and it would be hereafter be submitted on an annual basis. This measure, which originally was a benchmark for end-September 2004, will be implemented by end-December 2004. Finally, the Government will strengthen revenue collections at the local government level given their weak performance, to help compensate for the expected suspension of the graduated tax. In addition, the coverage of the property tax will be expanded by end-June 2005.

18. The Government will continue to implement the fiscal decentralization strategy (FDS) while strengthening the local government administrative capacity. The latter will be subject to the new budgeting and planning manuals under the FDS to ensure better reporting and greater accountability. Technical assistance from the IMF is being provided to facilitate some of these initiatives and strengthen the public expenditure management systems at the subnational level, including the implementation of the CCS for local governments and the development of adequate fiscal reporting and poverty-reducing expenditure tracking under the FDS. In addition, the government intends to strictly limit the number of districts.

19. On monetary policy, to maintain low inflation and a stable environment for financial intermediation and the foreign exchange market, the BOU will continue to target base money. Broad money (M2), excluding foreign currency deposits, is projected to expand by 15 percent in 2004/05, while bank credit to the private sector is expected to increase by 16 percent. The BOU will continue to implement a number of recommendations of the IMF technical assistance mission aimed at strengthening the liquidity management framework and fostering financial market development, including developing and evaluating daily liquidity forecast, reviewing the performance of primary dealers, and facilitating forward foreign exchange transactions.

20. To facilitate the conduct of monetary policy, accounts for new projects will be opened at the BOU rather than at commercial banks, and existing projects accounts at commercial

banks will be transferred to the BOU in a phased manner. The effects of this measure will be assessed during the next review of the PRGF-arrangement with the IMF.

21. Mobilizing domestic financial resources for investment is an important element to enabling stronger economic growth. The Government is preparing with the participation of all stakeholders—including development partners—a proposal for the liberalization and reform of the pension system, which could generate substantial long-term savings for private sector capital formation. The proposal for reforming the public pension system will ensure that all Government obligations, including contingent liabilities, under the reform would be incorporated into the budget. As such, excessive guarantees of minimum benefits will be avoided by switching to a defined contributory system and debts arising from the transition to this pension system would be explicit. As part of the pension reform, the restructuring of the National Social Security Fund (NSSF) will be expedited to improve operations, investment performance, and governance. For this purpose, it is necessary to establish a qualified and independent regulator for the NSSF as soon as possible. Before end-December 2004, the Government will place the supervision of the NSSF under the BOU, until such time an independent pension regulatory authority is set up.

22. Other measures to facilitate term lending to productive sectors and, more broadly, financial services to rural areas and small towns will be implemented in 2004/05. To this end, the Government called for Expressions of Interest (EOI) by a strategic investor interested in a minority share and management responsibilities of UDBL, including a merger of the credit operations of the Department for Development Finance (DFD) of the BOU with those of UDBL. The government will approve the sale of a minority share and management responsibilities of UDBL to a reputed private investor short-listed by the Privatization Management Unit (PMU) by end-March 2005. The MFPED has also embarked on an outreach plan for microfinance institutions (MFIs), with the goal of increasing the capacity of staff and management of MFIs and encouraging their expansion into areas that presently lack access to financial services. In order to promote the development of the MFI sector, the government will limit its involvement in the sector to capacity building and regulation. The MFIs in the process of being granted licenses by the BOU under the new Microfinance Deposit Taking Institutions Act will be subject to BOU regulatory supervision and off-site examinations. In order to further foster financial sector development, the government is undertaking a diagnostic review of the housing finance sector including the HFCU, with the intention of increasing private equity participation in the institution. The government also intends to divest a majority share and management responsibilities of the National Insurance Corporation to a strategic investor to further fuel growth of the insurance sector. The regulations of the new Financial Institutions Act, which will help to maintain the soundness of the financial system, will be issued by end-December 2004. Finally, to further strengthen the financial sector, an anti-money laundering bill that conforms to international standards will be approved by the Cabinet by end-December 2004.

23. As part of the Government's anti-corruption policy and to strengthen the confidence in public institutions, the Government is seeking to strengthen the Leadership Code, which aims at increasing the power and independence of the Inspectorate General of Government (IGG), either through redrafting the Code, or through a Constitutional amendment. Also,

ministries and public sector agencies will introduce codes of conduct and client charters with formal complaints procedures.

24. The Government intends to complete the privatization of the remaining public enterprises in the coming 1-2 years. Most notably, interested investors have already been identified for a joint concession contract for the Uganda Railway Corporation and the Kenya Railway Corporation, with a possible completion of the transaction by June 2005. The government also intends to sell a majority position in the NIC and is preparing for privatization of the public water and sewerage enterprise. In addition, to increase the power supply, the Government intends to seek an agreement with private investors to start the hydropower project at the Bujagali Falls.

25. More generally, policies to strengthen the investment climate, increase productivity, enhance Uganda's international competitiveness, and achieve a more sustainable and less vulnerable external position, will be supported by the government's Medium-Term Competitiveness Strategy (MTCS) and its Strategic Exports Program (SEP). Although there have been advancements in the past, there is a need to strengthen agricultural policies, mainly by re-focusing the sectoral strategy towards improving market access, infrastructure (mainly roads), and supporting other productivity-enhancing measures. With respect to the Plan for the Modernization of Agriculture (PMA), the efficiency and staffing needs in the National Agricultural Research System (NARS) and the National Agriculture Advisory Service (NAADS) will be reviewed, with the purpose of implementing measures to increase efficiency in supporting the farmers.

26. The customs union of the EAC will be effective on January 1, 2005. The tariff rates agreed for the common external tariff (CET) are higher than Uganda's current tariff structure. However, all discriminatory excise taxes and other charges imposed on imports that currently exist will be removed when the CET comes into effect in line with the Protocol for the EAC, thus mitigating the negative impact on competitiveness. Business opportunities are expected to grow under the customs union with its market of 90 million people.

27. The Government is considering introducing Export Processing Zones (EPZs). In preparing the draft of the Investment and Free Zones Bill, the Government will take into consideration comments from the IMF and other stakeholders. To avoid harmful tax competition for investment, Uganda will work with other EAC partner states to establish a Code of Conduct to harmonize investment incentives. The Government will ensure that the bill excludes elements that would erode the tax base and that the free zones are securely enclosed with strict implementation of customs duties and other taxes on sales to Ugandan residents.

28. Notwithstanding the progress made in the past year in obtaining debt relief under the HIPC Initiative, Uganda still faces a vulnerable external debt situation. The Government is taking steps to improve this situation not only by encouraging exports, but also by exercising better debt management. The strategy of borrowing on IDA-equivalent terms or better will be maintained, while the Government at the same time will strive at increasing the share of grants in the total donor inflows. Consistent with the amended regulations, the Government

will establish clear monitoring and operational procedures for the contracting of external debt and debt management by end-June 2005.

III. Medium-Term Macroeconomic Policy Issues

29. The policy agenda for 2004/05 is consistent with the medium-term goal of sustaining poverty reduction by maintaining strong economic growth. To address the recent setback in poverty reduction, the forthcoming revised PEAP will put greater emphasis on: (i) raising growth in the incomes of the poor, using public resources transparently and efficiently to eradicate poverty; (ii) human development, including addressing the quality and drop-out rates in primary schools, improving post-primary education, and population growth issues; and (iii) restoring security for all regions of the country.

30. The medium-term economic policies will focus on spurring export-led private sector growth, while enhancing fiscal and external sustainability. Vital to the fiscal strategy will be a steady reduction in the fiscal deficit and an increase in government savings. This will limit fiscal injections of liquidity leading to lower interest rates, which in turn will promote higher private investment growth. The success of this strategy will depend on stronger annual increase in government revenues, notably through an improvement in tax administration, coupled with a better allocation and efficiency of expenditures. Social-related expenditures in the PEAP will continue to be ring fenced in order to contribute to the achievement of the Millennium Development Goals (MDGs).

Table 1. Uganda: Status of Implementation of Structural Performance Criteria and Benchmarks Under the Program

Performance Criteria/ Benchmark	Policy Measure	Date of Implementation	Implementation Status
	Fiscal Sector		
Performance criterion	Adoption by cabinet of a time-bound plan to clear the stock of pension arrears.	June 30, 2004	Observed
Performance criterion	Start second phase of Improvement of the URA: • Prepare a revised comprehensive Code of Conduct for all URA staff • Complete verification of the asset declarations of all URA management staff.	September 30, 2004	Observed
Performance criterion	Amend the regulations of the Public Finance and Accountability Act (PFAA) to (i) ensure proper ex-ante and ex-post integration of donor projects into the budget; and (ii) clarify the responsibilities of all departments and agencies involved in contracting external debt, as well as in the operations of broader debt management.	December 31, 2004	
Benchmark	Cabinet to approve measures to streamline the Public Administration generating total annual savings of at least U Sh 15 billion within the next three years.	June 30, 2004	Not observed
Benchmark	Pay-off arrears accumulated under the Commitment Control System (CCS) in 2002/03.	September 30, 2004	Not observed
Benchmark	Pay-off arrears accumulated under the CCS in the first half of FY 2003/04.	December 31, 2004	Changed to June 2005
Benchmark	Include in the budget documents for the 2004/05 budget, and an update of the plan for clearing the stock of nonpension arrears.	June 30, 2004	Observed
Benchmark	Complete initial stage of the modernization of the URA:		
	• Rollout automated system for customs data (ASYCUDA++) to at least three stations other than the Kampala long room;	June 30, 2004	Not observed
	• Identify 75 percent of late filers within 45 days of the statutory filing period;	June 30, 2004	Not observed
	• Prepare registry of pay-as-you-earn (PAYE) per employee and tax bracket; and	June 30, 2004	Not observed
	• Step-up the number of comprehensive audits on large taxpayers by 30 percent.	September 30, 2004	Not observed

Table 1. Uganda: Status of Implementation of Structural Performance Criteria and Benchmarks Under the Program

Performance Criteria/ Benchmark	Policy Measure	Date of Implementation	Implementation Status
Benchmark	Verify the overall stock of arrears for all ministries for which IFMS was rolled out by end-June 2004, in a manner that will allow subsequent updating of the stock per ministry with information from the IFMS.	December 31, 2004	
	Financial Sector		
Benchmark	Solicit bids from private investors for a minority share and management responsibilities of the UDBL.	September 30, 2004	Observed
Benchmark	Submit to Cabinet an anti-money laundering bill.	December 31, 2004	
Benchmark	Issue the implementing regulations for the new Financial Institutions Act.	September 30, 2004	Not observed
Benchmark	Submit a bill to parliament to repeal the National Social Security Fund (NSSF) statute to pave the way for the regulation of the NSSF by the BOU.	December 31, 2004	
	Governance		
Benchmark	MFPED will submit to parliament on an annual basis a list of companies receiving subsidies and other benefits from the Government, and the costs of such benefits.	September 30, 2004	Not observed

Table 2. Uganda: Quantitative Performance Criteria and Benchmarks for 2003/04 and 2004/05 1/ 2/
(Cumulative change from end-June 2003 and end-June 2004, unless otherwise stated)

	June 30 2004 4/ Prog.	June 30 2004 4/ Adj. prog.	June 30 2004 4/ Outturn	Sep. 30 2004 3/ Prog.	Sep. 30 2004 3/ Prel. est.	Dec. 31 2004 4/ Prog.	Mar. 31 2005 3/ Prog.	Mar. 31 2005 3/ Rev. prog.	June. 30 2005 4/ Prog.	June. 30 2005 4/ Rev. prog.
Ceiling on the increase in base money liabilities of the Bank of Uganda 5/	76.0	76.0	92.0	41.5	27.0	107.7	105.0	105.0	108.0	108.0
Ceiling on the increase in net claims on the central government by the banking system	-49.7	-229.2	-117.5	164.5	..	132.7	168.5	32.2	85.0	-34.3
Ceiling on the issuance of promissory notes by the government 6/	0	0	0	0	..	0	0	0	0	0
Accumulation of new domestic budgetary arrears under the Commitment Control System (CCS) 6/ 7/	0	0	20.1	0	..	0	0	0	0	0
New lending by Uganda Development Bank Ltd., including on-lending on behalf of the government or the Bank of Uganda, pending divestiture 6/	0	0	0.4	0	0.2	0	0	0	0	0
Ceiling on the stock of external payments arrears incurred by the government or the Bank of Uganda 6/	0	0	0	0	0	0	0	0	0	0
Ceiling on new nonconcessional external borrowing with maturities greater than one year contracted or guaranteed by the government or the Bank of Uganda 6/	0	0	0	0	0	0	0	0	0	0
Minimum increase in net international reserves of the Bank of Uganda	79.7	98.0	207.6	-55.0	..	-5.0	-35.0	41.5	15.1	81.2
Indicative targets										
Minimum expenditures under the Poverty Action Fund (including the Universal Primary Education component of development expenditure)	712.8	712.8	730.7	128.3	..	358.7	603.6	603.6	780.5	780.5
Ceiling on public administration expenditure	246.0	246.0	270.8	60.5	..	126.0	191.4	191.4	256.9	256.9

1/ Fiscal year begins on July 1.
2/ The performance criteria and benchmark targets under the program, and their adjusters, are defined in the technical memorandum of understanding (TMU).
3/ Benchmarks, unless measure is a continuous performance criterion.
4/ Performance criteria.
5/ Cumulative changes from the average of June 2003 for the 2003/04 program and the average of June 2004 for the 2004/05 program as defined in the TMU.
6/ Continuous performance criterion.
7/ This item will cease to be a continuous performance criterion with effect from the completion of the third review, and instead be an indicative target to September 2004 and March 2005, and a performance criteria to December 2004 and June 2005 as defined in the TMU

Table 3. Uganda: Structural Performance Criteria and Benchmarks for the Remainder 2004/05

Policy Measure	To be Implemented by
Prior actions for completion of the fourth review under the PRGF arrangement	
Appointment of the new Commissioner General of the URA.	November 15, 2004
Adoption of the URA new organizational structure by the Government, consistent with the IMF technical assistance report.	November 30, 2004
Adoption by the MFPED of a timetable to restructure the URA in line with the recommendations of the IMF technical assistance report.	Early January 2005
Finalizing of the URA staff code of conduct and disseminate it widely, requiring all staff irrespective of past service to sign an understanding that they are familiar with their obligations and are bound by them.	December 31, 2004
MFPED will submit to parliament a comprehensive list of companies that have benefited from tax expenditures, government subsidies, loan guarantees, and other incentives. The list would identify the nature of the benefits received and their costs, and it would be hereafter be submitted on an annual basis.	December 31, 2004
Cease all operations of all the Deferred Accounts at the BOU.	November 2004
Issue the implementing regulations for the new Financial Institutions Act.	December 31, 2004
Approval by cabinet of an anti-money laundering bill.	December 31, 2004
Structural performance criteria	
Amend the regulations of the Public Finance and Accountability Act (PFAA) to (i) ensure proper ex-ante and ex-post integration of donor projects into the budget; and (ii) clarify the responsibilities of all departments and agencies involved in contracting external debt, as well as in the operations of broader debt management.	December 31, 2004
Submit to parliament amendments to the URA Act in line with the IMF technical assistance report.	June 30, 2005
Structural benchmarks	
Pay-off arrears accumulated under the Commitment Control System (CCS) in 2002/03 and 2003/04.	June 30, 2005
Approval by Cabinet of the Pay Policy Paper.	December 31, 2004
The government will approve the sale of a minority share and management responsibilities of UDBL to a reputed private investor short-listed by the Privatization Management Unit (PMU).	March 31, 2005
Verify the overall stock of arrears for all ministries for which IFMS was rolled out by end-June 2004, in a manner that will allow subsequent updating of the stock per ministry with information from the IFMS.	December 31, 2004
The Government will place the NSSF under the supervision of the BOU.	December 31, 2004

Uganda: Technical Memorandum of Understanding

A. Introduction

1. This memorandum defines the quantitative benchmarks and performance criteria described in the memorandum of economic and financial policies (MEFP) for the remainder of the 2004/05 financial program that would be supported by the IMF Poverty Reduction and Growth Facility (PRGF), and sets forth the reporting requirements under the arrangement.

B. Base Money

2. **Base money** is defined as the sum of currency issued by Bank of Uganda (BOU) and the commercial banks' deposits in the BOU. The commercial bank deposits include the statutory required reserves and excess reserves held at the BOU and are net of the deposits of closed banks at the BOU and Development Finance Funds (DFF) contributed by commercial banks held at the BOU. Under this definition, the daily average of June 2004 base money was estimated at U Sh 809 billion. The base money limits for the remainder of 2004/05 will be cumulative changes from the daily average of June 2004 to the daily average of March 2005 and June 2005, and will be monitored by the monetary authority and provided to the IMF by the BOU.

C. Net Claims on the Central Government by the Banking System

3. **Net claims on the central government** (NCG) by the banking system base defined as the difference between the outstanding amount of bank credits to the central government and the central government's deposits with the banking system, excluding deposits in project accounts with the banking system, including the central bank. Credits comprise bank loans and advances to the government and holdings of government securities and promissory notes. NCG will be calculated based on data from balance sheets of the monetary authority and commercial banks as per the monetary survey. The limits on the change in net claims on the central government by the banking system will be cumulative beginning end-June 2004 for the 2004/05 program.

D. Net International Reserves of the Bank of Uganda

4. **Net international reserves (NIR)** of the BOU are defined for program monitoring purpose 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 maturities less than one year, contracted by the BOU and include outstanding IMF purchases and loans.

5. For program-monitoring purposes, reserve assets and short-term liabilities (excluding liabilities to the IMF) at the end of each test period will be calculated by converting reserve

assets measured in Uganda shillings as reported by the BOU using the end-month Uganda shilling per U.S. dollar exchange rate. The U.S. dollar value of outstanding purchases and loans from the IMF will be calculated by converting the outstanding SDR amount reported by the Finance Department of the IMF using the U.S. dollar per SDR exchange rate at the end of each quarter.

E. Expenditures Under the Poverty Action Fund

6. The expenditures under the Poverty Action Fund (PAF) include both wage and nonwage current expenditures under the PAF, and domestic development expenditures under the PAF. The minimum cumulative expenditures under the PAF are defined in Schedule A below. PAF expenditures will be measured based on checks printed for the central government spending units and line ministries, and cash releases to local governments.

Schedule A: Minimum PAF Expenditure
(In cumulative billions of Uganda shillings, beginning July 1, 2004)

Quarter	Mar. 31, 2005	June 30, 2005
Expenditure	603.6	780.5

F. New Domestic Budgetary Arrears of the Central Government

7. The nonaccumulation of new domestic payment arrears under the Commitment Controls System (CCS) is an indicative target for March 2005 and a performance criterion for June 2005. New domestic payments arrears are defined as the sum of all bills that have been received by a central government spending unit or line ministry from a supplier of goods and services delivered, and for which payment has not been made within 30 days under the recurrent expenditure budget or the development expenditure budget. For the purpose of program monitoring, the quarterly verified reports for nonwage recurrent and development expenditure prepared by the Internal Audit Office at the Ministry of Finance, Planning and Economic Development shall be used to determine the new arrears created during each quarter of the 2004/05 fiscal year. The reports will be available within two and a half months following the close of the covered period.

G. Ceiling on Public Administration Expenditures

8. The quarterly expenditure limits for the public administration sector are defined in Schedule B. For the purpose of program monitoring, the public administration sector includes all expenditure (excluding that financed by donor projects) of the following votes: Office of the Prime Minister (003) (excluding development), Foreign Affairs (006), Missions Abroad (201-223), National Planning Authority (108), URA (008), State House (002), Public Service (005), Public Service Commission (027), Local Government (011) (excluding development), Mass Mobilization (135), Office of the President (001) (excluding ISO/ESO and E&I),

Specified Officers' Salaries (100), Parliamentary Commission (104), Local Government Finance Commission (147), Uganda Human Rights Commission (106), and Electoral Commission (102). Any supplementary allocation of votes in the public administration sector that would exceed program ceilings will be accommodated by cuts in votes belonging to other categories within this same sector. Public administration expenditures will be measured by the cash releases to the line ministries and other government units listed above.

Schedule B: Ceiling on Public Administration Expenditures (In cumulative billions of Uganda shillings, beginning July 1, 2004)		
Quarter	Mar. 31, 2005	June 30, 2005
Expenditure	191.4	256.9

H. Promissory Notes

9. A promissory note is a written promise by the government to pay a debt, where government is defined as the central government,[1] local governments, and autonomous government agencies. It is an unconditional promise to pay on demand or at a fixed or determined future time a particular sum of money to, or to the order of, a specified person or to the bearer. The government will not use promissory notes or any form of a promise to pay for goods and services at a future date, and all domestic arrears payments will be settled in cash or by the transfer of immediately available funds.

I. Adjusters

10. The NIR target is based on assumptions regarding import support, assistance provided under the Heavily Indebted Poor Countries (HIPC) Initiative, and external debt-service payments. The NCG target, in addition to being based on the two aforementioned assumptions, is also based on assumptions regarding domestic nonbank financing of central government fiscal operations.

11. The Uganda shilling equivalent of import support (grants and loans) plus HIPC Initiative assistance in the form of grants on a cumulative basis from July 1, 2004 onward is presented under Schedule C. The ceiling on the cumulative increase in NCG will be adjusted downward (upward), and the floor on the cumulative increase in NIR of the BOU will be adjusted upward (downward) by the amount by which import support, grants and loans, plus HIPC Initiative assistance, exceeds (falls short of) the projected amounts.

[1] Central government consists of the state house, cabinet ministers, all ministries, parliament, the judiciary, and committees.

Schedule C: Import Support Plus Total HIPC Initiative Assistance (In cumulative billions of Uganda shillings, beginning July 1, 2004)		
Quarter	Mar. 31, 2005	June 30, 2005
Import support including HIPC Initiative grants	683.5	779.4

The ceiling on the increases in NCG will be adjusted downward (upward) and the floor on the increase in NIR will be adjusted upward (downward) by the amount by which debt service due[2] plus payments of external debt arrears less deferred payments (exceptional financing) falls short of (exceeds) the projections presented in Schedule D. Deferred payments are defined to be (i) all debt service rescheduled under the HIPC Initiative; and (ii) payments falling due to all non-HIPC Initiative creditors that are not currently being serviced by the authorities (that is, gross new arrears being incurred).

Schedule D: Debt Service Due, before HIPC Initiative Assistance (In cumulative billions of Uganda shillings, beginning July 1, 2004)		
Quarter	Mar. 31, 2005	June 30, 2005
Debt service due before HIPC excluding exceptional financing	150.0	202.0

12. The ceiling on the increase in NCG will be adjusted downward (upward) by any excess (shortfall) in nonbank financing[3] less payment of domestic arrears accumulated prior to introduction of the CCS and wage and pension arrears (up to a maximum amount of U Sh 55.4 billion) relative to the programmed cumulative amounts presented in Schedule E.

Schedule E: Nonbank Financing Minus Repayment of Domestic Arrears (In cumulative billions of Uganda shillings, beginning July 1, 2004)		
Quarter	Mar. 31, 2005	June 30, 2005
(A) Nonbank financing	-34.8	37.0
(B) Domestic arrears repayment	50.0	55.4
(C) Total = (A) - (B)	-84.8	-18.4

[2] Debt service due is defined as pre-HIPC Initiative debt service due, but as of 2003/04 this excludes HIPC Initiative cancellation.

[3] Comprising the check float and the change in government securities and government promissory notes held by the non-bank public sector. The change in government securities held by the nonbank public will be calculated from the data provided by the Central Depository System (CDS).

13. The base money ceiling will be adjusted upward up to a maximum of U Sh 15 billion in March 2005 and June 2005 if the amount of currency issued by the BOU exceeds those projected in Schedule F.

Schedule F: Currency Issued by the BOU
(In cumulative billions of Uganda shillings, beginning July 1, 2004)

Quarter	Mar. 31, 2005	June 30, 2005
Currency issued by BOU	69.5	71.0

14. The Development Finance Department of the BOU provides export credit guarantee schemes (ECGS) to commercial banks. As of October 25, 2004, the outstanding ECGS amounted to U Sh 1.77 billion, which have a maximum guarantee period of six months. These contingent liabilities fall due on the BOU balance sheet, and therefore do not affect the program targets for the NIR and the NCG.

J. Nonconcessional External Borrowing Contracted or Guaranteed by the Central Government, Statutory Bodies, or the Bank of Uganda, and Arrears

15. The program includes a ceiling on new nonconcessional borrowing with maturities greater than one year contracted or guaranteed by the government, statutory bodies, or the BOU[4]. Nonconcessional borrowing is defined as loans with a grant element of less than 35 percent, calculated using average commercial interest rates references (CIRRs) published by the Organization for Economic Cooperation and Development (OECD). In assessing the level of concessionality, the 10-year average CIRRs should be used to discount loans with maturities of at least 15 years, while the 6-month average CIRRs should be used for loans with shorter maturities. To both the 10-year and 6-month averages, the following margins for differing payment periods should be added: 0.75 percent for repayment periods of less than 15 years; 1 percent for 15–19 years; 1.15 percent for 20–25 years; and 1.25 percent for 30 years or more. The ceiling on nonconcessional external borrowing is set at zero and is to be observed on a continuous basis. The coverage of borrowing includes financial leases and other instruments giving rise to external liabilities, contingent or otherwise, on nonconcessional terms. Excluded from the limits are changes in indebtedness resulting from refinancing credits and rescheduling operations, and credits extended by the IMF. For the purposes of the program, arrangements to pay over time obligations arising from judicial awards to external creditors that have not complied with the HIPC Initiative do not constitute nonconcessional external borrowing.

[4] Contraction is defined as approval by a resolution of parliament as required in Section 20(3) of the Public Finance and Accountability Act, 2003.

16. The definition of debt, for the purposes of the limit, is set out in point 9 of the Guidelines on Performance Criteria with Respect to External Debt (Executive Board's Decision No. 12274-(00/85), August 24, 2000). It not only applies to the debt as defined in Point 9 of the Executive Board decision, but also to commitments contracted or guaranteed for which value has not been received. The definition of debt set forth in No. 9 of the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements reads as follows:

> "(a) For the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time 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 lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.
>
> (b) Under the definition of debt set out in point 9(a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt."

17. 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 government, the BOU, and statutory

bodies[5] from their level at end-June 2004. It comprises those external arrears reported by the Trade and External Debt Department of the BOU, the Macro Department of the Ministry of Finance that cannot be rescheduled because they were disbursed after the Paris Club cutoff date.

K. Monitoring and Reporting Requirements

18. The authorities will inform the IMF staff in writing at least ten business days (excluding legal holidays in Uganda or in the United States) prior to making any changes in economic and financial policies that could affect the outcome of the financial program. Such policies include but are not limited to customs and tax laws (including tax rates, exemptions, allowances, and thresholds), wage policy, and financial support to public and private enterprises. The authorities will similarly inform the IMF staff of any nonconcessional external debt contracted or guaranteed by the government, the BOU, or any statutory bodies, and any accumulation of new external payments arrears on the debt contracted or guaranteed by these entities.

19. The information, such as the issuance of treasury bills, the intervention in the foreign exchange market, daily average exchange rates, and the interest rate on government securities, will be transmitted to the IMF's resident representative weekly, within five working days of the end of each week.

20. The BOU will reconcile the monetary survey data with the financial statements on an annual basis and with the financial records on a quarterly basis. The Internal Audit Department (IAD) of the BOU will review the reconciliations of monetary survey data with the financial records and the audited financial statements. Any revisions to monetary survey data, in line with the recommendations of the IMF safeguards mission, will be documented and reconciled with the previous presentation to ensure accurate reporting.

21. The government will provide the IMF staff with a summary of the fiscal accounts, both on a monthly and quarterly basis, with a seven-week lag from the end of the reporting month and quarter. Revenues will be recorded on a cash basis as reported by the Uganda Revenue Authority and the MFPED. Expenditures shall be recorded when checks are issued, except for domestic and external debt-service payments, 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). Cash transfers to districts will be recorded as expenditures of the central government when the transfer is effected by the BOU. Expenditures on externally funded development programs will be recorded as the sum of estimated

[5] This definition is consistent with the coverage of public sector borrowing defined by the Fund (includes the debt of the general government, monetary authorities, and entities that are public corporations which are subject to the control by government units, defined as the ability to determine general corporate policy or by at least 50 percent government ownership).

disbursements of project loans and grants by donors, less the change in the stock of government project accounts held at commercial banks in Uganda. Information on required and approved supplementary allocations in each month should be provided to the IMF within 15 days of the end of each month.

22. The government will provide the IMF staff with a summary of expenditure cash limits on a quarterly basis with a one-week lag from the date they are provided to ministries, and no later than two weeks after the beginning of the quarter.

23. The government will provide the IMF staff with a summary of the contingent liabilities of the central government on a quarterly basis with a seven-week lag from the end of the reporting quarter. For the purpose of the program, contingent liabilities include all borrowings by statutory bodies, loans borrowed by public enterprises or the private sector and guaranteed by the government, claims against the government in court cases that are pending, or court awards that the government has appealed.

24. Final accounts of the local government authorities for fiscal-year 2003/04 will be consolidated by end-September 2005 by the Ministry of Finance, Macro Department. The summary Status of Submission of District Monthly Accounts Returns will be provided to the IMF Resident Representative within 45 days of the end of each month. A report explaining any noncompliance with the monthly reporting requirement by districts will be provided at the same time as the summary status report to the IMF. Any noncompliance by 45 days following the end of a month will result in a reminder letter being sent from the Treasury Inspectorate Department to the District Chairperson. Any noncompliance for an additional month will result in a memorandum being sent from the Commissioner of the Treasury Inspectorate Department to the Budget Director indicating that the monitoring and accountability grants to the noncompliance districts should be discontinued until compliance is restored. A memorandum indicating this action will be sent to each noncompliant district.

25. For the purpose of program monitoring, the quarterly verified reports for non-wage recurrent and development expenditure prepared by the Internal Audit Office at the Ministry of Finance, Planning and Economic Development shall be used to determine the new arrears created during each quarter of the 2004/05 fiscal year. The reports will be available within two and a half months following the close of the covered period.

26. As supplementary information, the government will provide the IMF staff on a monthly basis, with a seven-week lag from the end of the reporting month, a statement of the following: (i) outstanding stock of checks issued by the Uganda Computer Services of the MFPED, disaggregated into checks issued for commitments arising during July 1, 2004 through June 30, 2005, and checks issued to settle intraministerial payment obligations; and (ii) the value of budget support (grants and loans) received by the government, and the value of projections of donor project support received so far. The government will provide the IMF forecasts of the value of budget support and project support (grants and loans) expected to be received for the rest of the current year and the medium term, by donor and sector, by the end of each reporting quarter.

27. As supplementary information, the BOU will provide the IMF staff on a monthly basis, with a seven-week lag from the end of the reporting month, a statement of the following: (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.

28. The government will provide the IMF staff on a quarterly basis, with a seven-week lag from the end of the reporting quarter the following: (i) a statement on new loans contracted during the period as per the loan agreement, with additional information on disbursement provided within six months; and (ii) a statement on creditor participation in the HIPC Initiative, the status of creditor litigation cases, and cash payments relating to the settlement of awards.

29. The BOU will provide the IMF staff on a quarterly basis, with a seven-week lag from the end of the reporting quarter, (i) monthly commodity and direction of trade statistics; (ii) the stock of debt, disbursements, principal and interest, flows of debt rescheduling and debt cancellation, arrears, and committed undisbursed balances—by creditor category; and (iii) the monthly composition of nominal HIPC Initiative assistance, disaggregated into grants, flow rescheduling, and stock-of-debt reduction by creditor.

30. The consumer price index will be transmitted monthly to the IMF with no more than a two-week lag from the end of the reporting month. The balance sheet of the BOU, the consolidated accounts of the commercial banks, and the monetary survey will be transmitted to the IMF on a monthly basis with a lag of no more than seven weeks from the end of the reporting month.

31. Standard off-site bank supervision indicators for deposit money banks will be transmitted to the IMF quarterly and on-site reports transmitted as needed, based on the findings of the off-site reports.

Uganda: Relations with the Fund
(As of October 31, 2004)

I. Membership Status: Joined 09/27/1963; Article VIII

II. General Resources Account:	SDR Million	% Quota
Quota	180.50	100.0
Fund holdings of currency	180.51	100.0

III. SDR Department:	SDR Million	% Allocation
Net cumulative allocation	29.40	100.0
Holdings	5.07	17.25

IV. Outstanding Purchases and Loans:	SDR Million	% Quota
Enhanced Structural Adjustment Facility (ESAF)/Poverty Reduction and Growth Facility (PRGF) arrangements	135.71	75.19

V. Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	09/13/2002	09/12/2005	13.50	7.50
ESAF/PRGF	11/10/1997	03/31/2001	100.43	100.43
ESAF	09/06/1994	11/09/1997	120.51	120.51
ESAF	04/17/1989	06/30/1994	219.12	219.12

VI. Projected Obligations to the Fund Under the Repurchase Expectations Assumptions (without HIPC assistance):

	Overdue	Forthcoming				
	08/31/2004	2004	2005	2006	2007	2008
Principal	0.00	12.39	35.60	30.57	22.43	14.36
Charges/interest	0.00	0.48	1.05	0.88	0.74	0.64
Total	0.00	12.86	36.65	31.45	23.17	15.00

Projected Obligations to the Fund Under the Repurchase Expectations Assumptions (with Board-approved HIPC assistance):

	Overdue	Forthcoming				
	08/31/2004	2004	2005	2006	2007	2008
Principal	0.00	7.16	24.41	23.80	19.25	13.80
Charges/interest	0.00	0.48	1.05	0.88	0.74	0.64
Total	0.00	7.64	25.46	24.68	19.99	14.44

VII. Implementation of HIPC Initiative:

	Original framework	Enhanced framework	Total
Commitment of HIPC assistance			
Decision point date	4/23/1997	2/7/2000	
Assistance committed (1999 NPV terms) [1]			
Total assistance (US$ million)	347.00	656.00	
Of which: Fund assistance (SDR million)	51.51	68.10	
Completion point date	April 1998	May 2000	
Delivery of Fund assistance (SDR million)			
Assistance disbursed to the member	51.51	68.10	119.61
Interim assistance	…	8.20	8.20
Completion point	51.51	59.90	111.41
Additional disbursement of interest income [2]		2.06	2.06

VIII. Safeguards Assessments:

Under the Fund's safeguards assessment policy, the Bank of Uganda (BOU) is subject to a full safeguards assessment with respect to the PRGF arrangement, which was approved on September 13, 2002 and is scheduled to expire on September 12, 2005. The assessment was completed on April 13, 2003 and concluded that, although the BOU had several strengths, some vulnerabilities existed. In line with the program, the authorities have been implementing specific measures proposed by the safeguards assessment to address these vulnerabilities. The audited financial statements for the years ended June 30, 2002 and June 30, 2003 have both been completed and laid before the legislature by May 9, 2003 and September 30, 2003, respectively. Both were published on the BOU website (the end-2003 financial statement was posted on the BOU website in November 2003). The BOU has provided the Fund copies of the follow-up plan to address the Auditors' recommendations, the annual audit work plans for 2003/04 and 2004/05, and the risk-based auditing framework. The BOU is also in the process of putting into operation a banking application and a new accounting manual, and considering alternative types of risk management frameworks.

[1] Net present value (NPV) terms at the completion point under the original framework, and NPV terms at the decision point under the enhanced framework.

[2] Under the enhanced Initiative for Heavily Indebted Poor Countries (HIPC Initiative), 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.

IX. Exchange Rate Arrangement

On November 1, 1993, the BOU stopped the auction of foreign exchange and created an interbank market for foreign exchange, through which the official exchange rate is determined. As of October 31, 2004, the official exchange rate was U Sh 1,727 per U.S. dollar. The exchange system is free of restrictions on the making of payments and transfers for current international transactions.

X. Article IV Consultation

The Executive Board concluded the last Article IV consultation on February 12, 2003. The next Article IV consultation with Uganda will be held on the 24-month cycle, subject to the provisions of the decision on consultation cycles approved on July 15, 2002.

In February and April 2001, joint World Bank/Fund missions visited Kampala as part of the Financial Sector Assessment Program (FSAP). A final report was provided to the authorities in November 2001, an MFD mission discussed the report with the authorities during the Article IV consultation discussion in November 2002, and the Financial System Stability Assessment was prepared for Board discussion in February 2003.

XI. Technical Assistance

Uganda has received extensive technical assistance from the Fund in recent years.[3]

An FAD mission visited Kampala in April 1998 to advise the authorities on public service pension reform issues, and another mission visited Kampala in September 1998 to assist the authorities in improving customs administration procedures. A resident advisor in the area of local government budgeting began a six-month assignment in August 1998, which was subsequently extended to October 1999. An FAD resident advisor on budgeting and commitment control commenced a six-month assignment in November 1998, which was extended until June 2002. In October 2000, an FAD mission visited Kampala to provide technical assistance in tax policy and administration. A joint World Bank/Fund TA mission visited Kampala in October 2003 to help harmonize tax investment incentives among the member countries of the East African Community (EAC). A FAD TA mission on tax administration also visited Uganda in October 2004 to develop a comprehensive reform plan for the Uganda Revenue Authority (URA). Two FAD resident advisors (coordinated through AFRITAC-East) are currently in the field assisting the implementation of a CCS at the local government level and the Fiscal Decentralization Strategy.

An STA multisector statistics mission visited Kampala in December 1998 to conduct a comprehensive assessment of Uganda's macroeconomic statistics, including data compilation and dissemination, and to provide recommendations for improvements. Follow-up STA

[3] For a description of technical assistance provided prior to 1998, see the staff report for Uganda's request for a three-year arrangement under the PRGF (Country Report No. 02/213).

missions in national accounts and money and banking statistics visited Kampala in March–April 2000 to examine the status of implementation of the previous recommendations. An STA mission on government financial statistics (GFS) visited Uganda in December 2001 to assist the authorities in improving fiscal reporting by establishing regular reporting systems that are aligned with the *GFS Manual 2001*, as well as ensuring consistency within monetary sector data for the government. A follow-up mission on GFS visited Uganda in May 2003. A mission visited Uganda during February–March 2002 to review balance of payments statistics and the progress in implementing the recommendations of the multisector mission of 1998 and of the national accounts mission of 2000 with respect to the measurement of goods imports. A follow-up mission on balance of payments statistics visited Uganda in August 2003. Uganda is participating in the General Data Dissemination System (GDDS) and its metadata were initially posted on the Fund's Dissemination Standards Bulletin Board in May 2000

Since the 2001 FSAP, MFD's TA to Uganda has focused on liquidity management, exchange rate intervention, central bank accounting and auditing, and banking supervision. The authorities have effectively used TA advice on these topics, and they have made good use of an MFD resident advisor, who took up an initial appointment in mid-July 2001. The advisor was fully integrated into the supervision function and has been involved in all aspects of the work, including participating in on-site examinations. Her contract was extended through July 2004, and the authorities are now in the process of selecting a new MFD resident advisor to follow up on the progress made so far. MFD has fielded two TA missions (July 2001 and January 2002) to assist the authorities with liquidity management and address the problems of interest rate volatility and exchange rate interventions. The BOU has started implementing the recommendations made in the report, and now clearly separates sterilization operations and liquidity management; however, they are still having problems with interest rate and exchange rate volatility and have requested a follow-up TA in this area. In March and September–October 2002, MFD provided TA to improve central bank accounting and the Bank of Uganda's accounting manual. A TA evaluation visit was conducted in June 2003, and an MFD mission following up on monetary and exchange rate operations, public debt, and liquidity management was conducted in March 2004. Finally, a FSAP update mission was conducted in November 2004 focused on access, outreach and stability issues, which also updated progress made since the last FSAP.

XII. Future Technical Assistance Priorities

The priorities for Fund technical assistance in the next few years will be in the areas of tax administration, public expenditure management, especially control and monitoring of public arrears at both central and local government levels, monetary and exchange rate management, bank supervision, national accounts statistics, reporting standards for government finance statistics, monetary and balance of payments statistical reporting, central bank accounting, and audit and debt management.

XIII. Resident Representative

The Fund has maintained a resident representative in Uganda since July 1982.

Uganda: Relations with the World Bank Group
(As of November 19, 2004)

I. Partnership in Uganda's Development Strategy

1. The development strategy of the government of Uganda is based on the Poverty Eradication Action Plan (PEAP), a medium-term development framework that guides government policy and provides a framework for detailed sector and district plans. Because the PEAP's objectives are fully consistent with those of the poverty reduction strategy paper (PRSP) process, a summary of the revised PEAP was used as a basis for Uganda's PRSP, which was presented to the Boards of the World Bank and Fund in May 2000. Uganda's PEAP/PRSP is based on four pillars: (1) creating an environment for economic growth and structural transformation; (2) ensuring good governance and security; (3) directly increasing the ability of the poor to raise incomes; and (4) directly increasing the quality of life of the poor.

2. The Bank and Fund support the government's efforts to implement the strategy in a complementary fashion. The Fund provides its support through a second three-year arrangement under the Poverty Reduction and Growth Facility (PRGF), and continues concentrating on macroeconomic and financial sector issues, focusing specifically on short- and medium-term macroeconomic stability, which falls under the first PEAP/PRSP pillar. The structural program of the Fund addresses the areas of tax administration, budget management, monitoring of local government finances, financial sector regulations and supervision, and improvement of the national accounts and statistics.

3. The Bank is supporting the implementation of PEAP/PRSP, specifically focusing on structural and sectoral reforms to alleviate poverty. The assistance is delivered in the form of budget and project support, with a heavy focus also on analytic work. The Government is currently in the process of revising its PEAP/PRSP. The new 2004 PEAP/PRSP has five core elements: (1) economic management; (2) production, competitiveness and income; (3) security, conflict-resolution and disaster management; (4) disaster management; and (5) human development.

II. Bank Group Strategy

4. The World Bank Group's current Country Assistance Strategy (CAS) for Uganda was approved by the Board on November 16, 2000.[1] The objective of the CAS is to support Uganda's economic transformation and poverty reduction strategy. The emphasis on maintaining macroeconomic stability continues, but the focus is increasingly shifting to sector-level and cross-cutting public sector management issues.

[1] The next CAS is currently being prepared and scheduled to be presented to the Board in fiscal-year 2004/05 (July–June).

5. Consistent with this strategy, the Bank has been increasingly shifting to programmatic lending through a series of annual Poverty Reduction Support Credits (PRSC) that support the implementation of Uganda's PEAP/PRSP. The first annual single-tranche PRSC (PRSC1) for Uganda was approved by the Board in May 2001. A subsequent arrangement, PRSC2, was approved in July 2002, and PRSC3 and PRSC4 were approved by the Board in September 2003 and 2004, respectively. PRSCs support a medium-term, with each annual arrangement linked to specific reform actions. The supported by PRSCs aims to improve public service delivery and agricultural production, since basic services critical to development is still inadequate in Uganda and about 70 percent of the population derives its livelihood from agriculture. Services provided, in particular by the public sector, are of poor quality owing to various governance problems and capacity constraints. Also, the enabling environment for private sector and civil society involvement is weak, thus further constraining service delivery and growth.

6. The World Bank Group's assistance program is fully consistent with and supports the four pillars of the PEAP/PRSP through a combination of lending and analytical activities as follows:

7. **PEAP/PRSP Pillar 1—Creating an Environment for Economic Growth and Structural Transformation.** To promote economic growth and development of the private sector, the Bank Group supports the development of Uganda's infrastructure, specifically, roads, power, and reform of key utilities. Infrastructure, and in particular power availability, has been identified as one of the key constraints on private sector investments and projects such as the Fourth Power and Bujagali Hydropower aim to address them. The Bank also provides support to the government's ten-year Road Development Program through a series of road sector projects. The Privatization and Utility Sector Reform Project, in turn, supports the reform of key utilities and divestiture of the remaining public enterprises. On a regional basis, the Bank continues to provide advisory support to the Nile Basin Initiative, in which nine riparian countries of the Nile Basin are cooperating to utilize the resources of the river in environmentally sustainable ways.

8. Through the PRSCs, the Bank supports the government's efforts to strengthen public expenditure and budgetary management, enhance the results orientation of sector expenditure programs, rationalize and strengthen monitoring and evaluation systems, and proceed with gradual fiscal decentralization by streamlining the intergovernmental fiscal transfer system. PRSCs also support development of the legal and regulatory framework for microfinance, pension reform, and the strengthening of the insurance sector.

9. **PEAP/PRSP Pillar 2—Ensuring Good Governance and Security.** Good governance is essential for effective public service delivery. The Bank plays a key role in supporting the government's efforts to improve governance, including in the areas of combating corruption and implementing broad-based public sector reform. The Bank supports through the PRSCs a variety of cross-cutting public sector management reforms to increase accountability and transparency, and reduce corruption. These include reforms in

public procurement, financial management, public sector pay, payroll and personal management, and anticorruption legislation. Ongoing work on financial accountability through the Second Economic and Financial Management Project (EFMP II) and Local Government Development Project (LGDP) complements these efforts.

10. **PEAP/PRSP Pillar 3—Directly Increasing the Ability of the Poor to Raise Their Incomes.** Agriculture dominates Uganda's economy and the majority of the poor live in rural areas. The Bank supports several activities that aim to enhance environmentally sustainable rural development and reduce regional disparities. Support is provided through a demand-driven National Agricultural Services Project and the Second Agricultural Research and Training Project. Furthermore, the series of PRSCs support the government so that it can identify ways to promote agricultural diversification and modernization, mainstreaming of environmental concerns in government programs, land tenure reforms, and expansion of nonfarm activities in rural areas. The Second Environmental Management and Capacity Building Project, the Second Protected Areas Management and Sustainable Use Project, and the second phase of the regional Lake Victoria Project help address the environmental challenges. To reduce regional disparities, the Second Northern Uganda Social Action Fund targets the relatively poor districts of northern and eastern Uganda, which have not benefited proportionately from economic reform and liberalization.

11. **PEAP/PRSP Pillar 4—Directly Increasing the Quality of Life of the Poor.** The delivery of primary education, health care, and potable water has a direct impact on the quality of life of the poor, and the delivery is at the core of the government's poverty reduction strategy. The Bank supports the government's efforts to improve access to, and quality of, education, health care, and water and sanitation services, primarily through the series of PRSCs. The HIV/AIDs Control Project supports Uganda's effort to fight the HIV/AIDS epidemic by supporting local initiatives that are providing prevention, treatment, and care.

III. BANK PORTFOLIO

12. The World Bank Group is Uganda's largest creditor. As of October 31, 2004 a total of 118 credits, 9 loans, and 5 grants, amounting to US$4.6 billion (including US$4.1 billion from IDA, US$0.5 billion in IDA grants, and US$43 million from IBRD), had been approved for Uganda, and total disbursements amounted to about US$3.5 billion (see table below).

IV. Uganda: Financial Relations with the World Bank Group

Statement of Loans and Credits, as of October 31, 2004
(In millions of U.S. dollars)

	IBRD	IDA	IDA Grant	Total
Original principal	43	4,067	490	4,601
Cancellations	277	153	0	153
Disbursement to date	43	3,226	262	3,531
Repayments	35	371	0	406
Undisbursed	0	862	241	1,103
Exchange adjustment	0	0	0	0
Borrower's obligation	0	3,180	0	3,180

13. In fiscal year FY05, PRSC 4 (US$150 million grant), Road Development Program Phase 3 (US$ 107.6 million of which US$ 40 million is grant), and Private Sector Export Competitiveness Project Phase 2 (US$ 70 million), totaling US$ 327.6 million, were approved by the IDA Board in September 2004. In FY04, PRSC3, a Supplemental Credit to the Second Economic and Financial Management Project and the Sustainable Management of Mineral Resources Project were approved. In FY03, PRSC2, the Northern Uganda Social Action Fund, the Protected Areas Management and Sustainable Use Project, and Second Local Government Development Project, and a supplemental credit for the Lake Victoria Environment Management Project were approved. Five projects were closed in FY 2002, six projects were closed in FY 2003, and one project closed in FY 2004.

V. Bank-Fund Collaboration in Specific Areas

14. The IMF and World Bank staffs maintain a close collaborative relationship in supporting the government's structural reforms. As part of its overall assistance, the Bank supports policy reforms in the following areas in collaboration with the Fund:

15. **Poverty reduction strategy paper.** The Bank and Fund are assisting the government in the revision and implementation of its poverty reduction strategy. The staffs of the two institutions prepare joint assessments of the PRSP or the PRSP progress report on an annual basis.

16. **Debt sustainability.** The staffs of the Bank and Fund continue collaborating on issues related to the Initiative for Heavily Indebted Poor Countries (HIPC Initiative), and prepared jointly an updated debt sustainability analysis for Uganda in calendar-year 2002, which is being currently updated.

17. **Public expenditure management.** Strengthening public expenditure management is the critical first step in improving the efficiency of public service delivery. The Bank, Fund,

and other donors are working closely to provide the government the support needed for institutional and policy reforms. The Fund is leading the dialogue on fiscal policy, while the Bank is focusing on strategic expenditure allocation and efficiency of public expenditures through its work on the public expenditure review and PRSC. The staffs of the two institutions prepare, on an annual basis, a report that tracks HIPC Initiative poverty-reducing spending, analyzes the quality of public expenditure management in Uganda, and identifies areas needing strengthening.

18. **Financial sector reform.** A joint Bank-Fund Financial Sector Assessment was conducted in 2001. The assessment indicates that performance of the financial sector has improved in the past few years, but access to financial services remains a problem, especially in rural areas, and the range of financial products is limited. The insurance sector has been liberalized and new companies and brokers have entered the market, but supervision of the sector is still weak. The pension sector needs urgently to be reformed, as civil service pension obligations are accounting for an increasing portion of budget resources. Both the Bank and Fund are supporting the government's efforts to reform the financial sector. The Bank supports these efforts through PRSC measures to strengthen the insurance sector, reform the pension system, and develop the legal and regulatory framework for microfinance. The work is closely coordinated with a program supported by the Fund's PRGF arrangement, which addresses selected aspects of pension reform.

19. **Trade reforms.** The Bank and Fund are working closely to assist Uganda in establishing a pro-growth trade framework. Both institutions are involved in the dialogue on trade reforms in the context of the East African Community at the regional level.

Questions may be referred to Dino Merotto, Country Economist, Tel. (202) 458-1987.

Uganda: Statistical Issues

Uganda participates in the General Data Dissemination System (GDDS); its metadata were initially posted on the Fund's Dissemination Standards Bulletin Board in May 2000.

Real sector

The March–April 2000 STA mission concluded that Uganda's national accounts were of poor quality, owing to shortages of experienced compilation staff and equipment and a lack of reliable source data for several key economic activities. Consequently, an STA-sponsored long-term national accounts statistics advisor was assigned to the Uganda Bureau of Statistics in April 2001 to assist in the improvement of the national accounts and in the rebasing of all economic statistics. By the conclusion of this assignment, in April 2002, balanced production and expenditure estimates had been prepared, including data from the most recent household survey, and the constant price estimates had been rebased from 1991 to 1997/98 (July–June). In addition, the national accounts and balance of payments estimates of imports and exports were reconciled, and the national accounts methodology improved. In December 2002, an Africa Regional Technical Assistance Center (AFRITAC) mission to assess the need for a long-term advisor to the Uganda Bureau of Statistics on national accounts statistics took place. It was decided that a long-term advisor was not essential, and instead a national accounts advisor from AFRITAC has fielded missions on a regular basis.

The consumer price index is of sound quality and is reported promptly for publication in *International Financial Statistics (IFS)*. Neither producer nor wholesale price indices are produced. Reliable and consistent data are not available on employment, wages, or trade volumes.

Government finance

The 2001 Government Finance Statistics (GFS) technical assistance mission discussed several data classification issues with the Ministry of Finance, and proposed a summary framework for the reporting of GFS according to the *GFS Manual 2001* framework. The 2003 GFS technical assistance mission found that significant progress had been made implementing the recommendations of the previous mission, identified some weaknesses in the proposed new chart of accounts, and made further recommendations to improve the quality of GFS.

Monetary accounts

An STA multisector statistics mission to Uganda (December 2–15, 1998) determined that Uganda's monetary statistics, which had been compiled from a bank reporting system, were broadly adequate for policy purposes. However, the quality of data is compromised by various methodological problems, such as an arbitrary application of the residency criterion, an inadequate disaggregation of the resident sector data, a large discrepancy in the reported interbank positions, and misclassifications of some accounting data related to monetary

aggregates. To address these issues, the mission recommended that the Bank of Uganda instruct commercial banks to classify accounts according to their clients' properly determined residency and use a more detailed scheme for disaggregating the resident sector data. The mission also recommended a symmetrical treatment of government lending in the central bank's and commercial banks' data in order to narrow discrepancies in the reported interbank positions. Reclassification of the accounting data was also recommended in order to facilitate proper measurement of key monetary aggregates, in particular, domestic money supply, claims on central government, claims on the private sector, and foreign liabilities. The follow-up STA mission that visited Uganda during March 29–April 12, 2000 concluded that the Bank of Uganda had implemented most of these recommendations.

Balance of payments

The December 1998 mission recommended that preshipment inspection of imports be maintained, and that the automated system for customs data (ASYCUDA) be fully implemented at the customs posts, where it had been introduced, and extended to major crossings on the eastern border. When banks are more fully computerized and commercial bank personnel have been adequately trained in reporting, the monthly bank reporting form should be revised once more to fully conform to the Balance of Payments Manual (5th ed.). Surveys should be introduced to supplement customs- and bank-reported data and to derive more accurate estimates of services and financial transactions. The 2002 mission also noted that the bank reporting system was still seriously inadequate. Given that Uganda dropped controls on financial account transactions in 1997 (for current account transactions, in 1994), major improvements are necessary to deal with weaknesses in the system.

The data presently reported to the Fund for publication are annual and relatively timely. Data for 2003 were recently submitted and will be published in the 2004 edition of the IFS. Reliable balance of payments data should also be compiled and reported on a quarterly basis.

Uganda: Core Statistical Indicators
(As of December 1, 2004)

	Exchange Rates	Internation-al Reserves	Central Bank Balance Sheet	Reserve/ Base Money	Broad Money	Interest Rates 1/	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Govern-ment Balance	GDP/ GNP	External Debt
Date of latest observation	11/30/04	11/12/04	10/29/04	10/29/04	10/29/04	10/29/04	Oct. 2004	Sep. 2004	June. 2004	June. 2004	2003/04	6/30/04
Date received	12/01/04	11/26/04	11/30/04	11/05/04	11/30/04	11/30/04	Nov. 2004	Nov. 2004	Oct. 2004	Oct. 2004	Oct. 2004	Oct. 2004
Frequency of data 2/	D	M	M	D	M	M	M	M	A	M	A	M
Frequency of reporting 2/	D	M	M	D	M	W	M	M	Q	M	A	O
Source of data 3/	A	A	A	A	A	A	A	A	A	A	A	A
Mode of reporting 4/	C	C	C	C	C	C	C	C	C	C	C	C
Confidentiality	C	C	C	C	C	C	C	C	C	C	C	C
Frequency of publication 2/	D	M	M	M	M	W	M	Q	Q	M	A	...

1/ Treasury bill rates.
2/ Codes for frequency of data, frequency of reporting, and frequency of publication are the following: D=daily; W=weekly; M=monthly; Q=quarterly; A=annual; or O=other.
3/ Codes for source of data are the following: A=direct reporting by central bank, Ministry of Finance, or other official agency.
4/ Codes for mode of reporting are the following: C=for unrestricted use; and D=embargoed for a specified period and thereafter for unrestricted use.

Uganda: Debt Sustainability Analysis Update

This appendix updates the debt sustainability analysis conducted in the previous staff report (Country Report No. 04/289). The main conclusions of the preceding exercise remain valid: (i) Uganda is still prone to potentially serious debt sustainability problems due to its high net present value (NPV) of external debt-to-export ratios; and (ii) a gradual fiscal consolidation effort is warranted to maintain a manageable debt service.

The updated Debt Sustainability Analysis (DSA) incorporates a refinement of debt data and modifications of some macroeconomic assumptions in line with recent World Economic Outlook (WEO) projections. Revised debt data includes information on some creditors that were available after the previous DSA was concluded.[1] Based on the good export performance, especially for nontraditional goods, the annual growth rate of exports has been revised slightly upwards over the long term. The nominal GDP in U.S. dollars have been adjusted under the assumption that the real exchange rate will remain constant in the long term.

Uganda's debt-service obligations, after HIPC assistance, are manageable, but the external debt sustainability situation remains difficult over the foreseeable future in the baseline scenario (Tables 1 and 2). The ratio of debt-service obligations to exports of goods and services stays at about 8 to 10 percent reflecting external financing based on grants and concessional loans. The NPV of external debt to exports of goods and services will remain at 210–225 percent over the next ten years, well above the HIPC Initiative threshold of 150 percent, before declining steadily toward a more sustainable level.

Stress tests show that the debt burden would worsen significantly in the event of adverse macroeconomic shocks, but the ratio of external debt service to exports will not change notably, even in the worst case scenario. Bound tests show that debt sustainability is very sensitivity to shocks on export performance and a combination of all macroeconomic shocks.

- A two-year shock on the export sector (B2), such as terms of trade shock, has a long lasting effect on debt dynamics reflecting low available external resources. The ratio of the NPV of external debt to exports would increase by up to 100 percentage points by 2013/14, compared with the baseline scenario. The export-shock scenario also shows that Uganda's debt servicing capacity is affected in the near term as the debt service-to-exports ratio increases to 15 percent from 10 percent in 2003/04.

- The debt dynamics would be significantly affected in the near term by a combination of weaker shocks (B5) causing a greater macroeconomic instability. These combined shocks would negatively impact debt sustainability by increasing the ratios of NPV of

[1] Debt data related to South Korea, the East African Development Bank, and the Islamic Development Bank.

debt to GDP and to exports by up to 13 and 78 percentage points in the near term, respectively.

The DSA for Uganda suggests that achieving debt sustainability over the long term depends on implementing a sound export strategy and a gradual fiscal consolidation to strengthen the macroeconomic situation. The export policy should focus on diversifying the export base and enhancing export competitiveness, given the risks of relying mainly on primary exports of agricultural products. Fiscal consolidation combined with a prudent debt management strategy, including increasing the share of grants in total aid inflows, are critical, particularly in the event of simultaneous shocks.

Table 1. Uganda: External Debt Sustainability Framework, Baseline Scenario, 2000-23 1/

	Actual			Historical	Standard	Est.	Projections								
	2001	2002	2003	Average 6/	Deviation 6/	2004	2005	2006	2007	2008	2009	2003-09 Average	2014	2024	2010-24 Average
External debt (nominal) 1/	**59.8**	**65.3**	**62.5**			**60.0**	**51.4**	**52.3**	**53.2**	**53.1**	**51.5**		**42.4**	**23.2**	
Of which: public and publicly guaranteed (PPG)	59.8	65.3	62.5			60.0	51.4	52.3	53.2	53.1	51.5		42.4	23.2	
Change in external debt	-0.8	5.5	-2.7			-2.6	-8.6	0.9	0.9	0.0	-1.7		-1.9	-1.7	
Identified net debt-creating flows	5.0	0.9	-1.6			-4.3	-1.1	-0.3	-0.5	-0.6	-0.5		-1.6	1.9	
Noninterest current account deficit	**3.8**	**4.4**	**4.8**	**4.1**	**2.7**	**1.0**	**3.5**	**4.9**	**4.7**	**5.1**	**4.9**		**3.3**	**5.8**	**4.1**
Deficit in balance of goods and services	12.0	14.3	14.6			15.2	14.0	13.7	14.2	14.4	14.2		14.6	15.3	
Exports	12.2	11.7	11.5			12.1	11.3	12.0	12.1	12.1	12.0		11.2	9.8	
Imports	24.2	26.0	26.0			27.3	25.3	25.7	26.3	26.5	26.1		25.8	25.2	
Net current transfers (negative = inflow)	-10.3	-11.3	-10.8	-8.5	3.5	-13.5	-10.9	-9.4	-9.9	-9.6	-9.0		-6.4	-3.3	-5.5
Other current account flows (negative = net inflow)	2.1	1.3	1.0			-0.7	0.5	0.6	0.4	0.3	-0.3		-4.8	-6.2	
Net foreign direct investment (negative = inflow)	**-1.9**	**-2.2**	**-2.3**	**-1.1**	**1.0**	**-2.3**	**-2.3**	**-2.4**	**-2.4**	**-2.7**	**-2.7**		**-2.7**	**-2.7**	**-2.7**
Endogenous debt dynamics 2/	**3.2**	**-1.3**	**-4.1**			**-3.0**	**-2.4**	**-2.8**	**-2.8**	**-3.0**	**-2.7**		**-2.2**	**-1.2**	
Contribution from nominal interest rate	0.6	0.5	0.5			0.3	0.3	0.3	0.3	0.3	0.3		0.3	0.2	
Contribution from real GDP growth	-3.1	-4.0	-2.9			-3.4	-2.6	-3.0	-3.1	-3.3	-2.9		-2.5	-1.4	
Contribution from price and exchange rate changes	5.8	2.1	-1.7			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**-5.8**	**4.6**	**-1.1**			**1.8**	**-7.5**	**1.2**	**1.4**	**0.6**	**-1.2**		**-0.4**	**-3.6**	
Of which: exceptional financing	-0.6	-0.4	-0.3			-0.1	0.0	0.1	0.2	0.0	0.0		0.0	0.0	
NPV of external debt 4/	...	...	30.1			29.2	25.3	25.9	26.7	27.0	26.5		23.5	13.8	
In percent of exports	...	...	262.5			242.3	224.5	216.5	220.1	222.4	221.8		209.5	139.6	
NPV of PPG external debt	**...**	**...**	**30.1**			**29.2**	**25.3**	**25.9**	**26.7**	**27.0**	**26.5**		**23.5**	**13.8**	
In percent of exports	...	...	262.5			242.3	224.5	216.5	220.1	222.4	221.8		209.5	139.6	
Debt service-to-exports ratio (in percent)	13.3	11.3	10.9			10.4	10.1	9.6	8.9	8.4	7.8		7.5	9.0	
PPG debt service-to-exports ratio (in percent)	**13.3**	**11.3**	**10.9**			**10.4**	**10.1**	**9.6**	**8.9**	**8.4**	**7.8**		**7.5**	**9.0**	
Total gross financing need (millions of U.S. dollars)	195.5	204.9	233.0			-1.9	196.6	320.0	307.9	337.1	330.8		231.5	1358.2	
Noninterest current account deficit that stabilizes debt ratio	4.5	-1.1	7.5			3.6	12.2	4.0	3.8	5.2	6.6		5.3	7.5	
Key macroeconomic assumptions															
Real GDP growth (in percent)	4.9	6.8	4.7	6.6	2.3	5.9	5.4	6.2	6.1	6.6	6.0	6.0	6.0	6.0	6.0
GDP deflator in U.S. dollar terms (change in percent)	-8.7	-3.5	2.6	1.4	13.4	2.6	15.6	-1.0	-1.2	-0.3	2.0	3.0	2.0	2.0	2.0
Effective interest rate (percent) 5/	0.9	0.9	0.8	1.3	0.3	0.6	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.7	0.7
Growth of exports of goods and services (U.S. dollar terms, in percent)	2.4	-1.5	5.6	14.9	22.5	14.3	13.8	11.9	6.1	6.4	6.5	9.8	6.7	6.7	6.7
Growth of imports of goods and services (U.S. dollar terms, in percent)	3.0	10.8	7.7	11.3	20.6	13.7	12.9	7.0	7.3	7.3	6.4	9.1	7.9	7.9	7.9
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	52.3	52.4	52.6	52.6	52.6	52.5	52.5	53.1	53.1	53.0
Memorandym item:															
Nominal GDP (millions of U.S. dollars)	5,681.2	5,859.8	6,298.5			6,840.9	8,331.8	8,760.6	9,185.4	9,766.6	10,559.7		15,602.0	34,059.7	

Source: Fund staff projections.

1/ Includes both public and private sector external debt.

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

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

4/ Assumes a discount factor of 4.5 percent for comparability purposes with previous DSAs.

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

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

Table 2. Uganda: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2003-23

(In percent)

	Estimate		Projections						
	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2013/14	2023/24
				NPV of debt-to-GDP ratio					
Baseline	30	29	25	26	27	27	27	23	14
A. Alternative Scenarios									
A2. New public sector loans on less favorable terms in 2004-23 2/	30	29	27	28	29	30	30	27	16
A3. Higher public sector grants in 2004-23 2/	30	29	26	26	26	27	26	24	15
B. Bound Tests									
B1. Real GDP growth at historical average minus one standard deviation in 2004-05	30	29	26	27	27	28	27	24	14
B2. Export value growth at historical average minus one standard deviation in 2004-05 3/	30	29	26	29	30	30	29	26	15
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2004-05	30	29	33	38	39	40	39	35	20
B4. Net nondebt creating flows at historical average minus one standard deviation in 2004-05 4/	30	29	28	32	32	32	32	28	15
B5. Combination of B1-B4 using one-half standard deviation shocks	30	29	35	41	42	42	41	36	20
B6. One-time 30 percent nominal depreciation relative to the baseline in 2004 5/	30	29	34	35	36	36	36	32	19
				NPV of debt-to-exports ratio					
Baseline	262	242	224	217	220	222	222	209	140
A. Alternative Scenarios									
A2. Higher public sector borrowing in 2004-23 2/	262	242	237	231	238	245	247	238	166
A3. Higher public sector grants in 2004-23 2/	262	242	229	217	218	219	216	213	155
B. Bound Tests									
B1. Real GDP growth at historical average minus one standard deviation in 2004-05	262	242	224	217	220	222	222	209	140
B2. Export value growth at historical average minus one standard deviation in 2004-05 3/	262	242	287	359	363	366	364	341	220
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2004-05	262	242	224	217	220	222	222	209	140
B4. Net non-debt-creating flows at historical average minus one standard deviation in 2004-05 4/	262	242	253	264	266	267	265	246	156
B5. Combination of B1-B4 using one-half standard deviation shocks	262	242	277	316	319	320	318	295	186
				Debt service ratio					
Baseline	11	10	10	10	9	8	8	8	9
A. Alternative Scenarios									
A2. New public sector loans on less favorable terms in 2004-23 2/	11	10	10	10	9	9	8	8	10
A3. Higher public sector grants in 2004-23 2/	11	10	10	10	9	8	7	7	9
B. Bound Tests									
B1. Real GDP growth at historical average minus one standard deviation in 2004-05	11	10	10	10	9	8	8	8	9
B2. Export value growth at historical average minus one standard deviation in 2004-05 3/	11	10	12	15	14	13	12	12	14
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2004-05	11	10	10	10	9	8	8	8	9
B4. Net non-debt-creating flows at historical average minus one standard deviation in 2004-05 4/	11	10	10	10	10	9	8	9	10
B5. Combination of B1-B4 using one-half standard deviation shocks	11	10	11	12	11	11	10	11	12
Memorandum item:									
Grant element assumed on residual financing (i.e., financing required above baseline) 6/		52	52	52	52	52	52	52	52

Source: Fund staff projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), noninterest current account in percent of GDP, and nondebt creating flows.

2/ Assumes new borrowing to finance Millennium Development Goals (MDGs) is higher than in the baseline, while grace and maturity periods are the same as in the baseline.

3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (more financing) in which the terms on all new financing are as specified in footnote 2.

Uganda: Tracking Poverty-Reducing Spending—Second Assessment and Action Plan (AAP)[27]

A. Background

Fund/World Bank staff carried out a first assessment of public expenditure management (PEM) systems of Uganda in 2001.[28] The objective was to appraise how well existing systems tracked poverty-reducing spending, and was based on 15 benchmarks covering budget formulation, execution, and reporting. The assessment concluded that Uganda met 9 benchmarks—5 on budget formulation, 1 on budget execution, and 3 on budget reporting. This placed Uganda above 23 other countries included in the exercise. Uganda was viewed as requiring "some upgrading" in its PEM systems; hence, the AAP identified a range of actions for implementation in the short and medium terms, to be supported by the donor community.

A Fund-World Bank mission visited Kampala in February 2004 to conduct a second assessment, which sought to determine progress made in strengthening the PEM systems since the first exercise. Staff also developed, in conjunction with the authorities, an action plan to address any persistent weaknesses in PEM and on the tracking of pro-poor spending.

The 2004 assessment was based on 16 benchmarks. As in the 2001 AAP, seven benchmarks were designed to evaluate the status of budget formulation systems, four covered the area of budget execution, and four related to the existing reporting procedures. A new benchmark was included to assess the existing procurement mechanisms.

B. 2004 Assessment

The 2004 AAP exercise assessed Uganda's PEM systems both at the central and local government levels, given the progress achieved by the fiscal decentralization strategy. In particular, some 40 percent of total government spending and about 70 percent of poverty-reducing outlays are now executed at the subnational government level.

Performance in each of the indicators is summarized as follows:

1. ***Coverage of the budget or fiscal reporting entity.*** Uganda does not meet this benchmark, since the coverage of fiscal information does not fully match the Government Finance Statistics (GFS) definition of the general government sector (i.e., including central, regional and local governments, and all government operations, whether funded through the budget or not). In particular, there are

[27] Based on the document "The Republic of Uganda: Tracking Poverty-Reducing Spending: Second Assessment and Action Plan", November 2004.

[28] "Report on the Tracking of Poverty-Reducing Spending in Uganda", 2001.

19 central government agencies and 82 extrabudgetary institutions or "autonomous agencies" that are not fully incorporated into the budget and reporting cycle.

2. ***Degree of spending being funded by inadequately reported extrabudgetary sources.*** Uganda does not meet this benchmark, since the sources of inadequately reported revenue are significant (about 3-10 percent of total budgeted expenditure). Notably, nontax revenue is not fully reported by central government units obliged to remit their income to the Uganda Consolidated Fund; further, there are autonomous agencies and extrabudgetary funds which are neither reported in the budget (other than for the transfers made to them to cover part of their operational needs), nor in the fiscal accounts.

3. ***Reliability of the budget as a guide to the future.*** Uganda does not meet this benchmark, since the aggregate budget execution differs significantly from the original budget appropriations; in particular, central government spending per administrative sector deviated from the budget by about 22 percent on average between 2000/01 and 2002/03. While the strong deviation is mostly explained by the poor reporting on the execution of donor projects, the persistent pressures at the central government level to approve supplementary budgets have also played a role. Finally, budget performance at the local government level also suggests a relatively large degree of budget unpredictability.

4. ***Inclusion of donor funds.*** Uganda does not meet this benchmark, since not all budgets and/or fiscal reports include, without exception, grants provided by donors and the capital and current expenditures of all multilaterals and bilateral government activities. While foreign aid in grants and loans (received both as budget and project support) are fully accounted for ex ante, information on the execution of project grants and loans is not available in a systematic and timely basis.

5. ***Expenditure classification.*** Uganda meets this benchmark, as acceptable administrative, economic and functional/programmatic classifications consistent with GFS were introduced in the 2003/04 new chart of accounts. Notwithstanding these achievements, the current functional classification is obtained through a mapping arrangement between the Medium Term Expenditure Framework (MTEF) codes and the COFOG functional classification.[29] While this provides a satisfactory interim arrangement for functional analysis, the authorities should seek to fully incorporate COFOG into their new chart of accounts.

6. ***Identification of poverty-reducing expenditure.*** Uganda meets this benchmark, as it was one of the first countries to employ a virtual "Poverty Action Fund" (PAF) for tracking poverty-reducing expenditures that is clearly identified in the budget. The PAF allows the authorities to ring-fence priority outlays from potential cuts.

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[29] Classification of Functions of Government, 1999, developed by OECD and UNDP, which is fully incorporated into the GFS 2001 framework.

7. ***Integration of medium-term forecasts.*** Uganda meets this benchmark, since multi-year expenditure projections are fully integrated into the central and local budget process through the MTEF. The MTEF has strengthened significantly since it was first implemented, specially through the establishment of sectoral working groups (SWGs) that bring together institutions with complementary activities in certain sectors to prepare three-year rolling budgets. Challenges ahead include the integration of all donor aid into the MTEF ceilings, and improving the integration of certain sectors or types of spending, and further developing the output-oriented budgeting.

8. ***Evidence of budget execution problems—Arrears.*** This benchmark is not met, since Uganda holds a significant stock of arrears (estimated to be above the threshold of 5 percent of total spending, including both central and local government). In addition, systematic and comprehensive verified information of arrears in not available at any government level, especially in the case of wages and pensions in the central government, and for all types of spending at the local government level.

9. ***Effectiveness of the internal control system.*** Uganda meets this benchmark, since the internal control (management and audit) is broadly regarded to be effective. In particular, the internal control regime at the central government level is sound and has improved steadily, including through the publication of the Public Finance and Accountability Act (PFAA) 2003. In addition, the core expenditure control procedures at the higher level of subnational government (districts) are clearly specified and are also sound.

10. ***Tracking surveys are in use.*** Uganda meets this benchmark, since several Public Expenditure Tracking Surveys ("PETSs") have become a regular feature in core sectors, including education, health, and water and sanitation.

11. ***Quality of fiscal information.*** Uganda meets this benchmark, since processes are in place requiring reconciliation of both central and local government's accounts with corresponding bank accounts. The accounting regulations require that budget agencies submit their summary monthly accounts within 20 days of the end of the month, and most agencies comply with this deadline, in some cases including bank reconciliation statements. Moreover, more detailed financial statements are received half-yearly; submission of clean reports supported by certificates of bank balances suggests that these are reconciled on a timely and routine basis.

12. ***Regularity of timely internal fiscal reporting.*** Uganda does not meet this benchmark. While by and large line ministries and other central agencies submit monthly fiscal reports to the Ministry of Finance, Planning and Economic Development (MFPED) within four weeks, the reporting on operations of donor-financed projects is irregular and unsatisfactory. Moreover, self-financing agencies submit only partial monthly reports to MPFED; at subnational levels, delays in the submission of reports to the appropriate authorities are not uncommon.

13. ***Fiscal reports present spending on a functional basis.*** This benchmark is not met, since the central and local government budgets do not reflect COFOG functional classification in the appropriation structures and the chart of accounts.

14. ***Transactions are recorded in the accounts in a timely fashion.*** Uganda meets this benchmark. Routine transactions are not entered into the government's accounts after the close of the fiscal year, even though the account books of the central government are kept open for four months, to allow recording of checks issued during the fiscal year but cleared subsequently.

15. ***Timeliness of audited financial information.*** This benchmark is met, since an audited record of the central government's accounts is presented to the legislature within 12 months of the end of the fiscal year. Audit reports on subnational government accounts are also presented to the respective local councils within one year of the end of the fiscal year. The timing of the audit report of individual donor-financed projects, however, is determined by donor's requirements to whom copies are endorsed, while the timing and methodology for audits of statutory bodies have suffered some delays.

16. ***Efficiency and effectiveness of the public procurement system.*** The benchmark is not met, since Uganda's procurement system continues to operate in a weak governance environment and lacks controls.

C. Conclusions

Uganda's PEM systems remain relatively strong compared to other HIPCs, and have improved in several areas highlighted as deficient in 2001. First, the internal control systems are broadly regarded to be effective; second, a significant number of tracking surveys on poverty-reducing expenditure has been carried out in a systematic manner; third, the books are closed in a timely manner at year end and, finally, the audit reports are presented to the legislature within an acceptable period of time.

The latest assessment revealed three areas of concern in budget execution and reporting. First, there is a lack of reliable data and control of expenditure arrears. Second, the absence of a functional classification in the annual budget vote structure and the chart of accounts make it difficult to transparently track poverty-reducing spending from government accounts. Third, in-year fiscal reports on budget execution are available with a lag. Finally, there is no timely reporting of donor-funded projects, and a significant variability of budget outturns relative to the original budget appropriations. In the aggregate, **Uganda meets eight out of 16 benchmarks—one less than in the previous assessment.**

The apparent deterioration in budget reporting relative to the 2001 AAP is attributable to two factors. First, Fund/World Bank staffs have defined standards for this assessment more precisely than in 2001. In particular, the benchmark missed on the variability of budget outturns is due to a tightening of the assessment criterion applying to all countries, rather than to any regression in practice by the authorities. Second, a large proportion of both overall government spending and poverty-reducing outlays in Uganda are now devolved to the local governments. In the present exercise, the mission had more information to assess PEM systems at subnational levels, where the capacity is weaker.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 05/66
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International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2004 Article IV Consultation with Uganda

On February 23, 2005, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Uganda.[1]

Background

With implementation of sound economic policies and an ambitious program of economic reforms, Uganda experienced an impressive economic recovery through the 1990s that resulted in a significant reduction in poverty. However, the pace of economic growth has slowed somewhat down in recent years and the incidence of poverty increased. Some improvements in economic performance have been observed in 2003/04 (July–June) relative to 2002/03. Real GDP grew by an estimated 5.9 percent, led by growth in construction and communication, while improved weather conditions contributed to a rebound in agriculture. With one of the highest population growth rates in the world, real GDP per capita only grew by 2.4 percent in 2003/04. After peaking at 10.2 percent by the end of 2002/03, annual headline inflation fell sharply during 2003/04 to 5.1 percent through September 2004, driven by restrained money growth and lower food prices. The easing of inflationary expectations also contributed to a reduction of interest rates. In recent months, headline inflation has been picking up again, as food prices rebounded due to the current drought.

Strong growth in noncoffee export volumes and improved terms of trade helped to narrow the external current account deficit, excluding grants, to 11.8 percent of GDP in 2003/04.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

Greater-than-anticipated donor support and private capital inflows more than covered the deficit, allowing international reserves to build up faster than envisaged to about 6½ months of imports. Following a large depreciation in 2002/03, the Ugandan shilling appreciated in real effective terms by about 10 percent since December 2003. Buoyant export proceeds, demand for domestic currency from donor-funded projects, and increased sales of foreign exchange by the BOU contributed to this exchange rate appreciation.

There were several slippages under the program. Overall, four quantitative performance criteria for end-June 2004 were breached. Although the structural performance criteria for June and September were met, progress in implementing the structural reform program was slower than envisaged, with eight out of ten structural benchmarks breached.

The fiscal consolidation envisaged in the program for 2003/04 was not achieved. The overall central government deficit, excluding grants, remained at 11.3 percent of GDP in 2003/04, or 0.6 percent higher than programmed. The domestic deficit, which excludes external interest payments due and externally financed development expenditures, fell short of the program target by a similar magnitude. While tax revenues were lower than envisaged, reflecting weak VAT and trade tax collections, the higher deficit primarily reflected an excess in spending (0.4 percent of GDP), covering public administration needs, including from the Presidency, and net lending operations to private enterprises. As a result, the quantitative performance criterion on net credit to the government for end-June 2004 was breached by nearly 0.8 percent of GDP. The indicative ceiling on public administration spending and the performance criterion on domestic arrears accumulated under the Commitment Control System (CCS) were also breached. However, the core poverty-reducing outlays of the Poverty Action Fund (PAF) remained above their indicative floor.

Based on preliminary information, the overall central government deficit, excluding grants, was slightly smaller than projected during the first quarter of 2004/05. While revenues remained in line with the program, development expenditures were lower than envisaged, as programmed cash releases were delayed to several ministries and local governments. This, however, generated further accumulation of arrears under the CCS.

The program ceiling for base money growth was slightly missed for end-June 2004, but broad money growth and excess reserves have declined as programmed. Domestic credit to the private sector maintained its robust growth at 17 percent. Large variations in government liquidity injections, volatile currency demand, and a shifting emphasis by the Bank of Uganda (BOU) on its sterilization tools led to substantial interest rate volatility. However, treasury bill rates fell significantly in the third quarter of 2003/04 and remained relatively stable thereafter due to intensified sterilization through foreign exchange sales, and a steadier execution of the base money program. As of September, base money was below the targeted ceiling. Recently, however, the BOU once again shifted away from foreign exchange sales for sterilization purposes, with a risk of placing an excessive burden on treasury bill issuances to meet monetary targets.

The banking sector remains sound. The profitability and capital base of the banking system has remained high with a very low level of nonperforming loans, as highlighted by the recent Financial Sector Assessment Program (FSAP) mission. Stress tests confirm that the banking system can weather plausible macroeconomic shocks. The nonbank financial institutions (NBFIs) show strong growth, but are more vulnerable.

Uganda has made progress in obtaining debt relief. Thirty-one creditors have agreed to provide debt relief to Uganda accounting for 96 percent of total HIPC assistance. The authorities will continue to engage the remaining creditors, particularly Libya and India, to provide debt relief under the HIPC Initiative.

Executive Board Assessment

The impressive economic performance of recent years based on the first wave of reforms has tapered off, while the conditions for achieving stronger long-term growth and lasting poverty reduction have not yet been established. Directors accordingly called on the Ugandan authorities to launch a second round of reforms aimed at increasing productivity, reducing poverty, and achieving the Millennium Development Goals (MDGs). Steadfast implementation of such reforms within a transparent and predictable policy environment will be key to strengthening investor and donor confidence. In this context, Directors looked forward to the implementation of the revised Poverty Eradication Action Plan (PEAP), and they emphasized that peace and security throughout the country will be needed to achieve sustained economic development.

Directors noted that performance in 2003/04 under the PRGF-supported program had been mixed. They welcomed the fall in inflation and the rebound in economic growth. At the same time, they were concerned about slippages in the fiscal area—reflecting strong spending pressures and revenue shortfalls—and the accumulation of new domestic payments arrears. Directors also expressed disappointment that implementation of structural reforms was significantly weaker than envisaged. Against this background, they welcomed the strong commitment of the authorities to address the recent slippages through a set of front-loaded measures to bring the program back on track. Strong political will and follow through will be essential to achieve program objectives going forward.

Directors stressed that fiscal consolidation will remain a cornerstone of efforts to maintain debt sustainability, create room for private sector investment, and ensure that adequate resources are available to achieve a lasting reduction in poverty. They concurred that the authorities' medium-term fiscal consolidation strategy will need to rest on increasing revenue mobilization and enhancing expenditure management, including through significantly improved monitoring of the government's domestic arrears and the strengthening of administrative capacity at the local government level.

Directors welcomed the steps taken by the authorities to strengthen the operations and management of the Uganda Revenue Authority (URA) to raise revenues from the current low level and enable Uganda to reduce its reliance on external assistance. They emphasized that

determined actions to complete the full restructuring of the URA will be critical for meeting these goals, especially in light of the revenue reduction expected as a result of the implementation of the East African Community (EAC) customs union. Moreover, Directors noted the importance of forcefully tackling corruption in the URA as a key part of steps to build confidence in public institutions. It will also be important to ensure that the legal and regulatory framework of the envisaged Export Processing Zones meets international standards. In particular, to avoid undermining fiscal revenue mobilization, Directors recommended that the zones should be ring-fenced with the strict application of customs duties and the sales tax to Ugandan residents. They supported the authorities' plan to work with the other EAC partners to establish a common code of conduct for investment incentives.

Directors emphasized the need to adhere strictly to the current budget by avoiding supplementary appropriations during the fiscal year, especially on defense, public administration, and bailouts of private firms. They observed that, in the past, such expenditures had undermined the appropriate execution of the budget and contributed to the accumulation of domestic arrears.

Directors welcomed the authorities' commitment to revive the public administration reform program. This will be essential for improving the efficiency of government spending and ensuring appropriate wages for public employees. In addition, Directors encouraged the authorities to address governance issues steadfastly, both to ensure budget implementation and enhance the investment climate. In this connection, crucial steps will be needed to strengthen the role of the Inspector General of Government and implement a code of conduct for public servants.

Directors considered that the authorities' monetary policy stance, as well as the liberalization and reform of the financial sector, have helped maintain macroeconomic stability and a healthy financial system. They encouraged the authorities to continue pursuing a prudent monetary targeting framework, while implementing a more balanced mix of foreign exchange sales and open market operations to avoid volatile movements in interest rates. Directors encouraged the authorities to act with caution in moving donor-funded government accounts from commercial banks to the Bank of Uganda so as to minimize the liquidity impact on the commercial banks.

Directors took note of the recent cabinet approval of anti-money laundering legislation, and looked forward to its early adoption by parliament. They agreed that the sale of minority shares and management responsibilities of the Uganda Development Bank (UDBL) could contribute to enhancing the delivery of credit to productive private sector activities.

Directors welcomed the emphasis given to the reform of the pension system and to the deepening of the financial system. The development of a sound network of microfinance institutions will facilitate the provision of the necessary financing to small-scale enterprises and to the agriculture sector. Directors encouraged the authorities to strengthen the land registry to promote collateralized lending.

Directors noted that the flexible exchange rate regime has served Uganda well by helping to cushion the impact of exogenous shocks while maintaining external competitiveness. They

encouraged the monetary authorities to ensure that the exchange rate remains broadly in line with macroeconomic fundamentals.

Directors shared the authorities' concern about the sustainability of external debt and supported their intention to seek more grants while limiting new loans on concessional terms. The authorities' strategy aimed at expanding and diversifying the export base will also serve to enhance debt sustainability. Directors called on all creditors to quickly reach agreement with Uganda on the full delivery of HIPC Initiative assistance.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Uganda: Selected Economic and Financial Indicators, 2002/03-2005/06 1/

	2002/03	2003/04 Est.	2004/05 Proj.	2005/06 Proj.
	(Annual percentage change, unless otherwise indicated)			
National income and prices				
GDP at constant prices	4.7	5.9	5.4	6.2
External sector				
Terms of trade (deterioration -)	5.3	6.9	-4.8	1.7
	(Annual changes in percent of beginning-of-period stock of money, unless otherwise indicated)			
Money and interest rates				
Money and quasi money (M3)	23.3	9.3	14.8	15.2
M2	17.3	11	14.8	15.5
Velocity (GDP/M2) 2/	7.3	7.2	7	6.7
Interest rate (in percent) 3/ 4/	9.6	14.1	...	...
	(In percent of GDP at market prices)			
External sector				
Current account balance				
(including official grants)	-6.2	-1.9	-4.1	-5.4
(excluding official grants)	-13.4	-11.8	-12.2	-11.2
Government budget				
Revenue 5/	12.1	12.6	12.8	12.9
Grants	7	9.6	8	5.8
Total expenditure and net lending	23.4	23.9	22.8	21.4
Government balance (excluding grants)	-11.3	-11.3	-10	-8.5
Government balance (including grants)	-4.3	-1.7	-2	-2.7
Domestic balance	-5.2	-5.1	-4	-3
Net foreign financing	4.3	2.3	1.9	3.2
Domestic bank financing	-0.8	-1.6	-0.2	-0.7
Domestic nonbank financing	0.6	0.8	0.3	0.2
Net donor inflows	10.8	11.5	9.6	8.7
Net present value of external debt 5/	262.5	242.5	224.5	216.6
	(In millions of U.S. dollars, unless otherwise indicated)			
Overall balance of payments	112	213	80	128
Gross foreign exchange reserves	964	1,133	1,167	1,243
(in months of imports of goods and nonfactor services)	6.2	6.5	6.2	6.2

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

1/ Fiscal year begins in July.

2/ Nominal GDP divided by average of current-year and previous-year end-period money stocks.

3/ The 2003/04 figure is provisional.

4/ Weighted annual average rate on 91-day treasury bills.

5/ Ratio of three-year average of exports. Ratios for 2002/03 and thereafter are based on CIRRs and exchange rates at end-June 2003.

INTERNATIONAL MONETARY FUND EXTERNAL RELATIONS DEPARTMENT

Press Release No. 05/42
FOR IMMEDIATE RELEASE
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International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Fourth Review Under Uganda's PRGF Arrangement and Approves US$3.0 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) has completed the fourth review of Uganda's economic performance under an SDR 13.5 million (about US$20.3 million) three-year Poverty Reduction and Growth Facility (PRGF) arrangement (see Press Release No. 02/41) and approved a disbursement for an amount equivalent to SDR 2.0 million (about US$3.0 million). This brings total disbursements under the PRGF arrangement to SDR 9.5 million (about US$14.3 million).

In completing the fourth review, the Executive Board granted Uganda's request for waivers of non-observance of four quantitative performance criteria relating to: the ceiling on the increase in base money liabilities of the Bank of Uganda; the ceiling on the increase in net claims on the central government by the banking system; the accumulation of new domestic budgetary arrears under the commitment control system; and new lending by the Ugandan Development Bank Ltd., pending its divestiture.

Following the Executive Board's discussion on the fourth review on February 23, 2005, Mr. Takatoshi Kato, Deputy Managing Director and Acting Chairman, made the following statement:

"The impressive economic growth and poverty reduction that was achieved through a first wave of reforms has started to taper off, while a firm basis for sustained growth and poverty reduction remains to be established. Therefore, there is a need to launch a second wave of reforms to (i) increase the rate of growth; (ii) address the challenges stemming from the high population growth; and (iii) continue to reduce poverty and achieve the Millennium Development Goals. In this context, the revised Poverty Eradication Action Plan should initiate such a reform process. Peace and security throughout the country will also be needed to achieve sustained and broadbased poverty reduction.

"Economic growth rebounded and inflation declined in 2003/04 due to improved agricultural production.-However, continuing weaknesses in the implementation of fiscal policy and slippages under the PRGF-supported program in 2003/04 are a concern. The authorities acknowledge the seriousness of the slippages and are committed to bringing the program back on track and enhancing its monitoring.

“The authorities plan to sustain a higher rate of growth by pursuing a medium-term fiscal consolidation strategy to maintain debt sustainability and create more room for the private sector. This strategy rests appropriately on increasing domestic revenue mobilization and enhancing expenditure management, including a better monitoring of the government’s domestic arrears and a strengthening of the administrative capacity at the local government level. In this regard, the ongoing restructuring of the Uganda Revenue Authority (URA) is welcome, particularly in light of the revenue loss expected with the implementation of the East African Community (EAC) customs union. Addressing forcefully corruption in the URA is key to building confidence in public institutions. The implementation of Export Processing Zones needs to meet international standards and be tightly ring-fenced to avoid tax evasion.

“The revival of public administration reforms will be important to increase the efficiency of government expenditure and ensure appropriate wages for public employees. More generally, a comprehensive strategy to strengthen governance is needed to reduce risks to the budget and improve the business environment.

“Monetary policy will be aimed at preserving price stability, and the flexible exchange rate policy will help maintain international reserves at comfortable levels. Early passage of the Anti-Money Laundering Law by parliament will further build confidence in the financial system. In addition, divestiture of the Uganda Development Bank Ltd. should enhance credit delivery to the private sector.

“The rise in the external debt burden is a source of concern. It will be important for the authorities to tackle this by relying more on grant financing rather than loans, while promoting export growth and diversification,” Mr. Kato said.

The PRGF is the IMF's concessional facility for low-income countries. PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners and articulated in a Poverty Reduction Strategy Paper (PRSP). This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework for macroeconomic, structural and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5.5 year grace period on principal payment.

Statement by the IMF Staff Representative
February 23, 2005

1. This statement contains information that has become available since the statement by the staff representative was circulated to the Executive Board on February 10, 2005. This information does not alter the thrust of the staff appraisal.

2. The remaining prior action for completion of the fourth review under the PRGF arrangement relating to the issuance of the implementing regulations for the Financial Institutions Act has been met. The staff received a letter from the Governor of the Bank of Uganda on February 17, 2005 confirming that the regulations for the Financial Institutions Act have been signed and sent for publication in the Uganda Gazette on February 16, 2005. In the same letter, the Governor confirmed that this completes all the prior actions for the fourth review under the PRGF arrangement.

3. The government presented to Parliament on February 15, 2005, a draft Constitution (amendment) Bill. The bill proposes a broad-ranging revision of the 1995 constitution, including steps to (a) eliminate the two-term Presidential limit; (b) adopt multi-party democracy; (c) permit establishment of regional governments for interested districts; (d) permit dual citizenship; and (e) strengthen the powers of the Inspector General of Government. The goal is to complete the constitutional reforms by end-June 2005. The presidential and parliamentary elections will probably be held in March 2006.

Statement by Peter J. Ngumbullu, Executive Director for Uganda
and Joseph L. Masawe, Senior Advisor to Executive Director
February 23, 2005

Introduction

1. The Ugandan authorities express their appreciation for the continuous support they have received from the Fund and thank management and staff for the close collaboration and constructive engagement, which has contributed very positively towards improving the economy of Uganda. The authorities are also grateful for the assistance they have received from the donor community, in support of the country's development agenda.

2. It is noteworthy that, since early 1990s, the Ugandan government has consistently implemented sound macroeconomic policies coupled with an ambitious reform agenda. These efforts have resulted in sustained growth and overall reduction in poverty. During 2003/04, the economy continued to perform well, with real GDP growth reaching 5.9 percent and inflation declining from 10.2 percent to 5.1 percent between June 2003 and June 2004. As admitted by staff, Uganda has made remarkable achievements in establishing the foundation of a sound and profitable banking system. During the period, the banking sector remained strong, as non-performing loans continued to decline.

Recent Developments

3. Uganda's economic achievements have been possible, despite several externally driven challenges. The Northern part of the country continued to face increased attacks by insurgents, thus calling for extra efforts to strengthen the security situation in the area. The defense budget had to be augmented, causing pressure on government expenditure. As revenue performance was also not very good, the budget deficit expanded. Moreover, deterioration in terms of trade, temporary slowdown in GDP growth following a long drought and increase in average household size and dependency ratio resulted in an increase in the incidence of poverty. The exchange rate has also recently been under pressure, while interest rates have been rising, following sterilizations undertaken by the Bank of Uganda to mop up excess liquidity injected by donor inflows, despite the huge benefits associated with these inflows.

Performance Under the Program

4. The implementation of structural reforms was slower than programmed, due to unexpected shocks. Although all structural performance criteria were observed, eight structural benchmarks and four quantitative performance criteria for end June 2004 were not observed. However, remarkable progress has been made in achieving the missed performance criteria since the last review. The performance criterion on increase in base money, for example, which was missed by small margin in June 2004, has since been corrected. Base money growth targets for September 2004 and

December 2004 were attained with comfortable margins. The performance of the 2004/05 budget was impressive during the first quarter, with revenue and expenditure targets being within budgeted levels. Moreover, a number of prior actions agreed between staff and authorities have already been implemented by the authorities. Government policies for 2005/06 reflect government's commitment towards implementing other measures agreed under the program. On this basis, the authorities are requesting waivers for the non-observance of the four missed quantitative performance criteria for June 2004.

Macroeconomic Policies and Program for 2004/05

5. Although growth prospects for the Ugandan economy appear to be favorable, considerable challenges remain. During 2004/05, real GDP growth is projected to slow down to 5.5 percent following the impact of the current drought on agriculture. Headline inflation, which is highly influenced by food prices, is therefore estimated to reach 6 percent, although underlying inflation, which reflects the impact of monetary policy measures, is expected to be kept low, at around 4 percent. The overall fiscal deficit excluding grants is projected to narrow down slightly by about 1.3 percentage points to 10 percent. However, given strong growth in imports, the current account deficit excluding transfers will widen to around 12.2 percent of GDP. In light of these challenges, the authorities are determined to take further measures, to ensure that the economy remains on a high growth path.

Monetary and Financial Policies

6. The Bank of Uganda will continue to exercise prudence in its monetary policy, with base money as its operating tool. Measures will also be undertaken, to ensure that sources for liquidity expansion are minimized. The authorities intend to move all government accounts from commercial banks to the central bank in a phased manner. Specifically, during 2004/05, the growth of broad money will be limited to around 15 percent while measures will be taken to speed up growth of credit to the private sector. Priority will be directed towards increasing the flow of credit to micro-enterprises, while the process of licensing new micro-finance institutions, following the enactment of the new Micro-Finance Deposit Taking Institutions Act, will be enhanced. The government has called for expression of interest by strategic investors interested in minority share and management responsibilities of the Uganda Development Bank Limited (UDBL).

Fiscal policy

7. The authorities are committed to the fiscal consolidation efforts. For the remainder of 2004/05 emphasis in fiscal policy will be given to strengthening policies for monitoring and reducing domestic arrears. At the same time, measures will be taken to identify areas for expenditure saving, to accommodate the required additional spending on arrears clearance and priority programs, as authorities have decided to cut non-priority, non-wage spending by about 0.5 percent of GDP to compensate for

increases in priority spending and clearance of domestic arrears, during the remaining part of 2004/05

8. Tax measures will be broadened to ensure that revenue proceeds are adequate to cover additional expenditures already noted above. The recommendations of a recent Fund technical assistance mission will be implemented, including reorganizing and strengthening the Uganda Revenue Authority (URA) and provide a platform for modernizing revenue administration**.** In addition, the program on fiscal decentralization will continue to be implemented, while ensuring that the administrative capacity of local governments is strengthened. The government intends to take measures to strengthen the efficiency of public expenditures and streamline public administration in cooperation with the World Bank and other development partners.

Structural Measures

9. While the government has gone a long way in reforming the post conflict economy, more efforts will be undertaken in the coming period to deepen the reforms through a second generation of reforms. The main objective will be to generate more exports to facilitate a higher growth, reduce poverty and reduce government's dependence on foreign aid. The privatization of remaining public institutions will be pursued vigorously but carefully to ensure ownership and support of the public. Investors have already shown interest in participating in a joint concession contract for the Uganda Railway Corporation and Kenya Railway Corporation. Government's majority shares in the National Insurance Corporation (NIC) will be sold and efforts to privatize the public water and sewerage company will be pursued. Given that most of the electricity in Uganda is hydro-based, the government will continue with its negotiations with private investors who have already shown interest in implementing the hydropower project at the Bujagali Falls.

10. Measures aimed at eradicating poverty, stumping out corruption and improving governance will be pursued steadfastly under the Poverty Eradication Action Plan (PEAP). The recent set back in government's effort to reduce poverty will be addressed with more emphasis on measures aimed at raising incomes of the poor and enhancing the quality of human development. Efforts will also be directed towards increasing transparency and efficiency in the use of public resources to reduce poverty. Governance will be strengthened, with the Leadership Code being amended to increase the powers of the Inspector General of Government (IGG).

External Measures

11. The authorities are determined to continue to maintain a flexible exchange rate regime, given its benefits. The authorities intend to take measures to diversify and strengthen Uganda exports under the Strategic Exports Program (SEP). Exports to the East African region will be expanded under the East African Community Customs Union (EACCU) and export-processing zones (EPZ) will be introduced under the

new EPZ Law, to support export growth and attract FDIs. Measures to strengthen the investment climate, increase productivity and improve Uganda's external competitiveness will be implemented. It is expected that these measures will contribute positively towards improving Uganda's external position and reduce its vulnerability to external shocks.

External Debt

12. Uganda's external debt remains high and unsustainable despite the progress made in obtaining relief under the HIPC initiative. Steps to improve debt repayment capacity, through boosting exports and exercising better debt management will be implemented. It is also the objective of the authorities to ensure that all debts contracted are on IDA equivalent terms or better and that the proportion of grants to total donor inflows is higher.

Conclusion

13. The Ugandan authorities have made an impressive record in implementing macroeconomic reforms as a post conflict country. The reforms have resulted in a sustained high growth level and considerable reduction in poverty. However, despite the achievements, there remains daunting challenges that need to be addressed in order to mitigate external shocks, enhance growth and further reduce poverty.

14. The authorities will build on the achievements made so far, to promote higher future growth and reduce poverty, while ensuring that good governance is enhanced. Insecurity in the North remains a major source of risk to government's effort to improve the economy and conduct free and fair elections, which are due in 2006. During 2004/05, security in the North will be strengthened, to ensure that the 18-year-old insurgency by the Lord's Resistance Army is contained. It is our hope that the government will continue to receive the support of the international community, which is very important not only in restoring security in the Northern region, but also in ensuring that the forthcoming presidential and parliamentary elections are conducted in a peaceful environment. A constitutional review process is under way, to consider proposed constitutional changes on the presidential term limit and ensuring that the 2006 elections are contested on a multiparty basis.

15. Given the good record of the authorities in implementing the reforms and the intended measures which they intend to take to strengthen the economy, we request the Board's waiver of non-observance of the mentioned performance criteria and completion of the fourth review.