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Uganda: 2008 Article IV Consultation and Fourth Review Under the Policy Support Instrument—Staff Report; Staff Supplement; 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 2008 Article IV consultation with Uganda and the fourth review under the Policy Support Instrument, the following documents have been released and are included in this package:

- The staff report for the combined 2008 Article IV Consultation and Fourth Review Under the Policy Support Instrument, prepared by a staff team of the IMF, following discussions that ended on October 31, 2008, 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 December 19, 2008. 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 supplement of the Joint IMF/World Bank Debt Sustainability Analysis.

- A Press Release and a Public Information Notice (PIN), summarizing the views of the Executive Board as expressed during its January 7, 2009, discussion of the staff report on issues related to the Article IV consultation and the IMF arrangement, respectively.

- A statement by the Executive Director for Uganda.

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

Selected Issues Paper
Letter of Intent sent to the IMF by the authorities of Uganda*
Memorandum of Economic and Financial Policies by the authorities of
Uganda*
Technical Memorandum of Understanding*
*Also included in Staff Report

The 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 2008 Article IV Consultation And Fourth Review Under the Policy Support Instrument

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

Approved by Robert Corker and Dominique Desruelle

December 19, 2008

Discussions on the fourth review under the Policy Support Instrument were held in Kampala during October 20–31, 2008. The staff team comprised Messrs. Nord (head), Gershenson, Saenz (all AFR), and Mmes. Brunschwig (SPR), Jacobs (FAD), and Lukonga (MCM). The team met with Finance, Planning, and Economic Development Minister Suruma, Minister of Energy and Mineral Development Migereko, Bank of Uganda Governor Tumusiime Mutebile, Permanent Secretary/Secretary of the Treasury Kassami, Chairman of the Budget Committee of Parliament Oketcho, other senior officials, representatives of civil society, international and business communities, and the media. Mr. Selassie, senior resident representative, and his staff provided valuable assistance. Mr. Musinguzi, Senior Advisor to the Executive Director, participated in the discussions.

Uganda has accepted the obligations under Article VIII, sections 2, 3, and 4 and maintains an exchange system free of restrictions on the making of payments for current international transactions.

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Executive Summary

Uganda's economy has been among the fastest-growing in Sub-Saharan Africa. Building on a foundation of two decades of sound policies, Uganda achieved an impressive economic performance, with high growth, low inflation, and steady poverty reduction. The PSI-supported program remains on track, all assessment criteria for the fourth review have been met, and the staff recommends completion of the review.

But in 2008 Uganda has been buffeted by two major shocks. First, the global surge in food and fuel prices has caused domestic inflation to rise above 15 percent, well beyond traditional comfort levels. Second, the global economic downturn is likely to affect both the demand for Uganda's exports and, more significantly, the availability of financing for critical investment projects.

Economic growth in 2008/09 is expected to decline, but remain high by global and regional standards. Staff estimates that growth will fall to 7–7½ percent in the current year, as activity in the construction and services sectors slows down. In addition, the downside risks for economic growth are significant. At the same time, core inflation will benefit from falling international food and fuel prices, reaching an estimated 7 percent by June 2009.

Uganda's financial system has been relatively insulated from the global financial crisis, although vulnerabilities exist in some areas. The deteriorating economic environment could expose weaknesses in banks' risk management practices, gaps in home-host supervisory arrangements, operational risks as financial innovation outpaces banks' systems and controls, and increasing risk appetite due to intensifying competition from the surge of new banks. Stress tests suggest that credit risk, rather than direct foreign exposure, represents the main risk for the banking system.

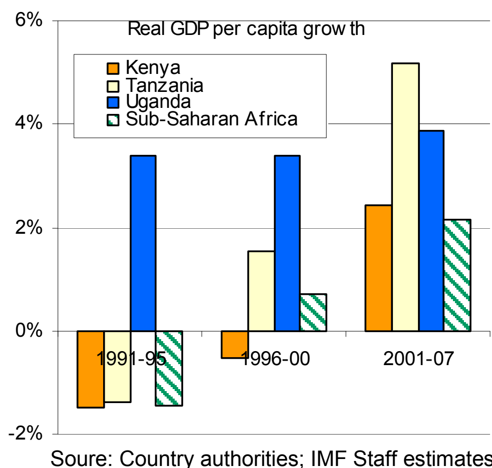
How should macroeconomic policies react in the short term? For monetary policy, the crucial challenge will be to sustain confidence in the currency and support the disinflation process. Meanwhile, fiscal policy should aim at maintaining the orientation of the 2008/09 budget and take a measured response to any cyclical weakening of tax revenues.

The medium-term outlook for Uganda remains favorable, but constraints on growth are likely to become more binding. Scaling up investment in transport and energy infrastructure is a critical priority for sustaining and indeed raising Uganda's medium-term growth potential. However, the international environment will be more challenging, perhaps for some years to come, which could affect the financing of investment projects. This places an additional premium on broadening the domestic revenue base and ensuring value for money in public spending. Staff's analysis suggests that Uganda's exchange rate is broadly in line with fundamentals.

I. INTRODUCTION

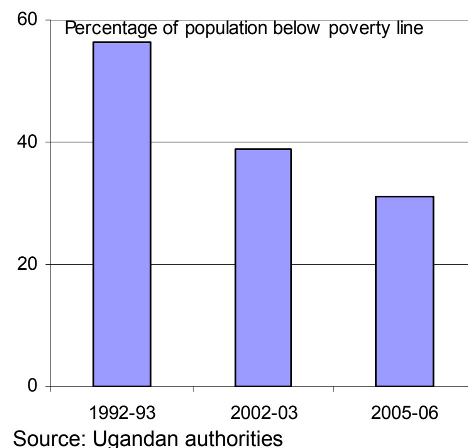
1. **Over the past two decades, Uganda has experienced one of the most impressive economic turnarounds in Africa.** The amelioration of conflict kick-started rapid economic growth, which has now been sustained for some 20 years. And the growth momentum has remained strong, with the real economic growth averaging close to 9 percent over the last 5 years. This growth record has likely been made possible by the reduction of macroeconomic imbalances and spread of reasonably well-functioning markets to virtually all parts of the economy. Importantly, growth has contributed to a sharp decline in poverty from 55 percent of the population in 1992/93 to 31 percent in 2005/06.

Figure 1.



Soure: Country authorities; IMF Staff estimates

Figure 2.



Source: Ugandan authorities

2. **This remarkable growth performance, however, has not been accompanied by a significant structural transformation of the economy.** Compared with other countries that have experienced such long episodes of sustained growth, Uganda remains more reliant on subsistence agriculture and correspondingly less on high-productivity manufacturing. Staff's research in this area[1] points to the need for greater infrastructure services, more focused government intervention, and improved export competitiveness.

3. **The global financial turmoil has hit Uganda as the country was tackling these medium-term challenges, and has caused a greater-than-usual degree of uncertainty for policymakers:**

- *What will happen to private capital inflows*? In recent years such flows have been buoyant, fueling increased consumption and investment. Foreign direct investment

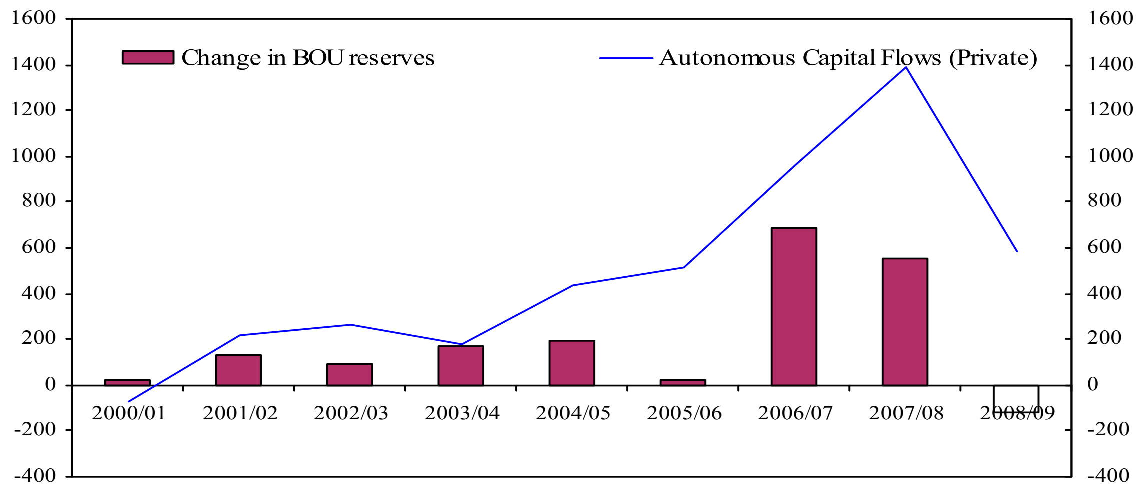
[1] Selassie, Abebe Aemro, *Beyond Macroeconomic Stability: The Quest for Industrialization in Uganda*, IMF Working Paper 08/231.

has also become increasingly important in financing infrastructure investment, particularly in the energy sector.

- *Is the impact on Uganda going to be greater because of its open capital account?* In October, the shilling depreciated by 20 percent against the U.S. dollar as capital inflows waned and non-resident portfolio investors liquidated some of their holdings.[2] This was a steeper fall than most other currencies in the region, and the ensuing volatility has raised the risk premium and complicated investment decisions.

- *Will development partner support be affected?* Development partners have so far not reduced their support. However, since one-third of the budget continues to be financed by grants or concessional loans, any future change in support would have important implications for Uganda.

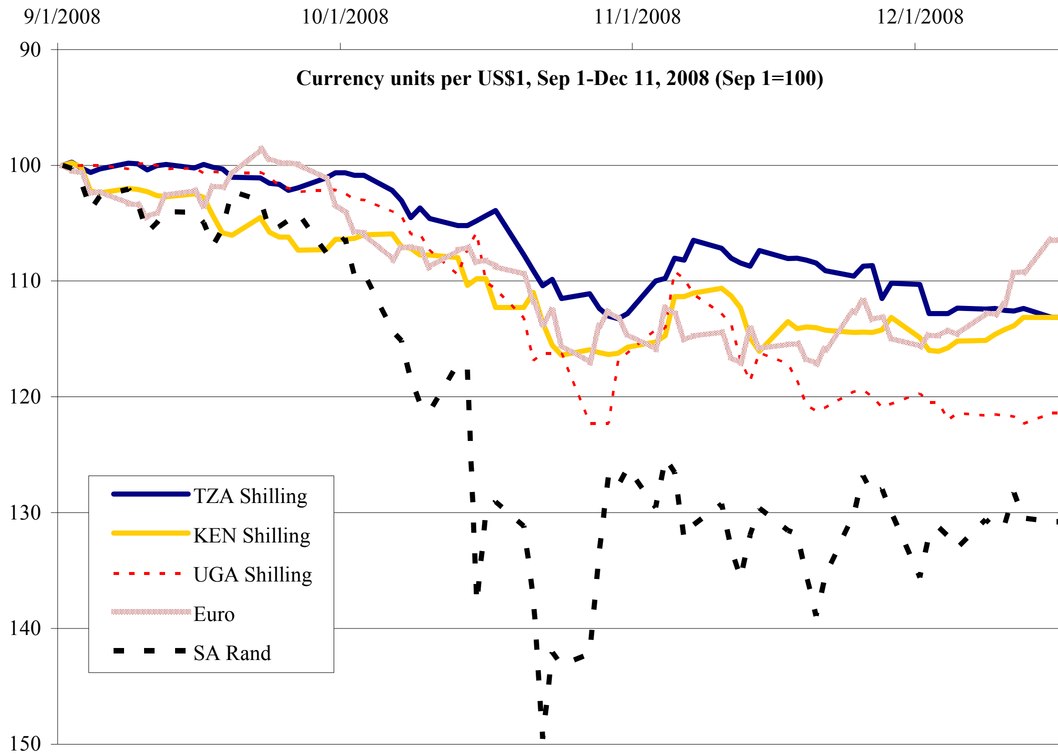
Figure 3. Evolution of Capital Inflows and Net International Reserves (US$ million)



Source: Ugandan authorities; IMF Staff estimates

[2] At end-September 2008, non-resident investors were estimated to have held some US$400 million in local government securities.

Figure 4. Exchange Rate of Selected Currencies to the US $



Source: Thompson Datastream; Ugandan authorities

4. **The last Article IV discussions took place in 2006.**[3] Fund policy advice focused on upgrading Uganda's infrastructure, expanding revenue collection and improving expenditure management, and calibrating the sterilization mix (see Box 1).

Box 1. Key Fund Policy Recommendations and Implementation

In line with advice from the Fund and other development partners, the authorities have launched an ambitious three-year **infrastructure investment** program in 2008/09.

The authorities are following the recommendations aimed at **strengthening the Uganda Revenue Authority**, although the increases in revenue-to-GDP ratio were revealed to have been smaller than expected following the recent upward revision to the GDP series. Progress in **expenditure managemen**t remains slow, as underbudgeting and disregard for proper procurement procedures continues to lead to the accumulation of new domestic arrears.

In the face of strong foreign exchange inflows through September 2008, the authorities have been reluctant to adjust the **sterilization mix** in favor of foreign exchange sales due to concerns about an appreciating exchange rate. They have used foreign exchange sales when market conditions were favorable.

II. Performance Under the PSI

5. **Uganda has had a PSI-supported program since early 2006.** The program focuses on maintaining macroeconomic stability, alleviating infrastructure deficiencies, deepening the financial sector, and strengthening the business environment. Performance has been broadly in line with program objectives, and all reviews have been successfully concluded.

6. **All assessment criteria for the fourth review have been met:**

- Fiscal performance at end-June 2008 was in line with the 2007/08 budget and the program's objective of gradual fiscal consolidation; the ceiling on net credit to government by the banking system was observed.

- Net domestic assets were well below the program ceiling due to larger-than-programmed accumulation of net international reserves by the BOU.[4] However, the

[3] See *Uganda—Staff Report for the 2006 Article IV Consultation* Country Report No. 07/29, and the Public Information Notice (PIN/07/8).

[4] For program purposes, net domestic assets are defined as base money minus net international reserves.

indicative target (ceiling) for base money was exceeded by 6 percent. In recent months, base money has returned to the program path.

- The indicative targets on spending under the Poverty Action Fund and on the stock of domestic budgetary arrears were observed.

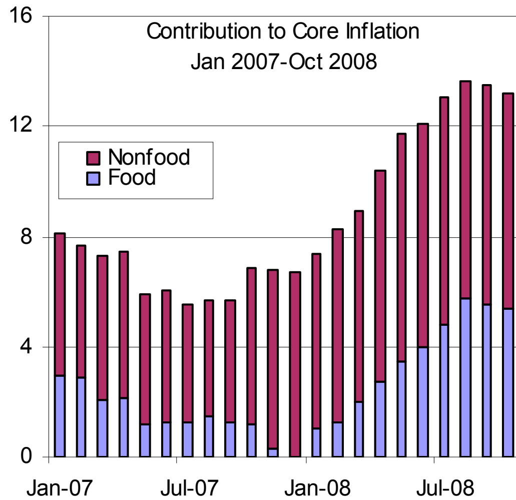
III. Global Turmoil: The Impact on the Ugandan Economy

The Ugandan economy has been resilient to shocks—growth has been sustained for more than 20 years against the backdrop of conflict in neighboring countries, sharp swings in the terms of trade, and unfavorable weather conditions. Would the economy be able to take the severe shocks of the last several months in its stride too? Overall, staff and the authorities agreed that the country was well positioned to do so. While growth would almost certainly slow down, there is no need for exceptional financing. Prudent economic management of recent years—avoiding a procyclical bias in policies and building up reserves for a rainy day—should ensure that Uganda weathers this storm successfully.

7. **Even before the recent turmoil in global financial markets, Uganda was affected by the sharp rise in world food and fuel prices**. In particular, core inflation was pushed to some 15 percent—a level not observed since the mid-1990s. High inflation also contributed to the sharp real effective appreciation of the shilling observed through September. The mission's analysis, presented in the selected issues paper, suggests that the pass-though from international food and fuel prices accounts for about 5 percentage points of the increase in the consumer price index.[5] This includes both first-round, direct effects as well as the second-round impact on goods and services that are indirectly affected. Increases in world prices for other commodities may have contributed to high domestic inflation as well. The more recent decline in international food and commodity prices should nonetheless help reduce core inflation to around 7 percent by mid-2009.

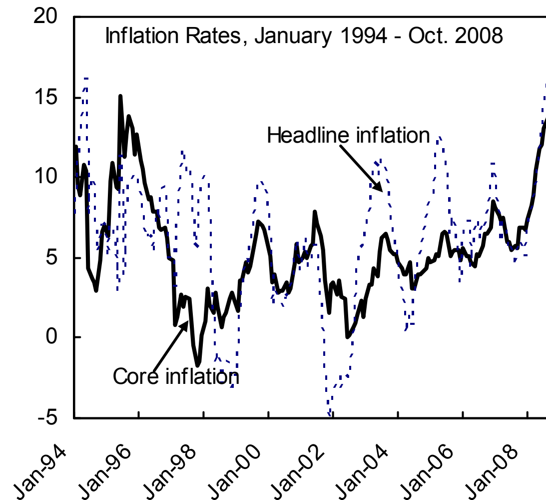
[5] See "*Impact of Rising International Food and Fuel Prices on Inflation in EAC Countries*," in *Rwanda and Uganda—Selected Issues.*

Figure 5.



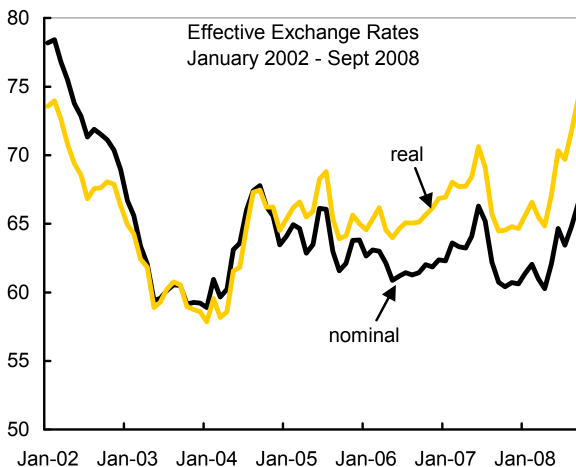
Source: Ugandan authorities; IMF Staff estimates

Figure 6.



Source: Ugandan authorities

Figure 7.

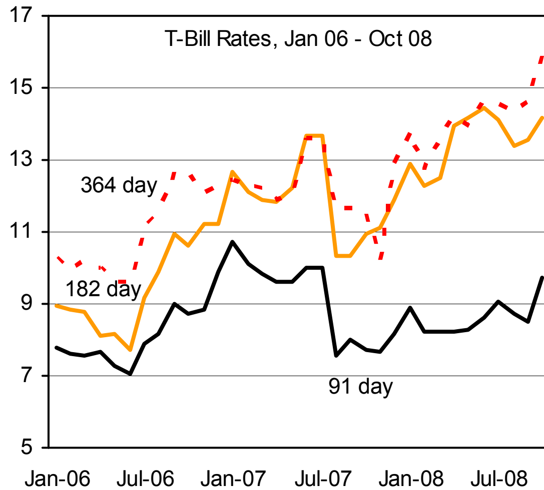


Source: Ugandan authorities; IFS

8. **The deterioration in the global environment is, at a minimum, expected to moderate growth from its rapid pace of recent years.** Staff and the authorities agreed that the transmission channels would likely include:

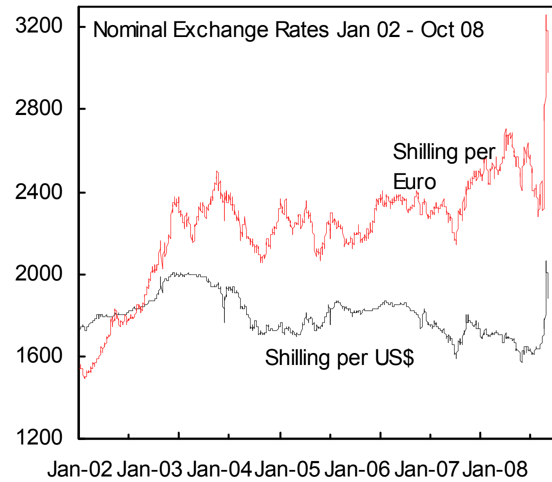
- Private capital inflows—private remittances, foreign direct investment, portfolio flows, and loans—in the next few years are likely to revert back to pre-2006 levels. And lower inflows are going to imply lower investment and consumption.

Figure 8.



Source: Ugandan authorities

Figure 9.



Source: Ugandan authorities

- Official inflows—expected to remain broadly unchanged in nominal terms in the short term given multi-year commitment of most donors—would likely decline as a share of the budget and output over the medium term.

- There would also likely be lower demand for Uganda's exports from neighboring countries and beyond.

- The heightened economic uncertainty, including on account of the sharp movements in the exchange rate in October, may also delay investment decisions.

In light of there considerations, staff expects economic growth in 2008/09 to fall to about 7–7½ percent, from an average of 9½ percent during the previous three years. With the turmoil in global financial markets still ongoing, however, the downside risks around this baseline scenario are significant.

9. **Uganda's fiscal and balance of payments positions are also likely to be affected, albeit to a manageable degree.** Revenue collection is likely to be somewhat weaker than projected in the budget, continuing a trend that started in the first quarter of 2008/09, although scope remains for further improving tax administration. The impact on the overall fiscal position is likely to be mitigated, however, by delays in the implementation of the ambitious infrastructure projects. The external position is also likely to come under pressure, and export growth is projected to slow down to about 5 percent in 2008/09 as a result of lower growth in trading partner countries.

10. **The banking sector appears sound overall, although vulnerabilities exist in some areas.** The banks are well-capitalized and there is no indication that they are directly exposed to the toxic debt that has caused havoc elsewhere. At the same time, the rapid expansion of

the banking system and the significant share of foreign exchange-denominated assets and liabilities on banks' balance sheets may present risks. In particular, nonperforming loans have started to increase in nominal terms, although as a result of rapid balance sheet growth they remain modest as a fraction of total assets. Stress tests suggest that credit risk, rather than direct foreign exchange exposure, represents the main risk for the banking system.

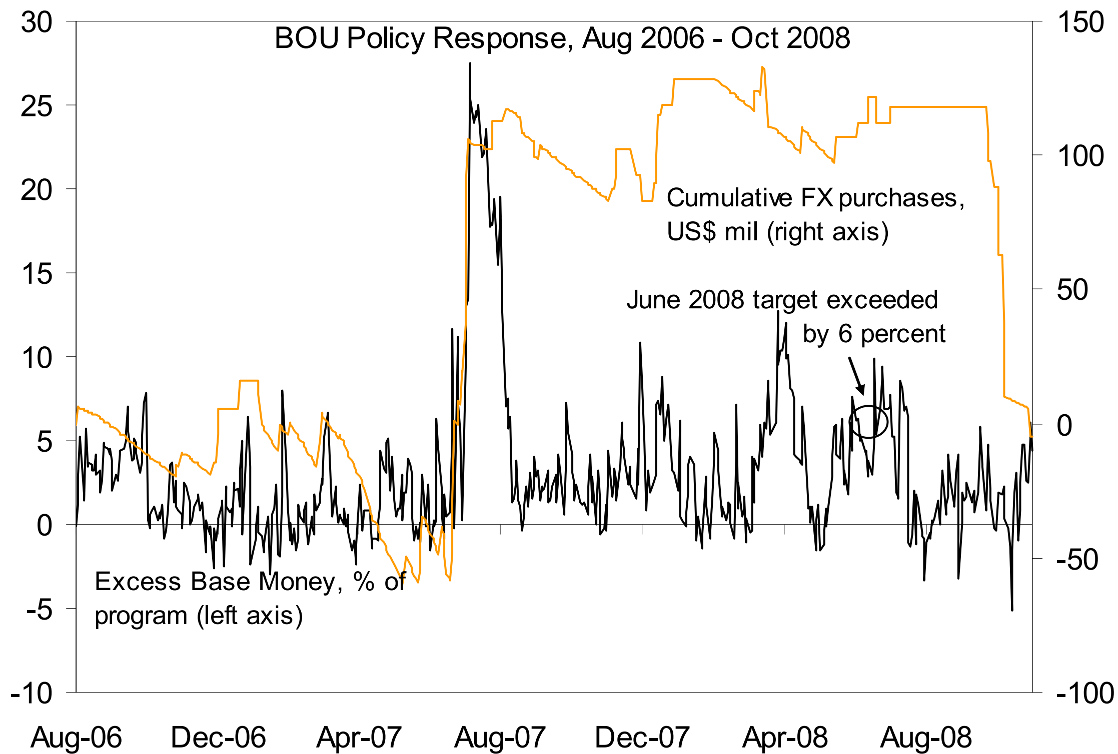
IV. Tackling the Crisis: Policies in the Short Term

Given the country's strong fundamentals, staff called for near-term policies to focus on minimizing undue volatility in the exchange rate and calibrating a measured response to cyclical weakening of revenues.

11. **The mission called for monetary policy to sustain confidence in the currency while supporting disinflation.** The mission saw merit in targeted intervention in the foreign exchange market to stem unwarranted overshooting of the exchange rate. An increase in regular foreign exchange sales for sterilization purposes would also help to support this objective. The authorities agreed, noting their long-standing policy of only intervening to avoid undue volatility in the exchange rate. The BOU had intervened strongly in recent months, and regular foreign exchange sales for sterilization purposes had also resumed. At the same time, the authorities underlined the need to safeguard reserves in view of the changed outlook for capital inflows.

12. **The authorities plan to contain base money growth in 2008/09 well below that in the previous year.** While the planned expansion in development expenditure has the potential to increase inflationary pressures, staff and the authorities agreed that the proposed monetary stance should allow twelve-month inflation to decline to 7 percent by June 2009, helped by falling world market prices. The authorities agreed that it was important to seize the opportunity to bring inflation back down toward the medium-term objective of 5 percent.

Figure 10.



13. **The mission recommended a measured response to cyclical weakening of revenues**. The anticipated slowdown in economic activity raises questions about the feasibility of the 2008/09 revenue targets. Indeed, according to the preliminary data for the first quarter of the fiscal year, revenue collection was five percent below target, notwithstanding higher-than-expected inflation. While the precise magnitude of the cyclical component in revenue decline is uncertain, staff felt that cuts to the already-tight current spending levels should be avoided. Besides the risk that further cuts could lead to accumulation of arrears, staff pointed to indications that the capital budget would be underspent as another reason to maintain the current spending profile. The authorities nonetheless felt that the annual nominal revenue target could still be achieved. They noted that in the event of the revenue shortfall spending cuts would be avoided as much as possible, and emphasized that ministries and spending agencies were working hard to ensure that the capital budget would be implemented to the fullest extent possible.[6]

[6] To the extent that the additional funds appropriated for the roads sector in the 2008/09 budget are not utilized in the current fiscal year, unspent amounts would be ring-fenced and carried over to the next year.

14. **Containing financial sector risks calls for continued vigilance.** With most banks foreign-owned, an immediate priority should be to strengthen collaboration and information exchange between the BOU as host supervisor and the home supervisors of banks operating in Uganda. In particular, there is a need to agree on contagion crisis arrangements to ensure that problems in banks' home countries are not resolved at the expense of the Ugandan subsidiaries. The BOU should also strengthen its risk analysis. In particular, with foreign exchange-denominated loans representing about 30 percent of banks' loan portfolios, it is important to ensure that they are not exposed to undue risk by strengthening regulations on foreign currency lending to unhedged borrowers. The authorities welcomed the mission's advice and agreed with most of its recommendations.

V. Maintaining Momentum: Medium-term Outlook and Challenges

The authorities are in the process of preparing a new National Development Plan (NDP), which is expected to sustain the re-orientation of government spending towards improved infrastructure services—most notably, transport and energy infrastructure as well as water for agricultural production. At the same time, the weaker external environment may affect the financing of investment projects, placing additional emphasis on ensuring value for money in public spending. Staff's analysis suggests that Uganda's exchange rate is broadly in line with fundamentals.

A. Fiscal performance, infrastructure, and the financial sector

15. **Fiscal consolidation has been central to Uganda's macroeconomic policies in recent years.** The authorities, while not adhering to an explicit anchor, have strived to gradually reduce the overall deficit (excluding grants) and avoid domestic borrowing. This was done to reduce donor dependence, encourage private sector development, and ease appreciation pressures on the shilling.

16. **This consolidation is set to be temporarily reversed as the government scales up investment to address prominent infrastructure needs** (see Box 2). Over the medium term, development expenditure is projected to expand by nearly four percentage points of GDP from the level currently budgeted for 2008/09, and total expenditure to taper off at nearly 22 percent of GDP by 2012/13. Under the authorities' conservative assumptions about future foreign assistance flows (significantly below the 8 percent average ratio to GDP observed over the last five years), this expenditure path could be financed through a combination of higher tax revenue and domestic borrowing (see text table). Possible delays in project implementation, however, could result in corresponding postponement of expenditure.

Text Table 1.

Uganda: Domestic Primary Balance and Financing 2007/08-2012/13 [1]

(percent of GDP)

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Revenue (excluding grants)	**13.0**	**12.9**	**13.4**	**13.9**	**14.4**	**14.9**
Domestic primary expenditure	**13.9**	**14.7**	**16.3**	**17.7**	**18.5**	**19.1**
Current expenditures net of interest payments	10.4	8.9	8.3	8.7	10.1	10.1
Domestically-financed development expenditures	2.9	4.7	7.4	8.5	8.0	8.6
Net lending and investment	-0.7	-0.2	-0.1	-0.1	-0.1	-0.1
Other spending	1.2	1.3	0.7	0.5	0.4	0.4
Domestic primary balance	**-0.9**	**-1.8**	**-2.9**	**-3.7**	**-4.1**	**-4.2**
Financing	**0.9**	**2.0**	**2.9**	**3.7**	**4.1**	**4.2**
Donor budget support [2]	**2.8**	**2.8**	**3.3**	**4.0**	**4.2**	**4.1**
Debt service, including exceptional financing	**-1.7**	**-1.6**	**-1.4**	**-1.3**	**-1.1**	**-0.9**
Domestic borrowing	**-0.3**	**0.8**	**1.0**	**0.9**	**1.0**	**1.0**
Other [3]	**0.1**	**-0.2**	**0.0**	**0.0**	**0.0**	**0.0**
Memo Items:						
Total expenditure	17.8	20.6	20.4	20.8	21.4	21.6
Total development expenditure	5.5	9.4	10.5	10.7	10.1	10.5
o/w: donor-supported	2.6	4.5	3.1	2.2	2.1	1.9
Total official aid	5.6	7.3	6.4	6.2	6.2	6.0

[1] Authorities' estimates for 2007/08 and 2008/09; staff projections for 2009/10 onwards.

[2] Grants and loans.

[3] Errors and omissions plus drawdown of project accounts at the BOU.

17. **Fiscal policy could benefit from a strong and transparent medium-term anchor.** In Uganda's context, the mission argued that the key objective of macroeconomic stability—providing sufficient room for private sector credit growth and safeguarding debt sustainability—would be best served by a medium-term deficit or financing target. Sufficient flexibility should be provided to ensure that high-return public investment does not get crowded out. At the same time, the recent emphasis on value-for-money needs to be retained, and indeed strengthened, to ensure that available resources are spent well. This will be especially important once oil revenues begin to flow. The authorities were in broad agreement with the mission and expected to consider the issue in the forthcoming NDP.

18. **A drawdown in net international reserves (NIR) could allow the banking system to provide for the government's additional financing needs without unduly crowding out the private sector.** With NIR currently covering more than six months of imports and assuming that the global financial crisis does not have a substantial impact on this stock beyond the US$117 million drawdown projected for 2008/09, there is space to use some of these resources to finance Uganda's infrastructure needs and still maintain reserves in excess of four months of imports by 2012/13. Private sector credit is expected to grow at a healthy 20 percent per year, well above nominal GDP growth rates, consistent with the authorities' goal of promoting financial deepening.

19. **The authorities remain committed to their target of increasing tax collection by ½ percent of GDP annually.** Despite significant efforts, Uganda's tax collection lags behind other countries in Sub-Saharan Africa. Raising the revenue effort will require further improvements in tax administration and the authorities are taking some steps in the short term (see MEFP, paragraph 7). In the medium term, further measures could include reform of the Tax Procedure Code, launch of the Medium Taxpayer Office, and strengthening of the Domestic Tax department of the Uganda Revenue Authority.

Box 2. Infrastructure needs

With the notable exception of the rapidly expanding telecommunication sector, the state of Uganda's infrastructure is poor. Road density indicators are at par with the average for Sub-Saharan Africa, but a much smaller fraction of the roads are paved. The existing railways are in poor shape and carry a negligible volume of freight. Electricity supply lags far behind demand, is unreliable (forcing firms and households to invest in expensive diesel generators), and is available to less than one-tenth of the population. (Source: *Uganda: Moving Beyond Recovery,* Country Economic Memorandum, World Bank, 2007.)

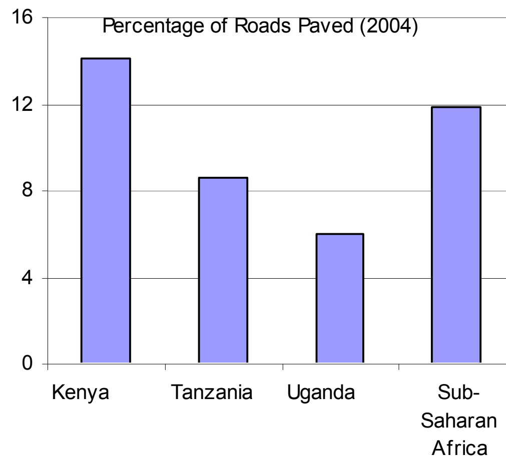


Figure 11.

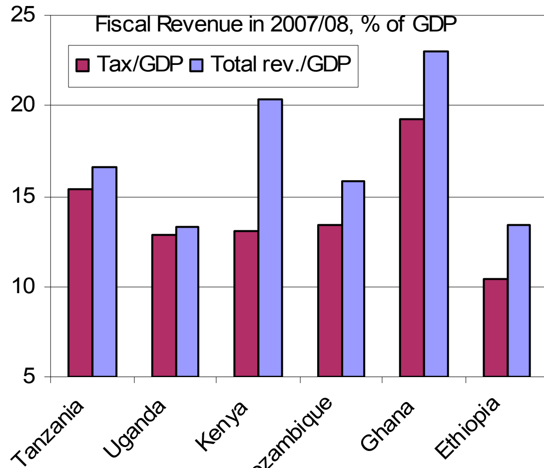
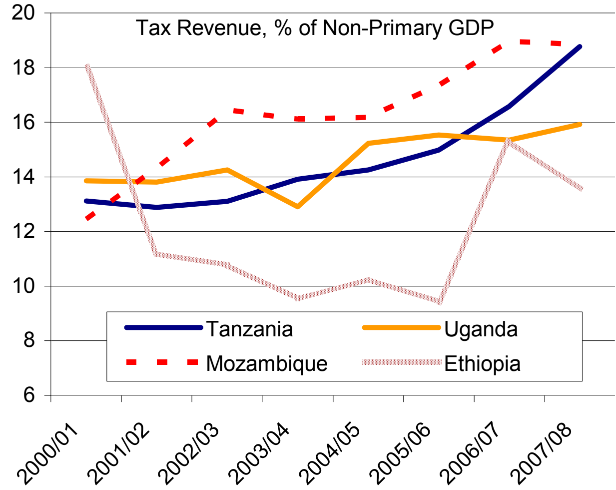


Figure 12.



20. **Domestic expenditure arrears continue to pose challenges.** The introduction of the Integrated Financial Management System (IFMS) neither prevented further accumulation of domestic arrears—the stock of arrears had grown from 0.5 to 0.7 percent of GDP between June 2006 and June 2007—nor allowed for timely reporting. The authorities are nevertheless confident that recent improvements in the IFMS system and the planned roll-out of an integrated payroll and personnel system (a structural assessment criterion) will reduce the occurrence of new arrears (see MEFP, paragraph 8). The verification of all arrears for 2007/08 is expected by end-March 2009, and the 2008/09 budget includes an allocation of one percent of GDP for the clearance of old arrears.

21. **The authorities, jointly with their EAC counterparts, are working on developing Uganda's financial sector** (MEFP, paragraph 19). The depth and reach of Uganda's financial sector remain limited, and its further growth will be instrumental in facilitating private sector development and poverty alleviation, and in enhancing the authorities' ability to rely on open market operations for the conduct of monetary policy.

Figure 13.

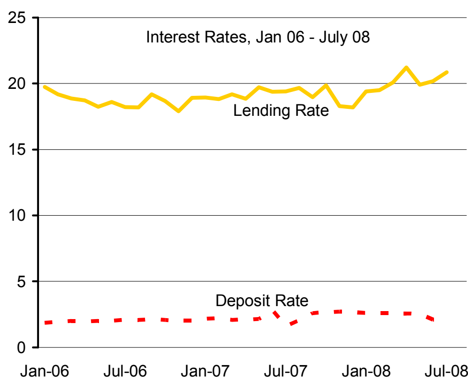
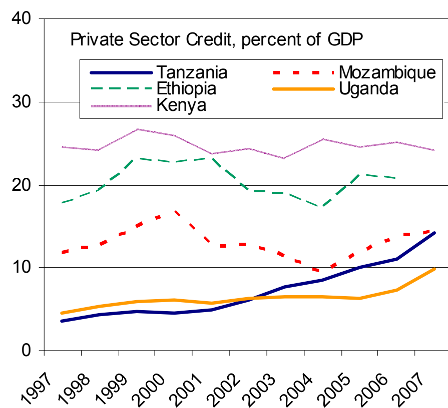


Figure 14.



B. Real exchange rate and competitiveness

22. **In the face of strong foreign exchange inflows, the real exchange rate has appreciated by some five percent over the past two years.** While allowing some exchange rate flexibility, the authorities regarded part of the inflows as temporary; aiming to avoid undue appreciation, the BOU accumulated significant foreign exchange reserves during this period. In this environment, growth of exports has exceeded overall GDP growth in recent years and the volume growth of major export commodities (except coffee, which has been affected by the coffee wilt disease) was either in line or above the average volume growth of world exports. This suggests no obvious competitiveness problem, although export-to-GDP ratio remains low by regional standards.

23. **Staff's analysis suggests that Uganda's exchange rate is broadly in line with fundamentals.** In the medium term, faster productivity growth than in partner countries, and strong official and private capital inflows, would allow Uganda to sustain significant current account deficits for some time to come—consistent with an appreciation of the equilibrium real exchange rate (see Box 3). The risk of lower foreign exchange inflows due to the global financial crisis, however, limits the scope for appreciation in the short term. Uganda's open capital account suggests that it is best-served by allowing exchange rate flexibility to dampen external shocks while using foreign exchange intervention judiciously to avoid excessive volatility of the exchange rate.

Figure 15.

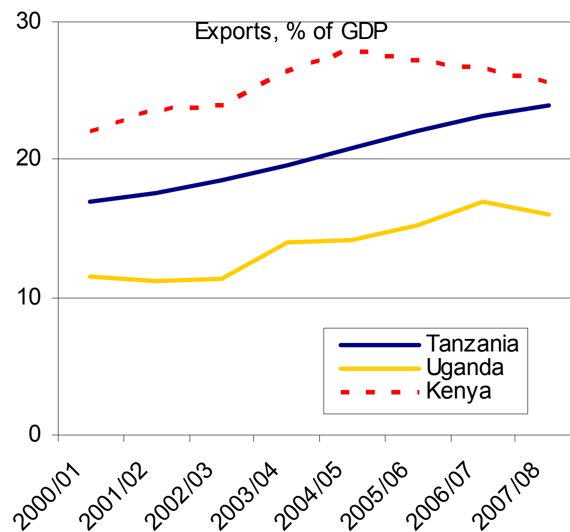
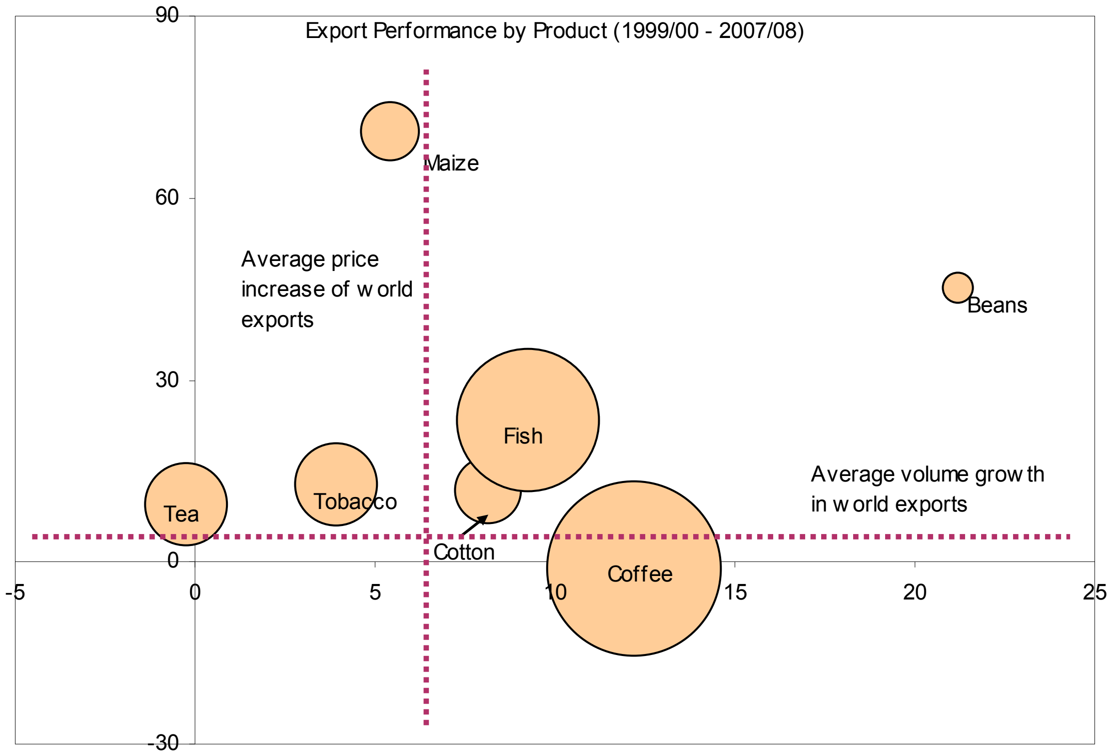


Figure 16.



Source: Fund staff estimates

Box 3. Analysis of real exchange rate fundamentals

Following IMF (2006), three approaches were used to study the evolution of fundamental factors affecting the real exchange rate in the medium term: equilibrium real exchange rate (ERER), macroeconomic balance (MB), and external sustainability (ES).

I. Staff estimated the **ERER** as a function of medium-term fundamentals (terms of trade, trade volumes, GDP, and aid). The **results** were inconclusive, pointing to under- or over valuation of RER depending on the exact specification of the model.

II. In the two-step **MB approach**, staff first calculated the gap between (i) the current account balance projected over the medium term at prevailing exchange rates; and (ii) an estimated equilibrium current account balance (the "norm"), which is a function of macroeconomic fundamentals (fiscal balance, demographics, oil balance, economic growth). Second, staff estimated the adjustment in the real exchange rate that is needed to close the gap derived above.

Results: the current account deficit projected under the constant real exchange rate assumptions (4 percent of GDP in the medium term) is one percentage point below the estimated equilibrium current account deficit (5 percent of GDP). Given the estimated elasticity of changes in balance of payments to changes in real exchange rate, a real exchange rate appreciation of some 9 percent would be needed in the medium term.

III. The **ES approach** is based on the idea that the present value of future trade surpluses must be sufficient to pay for the country's external liabilities As under the MB approach, staff calculated the gap between the current account balance projected over the medium term and the current account "norm." Under the ES approach, however, the "norm" is defined as the current account balance that stabilizes Uganda's external position at some benchmark level.

The **results** point to real exchange rate appreciation; the exact magnitude depends largely on the view of what constitutes a sustainable external position. Thus, between 1995 and 2004 (the latest period for which the data are available), Uganda's NFA fluctuated between -40 and -60 percent of GDP (Lane and Milesi Ferretti, 2006). Assuming high GDP growth (8 percent) and low inflation (5 percent) in the medium term, projected appreciation will be 4 percent, if NFA is targeted at -40 percent of GDP and 27 percent, if NFA is targeted at -60 percent of GDP.

References:

IMF, 2006, *Methodology for CGER Exchange Rate Assessments.*

Philip Lane and Gian Maria Milesi Ferretti, 2006, *The External Wealth of Nations Mark II: Revised and Extended Estimates of Foreign Assets and Liabilities, 1970–2004*, IMF Working Paper 06/69.

C. Other Issues

24. **Regional integration is proceeding and represents an opportunity for sustaining good economic performance in the region.** The economic benefits of a common market in goods and services are potentially large. Going forward, strong political commitment will need to be accompanied by intensified technical efforts on the ground, for example in the elimination of remaining barriers to trade and the harmonization of economic statistics. Financial integration, and the establishment of a currency union, also have significant implications for economic policies today. The authorities are working jointly with their EAC counterparts on the relevant issues (see MEFP, paragraphs 15-17 and 19). A chapter in the selected issues paper discusses capital market integration in the EAC and the limits to the conduct of independent monetary and exchange rate policies this will impose on the member countries.[7]

25. **Joint analysis with the World Bank suggests that Uganda's risk of debt distress remains low.** Uganda's debt ratios have improved substantially over the past few years (thanks to HIPC and MDRI debt relief) and are projected to remain low over the medium term and beyond under the baseline scenario.

26. **Progress is being made toward the adoption of a more formal inflation targeting framework.** The new measure of core inflation will be very helpful. Going forward, developing high frequency economic activity indices and a formal inflation forecasting model should have priority (see MEFP, paragraph 14).

27. **Oil exploration continues, with small-scale production expected to commence in 2010.** Uganda now has confirmed petroleum development potential from a number of discoveries. The scale of potential recoverable reserves, however, remains uncertain, and no discovery has yet been declared commercial. Consequently, oil production has not been incorporated into the macroeconomic framework yet.

VI. Program Implementation and Monitoring

28. **For monitoring performance under the program,** quantitative assessment criteria for December 2008 and June 2009, quantitative indicative targets for December 2008, March and June 2009, and June 2010, and structural assessment criterion and benchmark have been set (MEFP, Tables 1 and 2). The date of implementation for structural assessment criterion on integrated payroll and pension system has been shifted from January to July 2009 due to delays in procurement process.

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[7] See "Progress Toward Harmonization of Capital Account Regulations and Capital Market Integration in the East African Community," in *Uganda—Selected Issues.*

VII. Staff Appraisal

29. **Uganda's economy has been among the fastest-growing in Sub-Saharan Africa.** Building on a foundation of two decades of sound policies, Uganda has achieved an impressive economic performance, with high growth, low inflation, and steady poverty reduction.

30. **This remarkable growth performance, however, has not resulted in a significant structural transformation of the economy.** Compared with other countries that have experienced such long episodes of sustained growth, Uganda remains more reliant on subsistence agriculture and correspondingly less on high-productivity manufacturing.

31. **In 2008 Uganda has been buffeted by two major shocks**. First, the global surge in food and fuel prices has caused domestic inflation to rise above 15 percent, well beyond traditional comfort levels. Second, the global economic downturn is likely to affect both the demand for Uganda's exports and, more significantly, the availability of financing for critical investment projects.

32. **Economic growth in 2008/09 will decline, although it will remain high by global and regional standards.** Staff estimates that growth could fall to 7-7½ percent in the current year, as activity in the construction and services sectors slows down. However, against the backdrop of heightened global uncertainty, the downside risks to economic growth are significant. Exchange rate volatility, in part related to Uganda's open capital account, has increased sharply in recent months, raising risk premia and complicating the disinflation process.

33. **Monetary policy should aim at sustaining confidence in the currency while supporting the disinflation process.** While maintaining the primary objective of price stability, there is merit in targeted intervention in the foreign exchange market to avoid excessive volatility. Bringing down core inflation will be helped by falling international food and fuel prices, and monetary policy should seize the opportunity to bring inflation back down toward its medium-term target of 5 percent.

34. **Fiscal policy should maintain the orientation of the 2008/09 budget and offer measured response to cyclical weakening of revenues.** The anticipated slowdown in economic activity is likely to make the ambitious revenue target more difficult to achieve. Nevertheless, immediate cuts in current expenditures should be avoided. Precipitous cuts would likely exacerbate the problem of domestic arrears; moreover, signs that capital spending could fall short of target also suggest that further expenditure reductions should not be rushed.

35. **The banking sector remains sound overall, although vulnerabilities exist in some areas.** The banks are well-capitalized and there is no indication that they are directly exposed to the toxic debt that has caused havoc elsewhere. At the same time, the rapid expansion of

the banking system and the significant share of foreign exchange-denominated assets and liabilities on banks' balance sheets may present risks. Stress tests suggest that credit risk, rather than direct foreign exchange exposure, represents the main risk for the banking system.

36. **Containing financial sector risks calls for continued vigilance.** With most banks foreign-owned, an immediate priority should be to strengthen collaboration and information exchange between the BOU as host supervisor and the home supervisors of banks operating in Uganda. In particular, there is a need to agree on contagion crisis arrangements to ensure that problems in banks' home countries are not resolved at the expense of the Ugandan subsidiaries. The BOU should also strengthen its risk analysis. In particular, with foreign exchange-denominated loans representing about 30 percent of banks' loan portfolios, it is important to ensure that they are not exposed to undue risk should borrowers not be perfectly hedged.

37. **The medium-term outlook for Uganda remains favorable, but constraints on growth are likely to become binding.** Scaling up investment in transport and energy infrastructure is a critical priority for sustaining and indeed raising Uganda's medium-term growth potential. However, the international environment will be more challenging, perhaps for some years to come, which could affect the financing of investment projects. This places an additional premium on broadening the domestic revenue base and ensuring value for money in public spending.

38. **Uganda's exchange rate is broadly in line with fundamentals.** Despite some real appreciation in recent years, export performance has been strong, indicating that Uganda remains competitive. Analysis of exchange rate fundamentals suggests that, over the medium term, there is a room for Uganda's real exchange to appreciate, as productivity growth outpaces that in partner countries. In the short term, however, Uganda's open capital account implies that the economy is best served by allowing exchange rate flexibility to dampen external shocks while using foreign exchange intervention judiciously to avoid unwarranted overshooting of the exchange rate.

39. **The PSI-supported program remains on track,** all assessment criteria for the fourth review have been met, and the staff recommends completion of the review.

40. It is proposed that the next Article IV consultation be held in accordance with the decision on consultation cycles approved on July 15, 2002.

Table 1. Uganda: Selected Economic and Financial Indicators, 2006/07–2012/13 [1]

	2006/07	2007/08		2008/09	2009/10	2010/11	2011/12	2012/13
	Act.	Prog.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.
GDP and prices (percent change)								
Real GDP	8.6	9.8	9.5	7.4	7.3	7.1	8.0	8.0
Headline inflation (end of period)	4.4	10.2	12.5	7.7	5.0	5.0	5.0	5.0
Core inflation (end of period)	7.3	11.3	12.1	7.0	5.0	5.0	5.0	5.0
External sector (percent change)								
Terms of trade (deterioration –)	5.5	...	-2.5	--	-3.6	-2.6	…	…
Real effective exchange rate (depreciation –)	2.7	…	…	…	…	…	…	…
Money and credit (percent change)								
Broad money (M2)	16.7	20.3	30.3	18.0	17.6	16.7	17.6	19.0
Domestic credit	-6.4	7.2	22.0	16.2	14.9	15.1	16.0	16.3
Credit to the central government [2]	-17.2	-7.6	-4.3	1.4	2.9	2.9	3.5	3.5
Private sector credit	22.9	31.4	56.1	26.4	19.9	19.9	19.9	19.9
Savings and investment (percent of GDP)								
Domestic investment	22.1	24.1	23.6	27.3	29.7	30.3	30.2	31.0
Public	4.9	4.9	5.5	9.2	11.1	11.2	10.6	10.9
Private	17.2	19.2	18.1	18.1	18.6	19.1	19.6	20.1
National savings (excluding grants)	14.8	15.4	14.5	17.7	20.2	21.3	20.9	22.2
Public	-0.7	-2.7	0.7	2.3	4.1	4.3	3.6	4.2
Private	15.5	18.1	13.8	15.4	16.1	17.0	17.3	18.0
External sector (percent of GDP)								
Current account balance (including grants)	-2.7	-3.6	-6.1	-5.3	-5.9	-5.5	-5.8	-5.4
Net donor inflows	6.5	7.7	4.9	7.0	6.5	6.4	6.3	6.1
Current account balance (excluding grants)	-7.3	-8.8	-9.1	-9.6	-9.5	-9.0	-9.3	-8.8
External debt (including Fund)	11.0	14.3	12.3	13.9	15.6	17.1	18.3	19.0
External debt-service ratio [3, 4]	1.2	2.6	1.6	1.8	1.6	1.2	1.3	1.1
Government budget and debt (percent of GDP)								
Revenue	12.6	13.3	13.0	12.9	13.4	13.9	14.4	14.9
Grants	4.5	5.3	2.7	4.1	3.1	3.0	3.0	3.0
Total expenditure and net lending	-18.2	-21.0	-17.8	-20.6	-20.4	-20.8	-21.4	-21.6
Overall balance (including grants)	-1.1	-2.4	-2.1	-3.5	-4.0	-3.9	-4.0	-3.8
Overall balance (excluding grants)	-5.6	-7.7	-4.8	-7.7	-7.0	-6.9	-7.0	-6.8
Stock of domestic debt	9.3	11.6	10.7	7.7	7.2	5.9	5.2	4.5
Memorandum items:								
Nominal GDP (U Sh billions)	21,168	24,069	24,648	30,782	34,950	39,363	44,687	51,287
Average exchange rate (U Sh per US$)	1,778	…	…	…	…	…	…	…
Treasury bill yield (percent)	9.4	…	8.3	…	…	…	…	…
Overall balance of payments (US$ millions)	704	569	572	-92	91	-78	-3	61
Gross foreign exchange reserves								
(months of next year's imports of goods and services)	5.3	6.0	6.3	5.7	5.6	5.0	4.7	…

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

[1] Fiscal year begins in July.
[2] Percent of M3 at start of the period.
[3] Percent of exports of goods and nonfactor services.
[4] Including Fund obligations; reflects actual debt service paid, including debt relief.

Table 2. Uganda: Fiscal Operations of the Central Government, 2006/07–2012/13 [1]

	2006/07	2007/08		2008/09	2009/10	2010/11	2011/12	2012/13
	Actual	Prog.	Actual	Proj.	Proj.	Proj.	Proj.	Proj.
(U Sh Billions)								
Total revenue and grants	3,624	4,464	3,862	5,259	5,751	6,669	7,765	9,144
Revenue	2,667	3,197	3,200	3,984	4,682	5,486	6,418	7,623
Tax	2,524	3,074	3,098	3,880	4,540	5,339	6,253	7,439
International trade taxes	261	309	382	460	529	615	700	848
Income taxes	782	910	862	1,161	1,319	1,518	1,801	2,161
Excises	653	804	815	905	1,048	1,211	1,437	1,676
Value-added tax	829	1,051	1,039	1,169	1,295	1,601	1,868	2,241
Additional revenue effort	0	0	0	92	175	197	223	256
Nontax	144	123	102	104	142	147	165	184
Grants	957	1,267	662	1,275	1,069	1,183	1,347	1,522
Budget support	776	520	475	521	526	856	975	1,116
Project grants	181	747	187	754	543	327	372	406
Expenditures and net lending	3,856	5,051	4,384	6,343	7,141	8,203	9,547	11,098
Current expenditures	2,442	2,842	2,881	3,102	3,259	3,826	4,881	5,556
Wages and salaries	987	1,115	1,106	1,192	1,433	1,693	2,011	2,462
Interest payments	236	309	309	358	366	389	371	366
Other current	1,220	1,418	1,466	1,551	1,460	1,744	2,600	2,829
Development expenditures	1,217	2,054	1,362	2,895	3,671	4,214	4,502	5,373
Donor-supported projects	503	1,330	644	1,397	1,074	864	916	957
Domestic-financed	714	724	718	1,445	2,597	3,350	3,586	4,416
Of which: add'l energy crisis spending	207	92	119	228	160	160	160	160
Of which: Karuma spending	0	0	0	0	251	254	257	260
Of which: Roads	0	0	0	538	509	516	0	0
Net lending and investment	46	-138	-163	-61	-39	-37	-36	-31
Other spending [2]	151	293	304	408	250	200	200	200
Overall balance								
Including grants	-231	-587	-522	-1,084	-1,390	-1,534	-1,782	-1,953
Excluding grants	-1,188	-1,854	-1,184	-2,359	-2,459	-2,717	-3,129	-3,475
Excl. grants and add'l energy spending	-981	-1,762	-1,065	-2,131	-2,299	-2,557	-2,969	-3,315
Financing	174	587	553	1,084	1,390	1,534	1,782	1,953
External financing (net)	379	849	619	843	1,046	1,162	1,325	1,446
Disbursement	520	978	706	981	1,171	1,267	1,431	1,553
Budget support	249	395	211	338	640	730	887	1,002
Project loans	271	583	495	643	531	537	544	551
Amortization (–)	-104	-92	-87	-94	-98	-103	-105	-106
Exceptional financing [2]	-38	-36	-13	-44	-30	-5	-4	-4
Domestic financing (net)	-205	-263	-65	241	344	372	457	508
Bank financing	-562	-294	-164	71	174	202	287	338
Of which: MDRI-related government deposits	56	44	46	35	54	33	9	1
Nonbank financing	357	31	99	170	170	170	170	170
Errors and omissions/financing gap	57	0	-31	0	0	0	0	0
Memorandum items:								
MDRI spending	56	44	46	35	54	33	9	1

Table 2. Uganda: Fiscal Operations of the Central Government, 2006/07–2012/13 [1] (concluded)

	2006/07	2007/08		2008/09	2009/10	2010/11	2011/12	2012/13
	Actual	Prog.	Actual	Proj.	Proj.	Proj.	Proj.	Proj.
		(Percent of GDP)						
Total revenue and grants	17.1	18.5	15.7	17.1	16.5	16.9	17.4	17.8
Revenue	12.6	13.3	13.0	12.9	13.4	13.9	14.4	14.9
Tax	11.9	12.8	12.6	12.6	13.0	13.6	14.0	14.5
International trade taxes	1.2	1.3	1.6	1.5	1.5	1.6	1.6	1.7
Income taxes	3.7	3.8	3.5	3.8	3.8	3.9	4.0	4.2
Excises	3.1	3.3	3.3	2.9	3.0	3.1	3.2	3.3
Value-added tax	3.9	4.4	4.2	3.8	3.7	4.1	4.2	4.4
Additional revenue effort	0.0	0.0	0.0	0.3	0.5	0.5	0.5	0.5
Nontax	0.7	0.5	0.4	0.3	0.4	0.4	0.4	0.4
Grants	4.5	5.3	2.7	4.1	3.1	3.0	3.0	3.0
Budget support	3.7	2.2	1.9	1.7	1.5	2.2	2.2	2.2
Project grants	0.9	3.1	0.8	2.4	1.6	0.8	0.8	0.8
Expenditures and net lending	18.2	21.0	17.8	20.6	20.4	20.8	21.4	21.6
Current expenditures	11.5	11.8	11.7	10.1	9.3	9.7	10.9	10.8
Wages and salaries	4.7	4.6	4.5	3.9	4.1	4.3	4.5	4.8
Interest payments	1.1	1.3	1.3	1.2	1.0	1.0	0.8	0.7
Other current	5.8	5.9	5.9	5.0	4.2	4.4	5.8	5.5
Development expenditures	5.7	8.5	5.5	9.4	10.5	10.7	10.1	10.5
Donor-supported projects	2.4	5.5	2.6	4.5	3.1	2.2	2.1	1.9
Domestic-financed	3.4	3.0	2.9	4.7	7.4	8.5	8.0	8.6
Of which: add'l energy crisis spending	1.0	0.4	0.5	0.7	0.5	0.4	0.4	0.3
Of which: Karuma spending	0.0	0.0	0.0	0.0	0.7	0.6	0.6	0.5
Of which: Roads	0.0	0.0	0.0	1.7	1.5	1.3	0.0	0.0
Net lending and investment	0.2	-0.6	-0.7	-0.2	-0.1	-0.1	-0.1	-0.1
Other spending [2]	0.7	1.2	1.2	1.3	0.7	0.5	0.4	0.4
Overall balance								
Including grants	-1.1	-2.4	-2.1	-3.5	-4.0	-3.9	-4.0	-3.8
Excluding grants	-5.6	-7.7	-4.8	-7.7	-7.0	-6.9	-7.0	-6.8
Excl. grants and add'l energy spending	-4.6	-7.3	-4.3	-6.9	-6.6	-6.5	-6.6	-6.5
Financing	0.8	2.4	2.2	3.5	4.0	3.9	4.0	3.8
External financing (net)	1.8	3.5	2.5	2.7	3.0	3.0	3.0	2.8
Disbursement	2.5	4.1	2.9	3.2	3.4	3.2	3.2	3.0
Budget support	1.2	1.6	0.9	1.1	1.8	1.9	2.0	2.0
Project loans	1.3	2.4	2.0	2.1	1.5	1.4	1.2	1.1
Amortization (–)	-0.5	-0.4	-0.4	-0.3	-0.3	-0.3	-0.2	-0.2
Exceptional financing [2]	-0.2	-0.2	-0.1	-0.1	-0.1	0.0	0.0	0.0
Domestic financing (net)	-1.0	-1.1	-0.3	0.8	1.0	0.9	1.0	1.0
Bank financing	-2.7	-1.2	-0.7	0.2	0.5	0.5	0.6	0.7
Nonbank financing	1.7	0.1	0.4	0.6	0.5	0.4	0.4	0.3
Errors and omissions/financing gap	0.3	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
Memorandum item:								
MDRI spending	0.3	0.2	0.2	0.1	…	…	…	…

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

[1] Fiscal year begins in July.

[2] Includes arrears.

Table 3. Uganda: Monetary Accounts, 2006/07–2012/13 [1]
(U Sh billions; end of period, unless otherwise indicated)

	2006/07	2007/08		2008/09	2009/10	2010/11	2011/12	2012/13
	Act.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
				Monetary survey				
Net foreign assets	3,835	5,067	5,091	5,224	5,444	5,618	5,811	6,137
Net domestic assets	7	-409	-28	732	1,560	2,555	3,802	5,299
Claims on public sector (net) [2]	-838	-1,132	-1,009	-939	-764	-562	-276	62
Claims on private sector	1,813	2,382	2,831	3,578	4,289	5,142	6,167	7,396
Other items (net) [3]	-968	-1,660	-1,849	-1,907	-1,964	-2,025	-2,089	-2,158
Money and quasi-money (M3)	3,842	4,657	5,063	5,955	7,005	8,173	9,613	11,436
Broad money (M2)	2,994	3,601	3,902	4,604	5,415	6,319	7,432	8,841
Foreign exchange deposits	848	1,056	1,161	1,351	1,589	1,855	2,181	2,595
				Bank of Uganda (BOU)				
Net foreign assets	3,331	4,401	4,351	4,349	4,528	4,444	4,497	4,666
Net domestic assets	-2,088	-2,907	-2,737	-2,444	-2,288	-1,832	-1,425	-1,014
Claims on public sector (net) [2]	-1,850	-2,706	-2,414	-1,953	-1,744	-1,232	-767	-293
Of which: MDRI	…	…	…					
Claims on commercial banks	46	140	132	105	105	105	105	105
Other items (net) [3]	-285	-342	-455	-596	-649	-705	-763	-825
Base money	1,243	1,494	1,614	1,905	2,239	2,612	3,071	3,653
Currency outside banks plus cash in vaults	981	1,159	1,230	1,454	1,710	1,996	2,347	2,792
Commercial bank deposits with BOU	261	335	384	451	529	617	724	860
Memorandum items:				(12-month change, percent)				
Base money	18.8	20.3	29.9	18.0	17.6	16.6	17.6	18.9
M3	17.4	21.2	31.8	17.6	17.6	16.7	17.6	19.0
Credit to the private sector	22.9	31.4	56.1 [4]	26.4	19.9	19.9	19.9	19.9
				(Units indicated)				
M0-to-GDP ratio (percent)	5.9	6.2	6.6	6.2	6.4	6.6	6.9	7.1
M3-to-GDP ratio (percent)	18.1	19.3	20.5	19.3	20.0	20.8	21.5	22.3
Base money multiplier (M2/base money)	2.41	2.41	2.42	2.42	2.42	2.42	2.42	2.42
Credit to the private sector (percent of GDP)	8.6	9.9	11.5	11.6	12.3	13.1	13.8	14.4
Gross reserves of BOU (US$ millions)	2,091	2,640	2,684	2,567	2,639	2,558	2,553	2,611

Sources: Ugandan authorities; and IMF 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] Including valuation and the BOU's claims on private sector.
[4] Reclassification of non-bank institutions added approximately Ush 250 bn to the stock of private sector credit. Excluding this amount, credit to the private sector grew by 40 percent.

Table 4. Uganda: Balance of Payments, 2006/07-2012/13 [1]
(US$ millions)

	2006/07	2007/08		2008/09	2009/10	2010/11	2011/12	2012/13
	Act.	Prog.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account	-327	-505	-889	-929	-1,234	-1,273	-1,515	-1,607
Percent of GDP	*-2.7*	*-3.6*	*-6.1*	*-5.3*	*-5.9*	*-5.5*	*-5.8*	*-5.4*
Trade balance	-995	-1,439	-1,284	-1,614	-1,840	-1,963	-2,246	-2,394
Percent of GDP	*-8.4*	*-10.2*	*-8.8*	*-9.2*	*-8.8*	*-8.4*	*-8.6*	
Exports, f.o.b.	1,500	1,719	2,278	2,364	2,329	2,413	2,503	2,607
Of which: coffee	229	254	349	354	327	320	318	324
Imports, f.o.b.	-2,495	-3,159	-3,562	-3,978	-4,168	-4,375	-4,749	-5,002
Of which: oil	-403	-605	-543	-513	-529	-599	-672	-728
Services (net)	-339	-663	-531	-525	-597	-645	-731	-780
Income (net)	-229	-335	-311	-403	-421	-403	-409	-440
Of which: interest on public debt	-22	-31	-22	-27	-24	-24	-29	-23
Transfers	1,236	1,931	1,237	1,613	1,623	1,737	1,871	2,008
Private transfers	696	1,200	809	849	873	915	961	1,008
Of which: nongovernmental organizations	460	867	547	574	591	619	650	682
Official transfers	540	732	428	764	750	822	909	1,000
Of which: budget support	359	259	232	245	401	454	517	591
project support	102	389	110	430	173	193	217	234
HIPC grants	77	46	48	52	52	51	52	52
Capital and financial account	993	970	1,371	850	1,325	1,195	1,512	1,668
Capital account	3,428	0	0	0	0	0	0	0
Of which: MDRI debt relief	3,428	0	0	0	0	0	0	0
Financial account	-2,435	970	1,371	850	1,325	1,195	1,512	1,668
Foreign direct and portfolio investment	779	558	984	928	1,025	1,039	1,106	1,177
Other investment	-3,214	411	387	-78	300	157	406	491
Medium- and long-term	-3,091	661	583	831	911	687	753	811
Of which:	-59							
Public sector (net)	-3,145	405	318	506	641	687	773	833
Disbursements	342	460	369	559	699	748	835	894
Project support	153	274	292	367	317	317	317	317
Budget support	264	110	2	193	382	431	517	577
Amortization due	-3,487	-54	-51	-54	-58	-61	-61	-61
Private sector (net)	54	255	265	325	270	0	-20	-22
Short-term	-123	-249	-196	-909	-611	-531	-347	-320
Errors and omissions	37	104	90	0	0	0	0	0
Overall balance	704	569	572	-92	91	-78	-3	61
Financing	-704	-569	-572	92	-91	78	3	-61
Central bank net reserves (increase = –)	-682	-549	-553	118	-73	81	4	-61
Of which: gross reserve change	-682	-549	-553	118	-73	82	5	-59
Memorandum items:								
Coffee export volume (millions of 60-kg. bags)	2.5	2.3	3.0	3.1	3.3	3.4	3.5	3.6
Coffee price (U.S. cents per kg.)	150	180	192	188	167	158	152	149
Net donor support	778	1,091	708	1,225	1,353	1,482	1,653	1,809
Of which: budget support	623	370	235	438	783	885	1,034	1,168
project support	254	663	402	797	490	510	534	551
total HIPC debt relief	49	49	49	48	57	64	67	67

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

[1] Fiscal year begins on July 1.

Table 5. Uganda: Quantitative Assessment Criteria and Indicative Targets for end-June 2008 - end-June 2009 [1]
(Cumulative change from the beginning of the fiscal year, unless otherwise stated) [2]

	June 30, 2008				Sept. 30, 2008 [3]			
	Prog.	Adj. Prog.	Actual	Observed (√)/ Not Observed (×)	Prog.	Adj. Prog.	Actual	Observed (√)/ Not Observed (×)
Assessment criteria								
Ceiling on the increase in net domestic assets of the Bank of Uganda [4]	-504	-293	-967	√	100	258	143	√
Ceiling on increase in net claims on the central government by the banking system [4]	-308	-37	-110	√	34	223	70	√
Ceiling on the stock of external payments arrears incurred by the government or the Bank of Uganda [5]	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 [5,6]								
Karuma hydropower plant	400	400	0	√	400	400	0	√
JBIC loan guarantee to Phenix textile factory	6	6	3	√	6	6	3	√
Other	0	0	0	√	0	0	0	√
Ceiling on new external debt with maturity up to one year contracted or guaranteed by the government or the Bank of Uganda [5, 7]	0	0	0	√	0	0	0	√
Minimum increase in net international reserves of the Bank of Uganda	449	324	490	√	28	-66	84	√
Indicative targets								
Ceiling on increase in base money liabilities of the Bank of Uganda [4]	252	252	335	x	147	147	98	√
Stock of domestic budgetary arrears under the Commitment Control System (CCS) [8]	125	125	111	√	…	…	…	
Minimum expenditures under the Poverty Action Fund (including the Universal Primary Education component of development expenditure)	1222	1222	1274	√	298	298	133	x

[1] The assessment criteria and indicative targets under the program, and their adjusters, are defined in the TMU.
[2] Fiscal year begins on July 1.
[3] Indicative target.
[4] For June 2008, cumulative changes from the average of June 2007. For September and December 2008, cumulative changes from average of June 2008, as defined in the TMU.
[5] Continuous performance criterion.
[6] Cumulative change from December 1, 2006.
[7] Excluding normal import-related credits.
[8] Arrears incurred after end-June 2004. Excludes new arrears accumulated during the current fiscal year.

Table 6. Uganda: Structural Assessment Criterion and Benchmark[1]

Policy Measure	Date of Implementation	Implementation Status
Structural Assessment Criterion		
Implement pilot Integrated Personnel and Payroll System in three Commissions (Public Service Commission, Health Service Commission, Education Service Commission), Ministries (Ministry of Finance, Ministry of Health, Ministry of Public Service, Ministry of Education), and Local Governments (Lira and Jinja Districts).	End-January 2009	Revised[3] Implementation date shifted due to delay in procurement process
Structural Benchmark		
Submit to Parliament draft regulatory framework for pension funds.	End-December 2008	On track

[1] Assessment criteria also apply on a continuous basis to the standard provisions on the exchange and trade issues that apply to programs supported by the Fund's financial resources.

Table 7. Uganda: Selected Banking Sector Information, June 2005–June 2008

	2005		2006		2007		2008
	June	Dec.	June	Dec.	June	Dec.	June
	(U Sh billions)						
Adjusted assets	3,526	3,659	3,841	4,422	4,629	5,546	6,421
Liquid assets	1,374	1,558	1,179	1,500	1,460	1,688	2,001
Tier I	311	348	379	444	480	526	718
Tier II	26	32	36	40	35	50	53
Total capital	337	380	416	484	515	575	770
Risk-weighted assets (RWA)	1,881	2,076	2,271	2,686	2,563	2,957	3,697
Nonperforming assets (NPA)	33	29	41	50	60	89	113
Loans and advances	1,114	1,258	1,450	1,703	1,768	2,174	2,762
Foreign exchange advances	327	384	450	463	465	650	705
Foreign exchange depostis	838	786	815	949	937	1,150	1,241
Deposits	2,549	2,595	2,741	2,961	3,145	3,613	4,151
	(Percent)						
Return on average assets	3.4	3.6	3.5	3.4	3.9	3.9	3.5
Core capital/ RWA	16.5	16.8	16.7	16.5	18.7	17.8	19.4
Total capital/ RWA	17.9	18.3	18.3	18.0	20.1	19.5	20.8
NPAs/total advances	2.9	2.3	2.8	2.9	3.4	4.1	4.1
Loan loss provision/ NPA	78.0	103.8	93.7	74.4	69.3	71.8	73.3
Liquid assets/ total deposits	53.9	60.0	43.0	50.7	46.4	46.7	48.2
Advances/ deposits	43.7	48.5	52.9	57.5	56.2	60.2	66.6
Foreign exchange exposure/ core capital [1]	-2.7	-2.7	-8.7	-7.4	-2.5	-8.4	-7.9
Foreign exchange advances/ foreign exchange deposits	39.1	48.8	55.2	48.8	49.6	56.6	56.8

Source: Ugandan authorities.

[1] Foreign exchange exposure is calculated using the short-hand method.

Table 8: Millenium Development Goals

	1990	1995	2000	2006
Goal 1: Eradicate extreme poverty and hunger				
Income share held by lowest 20%	*5*	7	*6*	..
Malnutrition prevalence, weight for age (% of children under 5)	*20*	22	*19*	..
Prevalence of undernourishment (% of population)	*24*	26	..	19
Goal 2: Achieve universal primary education				
Literacy rate, youth female (% of females ages 15-24)	*63*	..	*71*	..
Literacy rate, youth male (% of males ages 15-24)	*77*	..	*83*	..
Primary completion rate, total (% of relevant age group)	..	..	*57*	*54*
Goal 3: Promote gender equality and empower women				
Proportion of seats held by women in national parliament (%)	12	*18*	18	30
Ratio of female to male primary enrollment	*84*	..	94	101
Ratio of female to male secondary enrollment	*59*	..	77	*81*
Ratio of young literate females to males (% ages 15-24)	*82*	..	*86*	..
Share of women employed in the nonagricultural sector (% of total nonagriculturá	..	*35.6*	..	..
Goal 4: Reduce child mortality				
Immunization, measles (% of children ages 12-23 months)	52	57	61	89
Mortality rate, infant (per 1,000 live births)	93	92	85	78
Mortality rate, under-5 (per 1,000)	160	156	145	134
Goal 5: Improve maternal health				
Births attended by skilled health staff (% of total)	*38*	38	*39*	42
Contraceptive prevalence (% of women ages 15-49)	*5*	15	*23*	24
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	*550*
Goal 6: Combat HIV/AIDS, malaria, and other diseases				
Children with fever receiving antimalarial drugs (% of children under age 5 with f	..	..	..	62
Incidence of tuberculosis (per 100,000 people)	163	319	340	355
Prevalence of HIV, female (% ages 15-24)	..	..	..	*4.3*
Prevalence of HIV, total (% of population ages 15-49)	..	..	..	*6.4*
Tuberculosis cases detected under DOTS (%)	..	*56*	48	44
Goal 7: Ensure environmental sustainability				
CO2 emissions (metric tons per capita)	0	0	0	*0*
Forest area (% of land area)	25	..	21	*18*
Improved sanitation facilities (% of population with access)	42	43	43	*43*
Improved water source (% of population with access)	44	49	55	*60*
Nationally protected areas (% of total land area)	..	..	..	*33*
Goal 8: Develop a global partnership for development				
Aid per capita (current US$)	37	39	33	52
Internet users (per 100 people)	..	0.0	0.2	2.5
Mobile phone subscribers (per 100 people)	..	0.0	0.5	6.7
Telephone mainlines (per 100 people)	0.2	0.2	0.2	0.4
Other				
Fertility rate, total (births per woman)	7.1	7.0	6.8	6.7
Life expectancy at birth, total (years)	50	46	46	51
Literacy rate, adult total (% of people ages 15 and above)	*56*	..	*67*	..
Population, total (millions)	17.8	21.2	24.7	29.9

Source: World Development Indicators database

[1] Figures in italics refer to periods other than those specified.

Appendix I. Letter of Intent

Kampala, Uganda
December 5, 2008

Mr. Dominique Strauss Kahn
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Strauss Kahn:

On behalf of the Government of Uganda, I would like to inform you of the progress we have made under our economic program backed by the Fund's Policy Support Instrument (PSI) and transmit the attached Memorandum of Economic and Financial policies (MEFP), which sets out the objectives and policies that the Government intends to pursue in the short and medium term. The policies outlined in the MEFP are drawn from the Government's initiatives to promote employment and rapid economic growth in the context of a stable macroeconomic environment.

All assessment criteria for the fourth review under the PSI were observed. Reflecting our economy's strong fundamentals, the impact of the global financial crisis on Uganda has to date been limited. In particular, our banking system remains well capitalized, foreign exchange reserves are in a very healthy position, and providing donor support is disbursed on time, we expect to implement the fiscal program outlined in the 2008/09 Budget as envisaged. Nonetheless, as a small and highly open economy, the expected slowdown in activity in our major trading partners is also likely to lower growth in the current fiscal year to some extent.

The Government of Uganda believes that the policies set forth in the MEFP are adequate to achieve the objectives of our PSI-supported program. Given our interest in macroeconomic stability, we stand ready to take additional measures as may be necessary to achieve needed objectives. Our PSI proposes assessment criteria for the performance target dates of end-December 2008 and end-June for the fifth and sixth reviews, which are expected to be completed by end- May 2009 and end-October 2009. We stand ready to work with the Fund and other development partners in the implementation of our program and will consult in advance should revisions be contemplated to the policies contained in the PSI.

The Government of Uganda authorizes the publication and distribution of this letter, its attachments, and all reports prepared by Fund staff regarding the current PSI review and the Article IV consultation, including the Selected Issues Papers.

Sincerely yours,

/ s /

Dr. Ezra Suruma
Minister of Finance, Planning, and Economic Development

APPENDIX I—ATTACHMENT I

UGANDA: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

UPDATE

1. The Government of Uganda remains committed to sustained macroeconomic stability, economic growth, and poverty reduction. This updated Memorandum of Economic and Financial Policies (MEFP), summarizes the Government's strategy to achieve these goals as set out in the Poverty Eradication Action Plan (PEAP). The Government and the International Monetary Fund (IMF) are cooperating on the economic program through a three-year Policy Support Instrument (PSI). This MEFP describes performance under the program through November 2008, specific policies and targets for 2008/09, and medium-term objectives.

I. Performance Under the PSI

2. All assessment criteria have been met. Fiscal performance in 2007/08 was in line with program projections, and, accordingly, the ceiling on net claims on government by the banking system was observed. The ceiling on net domestic assets of the Bank of Uganda (BOU) and the floor on the stock of net international reserves of the BOU were also comfortably observed. Base money exceeded somewhat the allowed 5 percent band with respect to the indicative target. Indicative targets for poverty-related spending and on the stock of domestic budgetary arrears were met.

II. Objectives and Policies Looking Forward

3. The central objective of our economic policies is to maintain the high economic growth of recent years to achieve rapid and sustained poverty reduction. We are currently reviewing our growth strategy, as outlined in Uganda's Poverty Eradication Action Plan, and are preparing to replace it with a new five-year National Development Plan (NDP). The NDP sets out an objective of maintaining real GDP growth in the 8-9 percent range, supported by macroeconomic stability, openness to trade, sound public finances, and addressing key constraints to private investment. In particular, we plan to significantly increase public investment in infrastructure (with a particular focus on roads, energy and agriculture) in the coming years to address one of the principal constraints on growth in Uganda.

4. Growth in 2008/09 could fall short of the 8 percent mark we have targeted, in the wake of the global financial crisis. The likely slowdown in our trading partners might reduce demand for Uganda's exports and remittances from broad, while pressures in international financial markets may force the local banks to curtail their lending activities. We are monitoring the situation closely and intend to use the available monetary and fiscal policy tools to limit damaging repercussions of the crisis.

A. Fiscal Policy

5. Recent developments affected our budget for 2008/09. Revenue performance has been below target in the first few months of the fiscal year, but the full-year target should still be within reach in light of the higher-than-expected inflation and expected improvements in tax administration. Barring adverse development, we intend to maintain the expenditure appropriations recently passed by Parliament. In the event that there are delays in implementation of road projects, the additional allocations earmarked for trunk roads and not spent in 2008/09 will be carried over to the next fiscal year.

6. Over the medium term, fiscal policy will be anchored by macroeconomic stability considerations. Our key objective will be to ensure that public sector does not crowd out private sector lending and does not endanger debt sustainability. Two other considerations that will guide our spending profile over the medium term will be (i) implementation and absorption capacity (particularly once oil revenues begin to accrue to the budget) and (ii) value-for-money or high rate of return on all areas of government spending.

7. The policy of annually increasing tax collections by ½ percent of GDP remains in place, even though improvements in tax administration have been yielding somewhat less than that in recent years. To ensure that the revenue targets for 2008/09 are met, the Uganda Revenue Authority will take a number of steps, including speeding-up the collection of corporate income taxes due, conducting an increased number of audits for businesses with high import value declarations, and use of new data sources to reduce valuation fraud.

8. The government remains committed to reducing arrears. New CCS arrears in 2007/08 are estimated at U Sh 43 billion, compared to some U Sh 100 billion in 2006/07. The root causes of new arrears accumulation remain (i) underbudgeting and (ii) failure by line ministries and agencies to abide by their budgets. Going forward, as outlined in our Debt Strategy published in December 2007, we intend to reduce the build up of domestic expenditure arrears by:

- ensuring adequate provision of resources for utilities and rent expenditures;
- enforcing compliance to the commitment control system, by publishing on a quarterly a list of Votes and Agencies that over commit government without authority; and
- ensuring that the Accountant General does not recognize expenditure commitments made outside the IFMS system for both IFMS and non IFMS Votes as arrears and these commitments therefore not be programmed for payment in future budgets by the Ministry of Finance.

9. Relatedly, the Ministry of Public Service will implement the new Integrated Personnel and Payroll System in three Commissions (Public Service Commission, Health Service Commission, Education Service Commission), four Ministries (Ministry of Finance,

Ministry of Health, Ministry of Public Service, Ministry of Education), and two local governments (Lira and Jinja Districts) by July 2009. This should improve payroll and pension records and ensure accurate payroll and pension figures. The implementation deadline is being extended from January 2009 due to delays in the procurement process.

10. Oil exploration continues apace with small-scale production expected to commence in 2009/10 for thermal power generation. The timeline for full-scale commercial development remains unclear, pending completion of exploratory activity. With the view of insuring prudent and transparent use of Uganda's oil wealth, our intention is to put oil revenues in a dedicated oil fund to be managed by the Bank of Uganda. The use of these resources will then be captured in our Medium-Term Expenditure Framework and will be subject to existing public financial management regulations, including appropriation by Parliament.

B. Monetary and Financial Sector Policies

11. We remain committed to keeping annual average underlying inflation at or below five percent guided by our reserve money target. The significant part of the run-up in prices in 2007/08 can be attributed to higher international food and fuel prices, although domestic price pressures also played a role. To control the domestic price pressures we will substantially reduce the growth of base money in 2008/09 (compared with the previous year), but at the same time loosen the target level somewhat (vis-à-vis the original program target for 2008/09) reflecting higher-than-expected inflation outturn. The softening of international prices in the wake of the global financial crisis may help reduce inflation further.

12. In the context of the global financial crisis, the BOU will rely on an appropriate mix of foreign exchange sales and domestic securities to sterilize excess liquidity. This will allow us to reduce exchange rate and interest rate pressures. In view of shallowness of Uganda's foreign exchange markets, we will also pay particular attention to preventing undue exchange rate volatility.

13. The BoU will carefully monitor developments in the banking system. Uganda's financial system has been relatively insulated from the global financial crisis, but the increasing risk aversion from investors and the spiral effects of a depressed world economy could present significant challenges. The general sell-off of emerging market currencies coupled with capital outflows and shallow markets has caused exchange rate volatility. Our banks have remained sound and stable as improved supervision has helped banks build large capital cushions and the deposit mobilization by banks have provided a stable source of funding for banks. The diversified structure of the banks' balance sheets and income sources should also contribute to banking system resilience. At the same time, there is need for close monitoring as the deterioration in the external environment could affect the banking system. To preserve financial stability in the increasingly challenging environment, we will:

- Enhance our communication with the markets on the evolving impact of the global financial turmoil, in order to forestall panic and herd behavior.

- Intensify our oversight of bank credit evaluation policies and enforce the regulation on unhedged foreign currency borrowing.

- Improve cooperation and exchange of information with the home supervisors of our foreign owned banks;

- Seek to establish contingency cross border crisis management arrangements for the all financial institutions;

- Advance our efforts in strengthening the supporting financial infrastructure, including expediting the establishment of the credit registry and further strengthening our deposit protection fund to align it with international principles;

- Strengthen capacity for financial risk analysis and reporting, including strengthening the stress testing framework.

14. The BOU is preparing for an inflation targeting framework for monetary policy. In June 2007, UBOS rolled out a new measure of underlying (core) inflation that would more accurately capture inflationary trends and is expected to roll out a quarterly GDP index by July 2010. The BOU will also start developing an appropriate communication strategy. In particular, the BOU will produce a semiannual monetary conditions report that would relate current economic trends to monetary operations and the inflation target.

15. Negotiations for the East African Common Market protocol are ongoing. We are working together with our EAC counterparts to lay groundwork for the establishment of the EAC Monetary Union. In pursuance of this objective, a two-phased convergence criteria has been established. In stage 1 (2007–2010), the primary benchmarks include maintenance of an overall Budget Deficit to GDP Ratio of not more than 6 percent (excluding grants) and of not more than 3 percent (including grants). In addition, annual average inflation rates should not exceed 5 percent, while external reserves are expected to cover more than four months of future imports of goods and non-factor services.

16. The secondary criteria include achievement of sustainable real GDP growth rate of not less than 7 percent, a national savings to GDP ratio of not less than 20 percent. Furthermore, countries are expected ensure that that their ratios of total debt as a percentage of GDP and the Current Account Deficit as a percentage of GDP are kept at sustainable levels. In addition, countries are expected to maintain stable and market determined interest and exchange rates, implement the 25 Core Principles of Bank Supervision and Regulation, and adherence to the Core Principles for Systematically Important Payment Systems by modernizing payment and settlement systems.

17. During the second stage (2011-2014) the primary benchmarks become tighter, with the overall Budget Deficit to GDP Ratio (excluding grants) of not more than 5 percent and of not more than 2 percent (including grants). In addition, annual average inflation rates should not exceed 5 percent, while external reserves are expected to cover more than 6 months of imports of goods and non-factor services.

C. Other Structural Reforms

18. The government attaches utmost importance to meeting Uganda's growing demand for electricity. Financing arrangements for the Bujagali hydropower project have been finalized and its construction is on track, to be completed by 2011. In the near-term, government will continue to support the private sector by carrying some of the cost of temporary electricity generators. The next major sustainable energy project is expected to be the Karuma hydro electricity generation project—identified as the next least cost alternative to Bujagali. Barring the appearance of a new project developer, which in the current external financing environment could well prove difficult, the GOU will be the sole developer of the project as necessary. Financing for the project would be expected to come from the resources in the accumulated Energy Fund and borrowing. Relatedly, legislation to govern the use of the resources in the Energy Fund are expected to be tabled to Parliament in 2009.

19. The Financial Markets Development Plan (FMDP), which was formulated as a result of a participatory and consultative strategic planning process, was approved in May 2008 by the Monetary Affairs Committee (MAC) of the East African Community. The plan reflects the intention to develop the financial markets in Uganda, and integrate them with the broader East African Markets with the aim of developing sound and vibrant financial markets, and supporting efficient mobilization of resources necessary for economic diversification and sustainable growth. The plan is also intended to lead to the harmonization of the regional macroeconomic policies and integration of the financial markets.

Attachment I. Table 1. Uganda: Quantitative Assessment Criteria and Indicative Targets for December 2008 - June 2010 [1]

(Cumulative change from the beginning of the fiscal year, unless otherwise stated) [2]

	December 31 2008		March 31 2009 [3]	June 30 2009	June 30 2010 [3]
	Prog.	Rev. prog.	Prog.	Prog.	Prog.
Assessment criteria			(U Sh billions)		
Ceiling on the increase in net domestic assets of the Bank of Uganda [4]	174	399	441	478	218
Ceiling on the increase in net claims on the central government by the banking system [4]	-23	250	130	71	174
			(US$ millions)		
Ceiling on the stock of external payments arrears incurred by the government or the Bank of Uganda [5]	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 [5,6]					
Karuma hydropower plant	400	400	400	400	400
JBIC loan guarantee to Phenix textile factory	6	6	6	6	6
Other	0	0	0	0	0
Ceiling on new external debt with maturity up to one year contracted or guaranteed by the government or the Bank of Uganda [5,7]	0	0	0	0	0
Minimum increase in net international reserves of the Bank of Uganda	35	-100	-117	-117	73
Indicative target			(U Sh billions)		
Ceiling on the increase in base money liabilities of the Bank of Uganda [4]	233	239	254	290	335
Stock of domestic budgetary arrears under the Commitment Control System (CCS) [8]	…	…	…	81	…
Minimum expenditures under the Poverty Action Fund (including the Universal Primary Education component of development expenditure)	596	327	496	662	…

[1] The assessment criteria and indicative targets under the program, and their adjusters, are defined in the TMU.

[2] Fiscal year begins on July 1.

[3] Indicative target.

[4] For June 2008, cumulative changes from the average of June 2007. For September and December 2008, and for June 2009, cumulative changes from average of June 2008, as defined in the TMU.

[5] Continuous performance criterion.

[6] Cumulative change from December 1, 2006.

[7] Excluding normal import-related credits.

[8] Arrears incurred after end-June 2004. Excludes new arrears accumulated during the current fiscal year.

Attachment I. Table 2. Uganda: Structural Assessment Criterion and Benchmark[1]

Policy Measure	Date of Implementation
Structural Assessment Criterion	
Implement pilot Integrated Personnel and Payroll System in three Commissions (Public Service Commission, Health Service Commission, Education Service Commission), Ministries (Ministry of Finance, Ministry of Health, Ministry of Public Service, Ministry of Education), and Local Governments (Lira and Jinja Districts).	End-July 2009
Structural Benchmark	
Submit to Parliament draft regulatory framework for pension funds.	End-December 2008

[1] Assessment criteria also apply on a continuous basis to the standard provisions on the exchange and trade issues that apply to programs supported by the Fund's financial resources.

APPENDIX I—ATTACHMENT II

UGANDA: TECHNICAL MEMORANDUM OF UNDERSTANDING

A. Introduction

1. This memorandum defines the targets described in the memorandum of economic and financial policies (MEFP) for the July 2006–June 2009 financial program supported by the IMF Policy Support Instrument (PSI), and sets forth the reporting requirements under the instrument.

B. Net Foreign Assets (NFA) and Net Domestic Assets (NDA) of the Bank of Uganda (BOU)

2. The net foreign assets of the BOU are defined as the monthly average (based on daily data) of foreign assets minus foreign liabilities, and include all foreign claims and liabilities of the central bank. The monthly average values of all foreign assets and liabilities will be converted into U.S. dollars at each test date using the average cross exchange rates for June 2008 for the various currencies and then converted into Uganda shillings using the average U.S. dollar-Uganda shilling exchange rate for June 2008.

Program Exchange Rates (US$ per currency unit, unless indicated otherwise)	
Euro	1.55390
British pound	1.96497
Japanese Yen	0.00934
Kenya shilling	0.01570
Tanzania shilling	0.00084
SDR	1.61814
Uganda shilling (per US$1)	1,601.20

Net domestic assets (NDA) of the Bank of Uganda (BOU) are defined as the monthly average (based on daily data) of base money (defined below) less net foreign assets of the BOU (as defined in para. 2). Based on this definition, the NDA limits will be cumulative changes from the average of June 2008 to the average of December 2008, and March and June 2009, and cumulative changes from the average of June 2009 to the average of June 2010.

(In billions of shillings)				
	December 31, 2008	March 31, 2009	June 30, 2009	June 30, 2010
Cumulative change in base money	239	254	290	335
Cumulative change in NFA	-160	-187	-188	117
Cumulative change in NDA	399	441	478	218

B. Base Money

3. 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. The base money limits will be cumulative changes from the daily average of June 2008 to the daily average of December 2008, and March and June 2009, and cumulative changes from the daily average of June 2009 to the daily average of June 2010.

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

4. Net claims on the central government (NCG) by the banking system is defined as the difference between the outstanding amount of bank credits to the central government and the central government's deposits with the banking system, excluding deposits in administered accounts and project accounts with the banking system, including the central bank. Credits comprise bank loans and advances to the government and holdings of government securities and promissory notes. Central government's deposits with the banking system include the full amount of IMF MDRI. NCG will be calculated based on data from balance sheets of the monetary authority and commercial banks as per the monetary survey. The quarterly limits on the change in NCG by the banking system will be cumulative beginning end-June in the previous fiscal year.

D. Net International Reserves of the Bank of Uganda

5. 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 original maturities less than one year, contracted by the BOU and include outstanding IMF purchases and loans.

6. For program-monitoring purposes, reserve assets and short-term liabilities at the end of each test period will be calculated in U.S. dollars by converting them from their original currency denomination at program exchange rates (as specified in para. 2).

E. Ceiling on Domestic Budgetary Arrears of the Central Government

7. The stock of domestic payment arrears under the Commitment Controls System (CCS) will be monitored on an annual basis. Domestic payments arrears under the CCS are defined as the sum of all bills that have been received by a central government spending unit or line ministry delivered prior to the beginning of the current fiscal year, and for which payment has not been made within 30 days under the recurrent expenditure budget (excluding court awards) or the development expenditure budget. For the purpose of program monitoring, the quarterly CCS reports, which will include arrears accumulated at IFMS and non-IFMS sites, prepared by the Internal Audit and Inspection Office will be used to monitor arrears. Arrears can be cleared in cash or through debt swaps.

8. The payments of pre-CCS, non-CCS, and CCS arrears accumulated up to end-June 2004 ("group A arrears") are covered by specific budget allocations for 2008/09 and 2009/10. The program ceiling on the stock of CCS arrears only covers accumulation of arrears after end-June 2004 ("group B arrears"). According to the verified report prepared by the Internal Audit and Inspection Office, this stock of arrears is estimated at U Sh 111 billion as of June 2007.

F. Expenditures Under The Poverty Action Fund (PAF).

9. The compliance with the indicative target on minimum expenditures under the PAF will be verified on the basis of releases (PAF resources made available to spending agencies).

G. Adjusters

10. The NDA and NIR targets are based on program assumptions regarding budget support, assistance provided under the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI), and external debt-service payments.

. The NCG target, in addition to being based on the aforementioned assumptions, is also based on assumptions regarding domestic nonbank financing of central government fiscal operations. In addition, the NDA target depends on the legal reserve requirements on deposits in commercial banks. Finally, the NDA and NIR targets are based on program assumptions regarding automatic access by commercial banks to the BOU's rediscount and discount window facilities.

11. The Uganda shilling equivalent of budget support (grants and loans) plus HIPC Initiative assistance in the form of grants on a cumulative basis from July 1 of the fiscal year is presented under Schedule A. The ceilings on the cumulative increase in NDA and 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 budget support, grants and loans, plus HIPC Initiative and MDRI assistance, exceeds (falls short of) the projected amounts.

Schedule A: Budget Support Plus Total HIPC Initiative Assistance
(Cumulative billions of Uganda shillings, beginning July 1 of the fiscal year)

Quarter	December 31, 2008	March 31, 2009	June 30, 2009	June 30, 2010
Budget support, including HIPC Initiative grants	309	509	859	1,166

12. The ceiling on the increases in NDA and 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[1] plus payments of external debt arrears less deferred payments (exceptional financing) falls short of (exceeds) the projections presented in Schedule B. 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 B: Debt Service Due, Before HIPC Initiative Assistance
(Cumulative billions of Uganda shillings, beginning July 1 of the fiscal year)

Quarter	December 31, 2008	March 31, 2009	June 30, 2009	June 30, 2010
Debt service due before HIPC, excluding exceptional financing	111	158	184	168

[1] Debt service due is defined as pre-HIPC Initiative debt service due, but from 2003/04 onwards, this excludes HIPC Initiative debt rescheduling.

13. The ceiling on the increase in NCG will be adjusted downward (upward) by any excess (shortfall) in nonbank financing[2] less payment of domestic group A arrears relative to the programmed cumulative amounts presented in Schedule C. For the purpose of this adjuster, payment of domestic group A arrears cannot exceed the programmed amount by more than U Sh 45.0 billion.

Schedule C: Nonbank Financing Minus Repayment of Domestic Arrears
(Cumulative billions of Uganda shillings, beginning July 1 of the fiscal year)

Quarter	December 31, 2008	March 31, 2009	June 30, 2009	June 30, 2010
(A) Nonbank financing	58	145	170	170
(B) Domestic arrears repayment	163	225	300	50
(C) Total = (A) –(B)	-105	-80	-130	120

14. The ceiling on NDA of the BOU for end-June will be adjusted upward by the daily average amount of commercial bank automatic access to the BOU discount window and rediscounting of government securities by commercial banks.

15. The ceiling on NDA of the BOU for every test date will be adjusted downward/upward to reflect decreases/increases in the legal reserve requirements on deposits in commercial banks. The adjuster will be calculated as the percent change in the reserve requirement multiplied by the actual amount of required reserves (Uganda shillings and foreign-currency denominated) at the end of the previous calendar month.

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

16. The assessment criterion on short-term debt refers to contracting or guaranteeing external debt with original maturity of one year or less by the government or the Bank of Uganda. Excluded from this assessment criterion are normal import-related credits. The definition of “debt” is set out in paragraph 18.

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

17. 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.[3] 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 or guarantees 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. For the purposes of the program, the Bujagali project is defined as the hydroelectric dam and related equipment located at the dam site.

18. 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

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

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 lesser retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property. (b) Under the definition of debt set out in point 9(a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

19. 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[4] from their level at end-June 2006. 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.

I. Monitoring and Reporting Requirements

20. 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

[4] 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).

by these entities. The authorities will furnish an official communication to the IMF describing program performance of quantitative and structural assessment criteria and benchmarks within 8 weeks of a test date. The authorities will on a regular basis submit information to IMF staff with the frequency and submission time lag as indicated in Table 1. The information should be mailed electronically to AFRUGA@IMF.ORG .

Attachment II. Table 1. Summary of Reporting Requirements			
Reporting institution	**Report/Table**	**Frequency**	**Submission lag**
I. Bank of Uganda	Issuance of government securities.	Weekly	5 working days
	Interest rates on government securities.	Weekly	5 working days
	Operations in the foreign exchange market and daily average exchange rates.	Weekly	5 working days
	Consumer price index.	Monthly	2 weeks
	Balance sheet of the BOU, consolidated accounts of the commercial banks, and monetary survey. 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.	Monthly	4 weeks
	Composition of foreign assets and liabilities of the BOU by currency of denomination.	Monthly	4 weeks
	Statement of (i) cash balances held in project accounts at commercial banks; (ii) total value (measured at issue price) of outstanding government securities from the Central Depository System (CDS); and (iii) the stock of government securities (measured at issue price) held by commercial banks from the CDS.	Monthly	6 weeks
	Summary of (i) monthly commodity and direction of trade statistics; (ii) disbursements, principal and interest, flows of debt rescheduling and debt cancellation, arrears, and committed undisbursed balances—by creditor category; and (iii) composition of nominal HIPC Initiative assistance, disaggregated into grants, flow rescheduling, and stock-of-debt reduction by creditor.	Monthly	6 weeks
	Summary of stock of external debt, external arrears, and committed undisbursed loan balances by creditor.	Quarterly	6 weeks
	Standard off-site bank supervision indicators for deposit money banks.	Quarterly	4 weeks
	Summary table of preliminary program performance comparing actual monthly outcome with adjusted program targets for (i) base money; (ii) net claims on central government by the banking system; (iii) stock of external arrears; (iv) new nonconcessional external borrowing; and (v) net international reserves	Quarterly	5 weeks
	Daily average amount of commercial bank automatic access to the BOU discount window and rediscounting of government securities by commercial banks.	Quarterly	4 weeks

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

Reporting institution	Report/Table	Frequency	Submission lag
II. Ministry of Finance	Summary of central government accounts. Revenues shall be recorded on a cash basis. 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 disbursements of project loans and grants by donors, less the change in the stock of government project accounts held at the BOU and domestic commercial banks.	Monthly	6 weeks
	Summary of outstanding stock of group (B) domestic arrears. Group (B) arrears comprise the stock of CCS/IFMS arrears incurred after end-June 2004.	Quarterly	6 weeks
	Summary of contingent liabilities of the central government. For the purpose of the program, contingent liabilities include all borrowings by statutory bodies, government guarantees, claims against the government in court cases that are pending, or court awards that the government has appealed.	Quarterly	6 weeks
	Detailed central government account of disbursed budget support grants and loans, HIPC support, and external debt service due and paid.	Monthly	4 weeks
	Detailed central government account of disbursed donor project support grants and loans.	Monthly	6 weeks
	Statement on new loans contracted during the period according to loan agreements.	Quarterly	6 weeks
	Updated national accounts statistics (real and nominal) according to UBOS and medium-term projections.	Quarterly	4 weeks

INTERNATIONAL MONETARY FUND

UGANDA

2008 Article IV Consultation And Fourth Review Under the Policy Support Instrument—Informational Annex

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

December 19, 2008

- **Relations with the Fund.** Describes financial and technical assistance by the IMF and provides information on the safeguards assessment and exchange system. Outstanding Fund credit was SDR 6 million (3 percent of quota) at end-October 2008.

- **Joint Bank-Fund Work Program.** Describes Bank-Fund collaboration through December 2009.

- **Statistical Issues.** Assesses the quality of statistical data. Economic data are generally adequate for surveillance purposes, although some shortcomings remain.

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II. Joint Bank-Fund Work Program 8

III. Statistical Issues 10

APPENDIX I. UGANDA: RELATIONS WITH THE FUND
(As of October 31, 2008)

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	100.00
Holdings	0.34	1.17

IV. Outstanding Purchases and Loans:	SDR Million	% Quota
Enhanced Structural Adjustment Facility (ESAF)/Poverty Reduction and Growth Facility (PRGF) arrangements	6.00	3.32

V. Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	09/13/2002	01/31/2006	13.50	13.50
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 Payments to Fund
(based on existing use of resources and present holdings of SDRs)

	Forthcoming				
	2008	2009	2010	2011	2012
Principal			0.20	1.00	1.20
Charges/Interest	0.21	0.59	0.59	0.58	0.58
Total	0.21	0.59	0.79	1.58	1.78

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 (US$ million)	68.90	91.00	
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 balance	51.51	59.90	111.41
Additional disbursement of interest income[2]		2.06	2.06

VIII. Implementation of MDRI Assistance

I. Total Debt Relief (SDR Million)[3]	87.73
Of which: MDRI	75.85
HIPC	11.88

II. Debt Relief by Facility (SDR Million)

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[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.

[3] The Multilateral Debt Relief Initiative (MDRI) provides 100 percent debt relief to eligible member countries that are qualified for the assistance. The debt relief covers the full stock of debt owed to the Fund as of end-2004 which remains outstanding at the time the member qualifies for such debt relief. The MDRI is financed by bilateral contributions and the Fund's own resources, as well as the resources already disbursed to the member under the HIPC Initiative (see Section VII above).

Eligible Debt

Delivery Date	GRA	PRGF	Total
January 2006	N/A	87.73	87.73

IX. Safeguards Assessments

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

X. Exchange Rate Arrangement

The official exchange rate is determined on the interbank market for foreign exchange. As of October 31, 2008, the official exchange rate was U Sh 1,881 per U.S. dollar. The exchange system is free of restrictions on the making of payments and transfers for current international transactions. Uganda's exchange rate regime is classified as managed float without predetermined path.

XI. Article IV Consultation

The Executive Board concluded the last Article IV consultation on December 15, 2006. 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, and 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. In November 2004, a joint World Bank/Fund missions visited Kampala for a FSAP update.

XII. Policy Support Instrument (PSI)

Uganda initiated a 16-month PSI with the Fund in January 2006. The 16-month PSI was replaced by a new three-year PSI in December 2006.

XIII. Technical Assistance

Uganda has received extensive technical assistance from the Fund in recent years.[4]

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 Bank/Fund TA mission visited Kampala in October 2003 to help harmonize tax investment incentives among the member countries of the EAC. An FAD TA mission on tax administration also visited Uganda in October 2004 to develop a comprehensive reform plan for the Uganda Revenue Authority (URA), followed by visits in April 2005 and April – May 2006. Two FAD resident advisors (coordinated through AFRITAC-East) assisted the implementation of a CCS at the local government level and the Fiscal Decentralization Strategy between June 2004 and February 2005. In the upcoming joint FAD-WB mission, the FAD will be represented by AFRITAC East, which would follow up on the recommendations of the 2005 FAD arrears mission and check whether the new financial and physical reporting system for local governments has been implemented.

A 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 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. A STA mission on government financial statistics (GFS) visited Uganda in December 2001 to assist 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 payment statistics and the progress in implementing the recommendations of the multisector mission of 1998

[4] 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 02/213).

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. A STA mission was in Uganda during February 2005 to prepare a data ROSC.

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 her 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; she has subsequently been replaced by a second resident advisor. 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 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. An FSAP update mission was conducted in November 2004 and focused on access, outreach, and stability issues, which also updated progress made since the last FSAP. A TA mission on enhancing the effectiveness of monetary policy implementation and developing financial markets was conducted in August 2005. Finally, a joint MCM/BOU workshop on financial market development was held in April 2006.

XIV. 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.

XV. Resident Representative

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

APPENDIX II. JOINT BANK-FUND WORK PROGRAM, JANUARY – JUNE 2009

Title	Products	Provisional timing of missions (if relevant)	Expected delivery date
	A. Mutual information on relevant work programs		
Key elements of World Bank work program in next 12 months	Poverty Reduction Support Credit to enhance productivity and competitiveness, effective delivery of social services, public sector management, and human development issues.		June 2009
	The work program will continue to concentrate on areas within the existing portfolio currently focusing on infrastructure development (transport and energy), local government service delivery, agricultural research and training, Kampala infrastructure development, and local government service delivery (including Northern Uganda rehabilitation). In addition, the Bank plans support for agricultural technology and advisory services, Northern Uganda social protection, roads development, secondary education, minerals development and environment.		June 2009
	Public Expenditure Review with the focus on health sector and public sector wages.		June 2009
	Study on fostering financial deepening		June 2009
	Study on "Understanding and Elimination of Non-tariff barriers to support Trade Integration with the EAC"		June 2009
IMF work program in next 12 months	Fifth Review under PSI	Mar.-Apr. 2009	June 2009
	Staff visit on the government budget	May 2009	June 2009
	Sixth Review under PSI	October 2009	Dec. 2009

B. Requests for work program inputs			
Fund request to Bank			
	1. Finalize the update of the broad strategic priorities in the PFM area (FINMAP) and get agreement with authorities on next steps. 2. Update of civil service reform agenda.		Jun 2009
Bank request to Fund	1. Continue to monitor the causes of changes in the stock and composition of domestic arrears, feeding advice on remedies (including through IFMS) into the FINMAP update.		Ongoing
C. Agreement on joint products and missions			
Joint products in next 12 months	1. Collaborate on the Joint DSA	Sep.- Oct. 2009	Dec. 2009

APPENDIX III. UGANDA: STATISTICAL ISSUES

Data provision has some shortcomings, but is broadly adequate for surveillance. Uganda participates in the General Data Dissemination System (GDDS) and its metadata were initially posted on the Fund's Dissemination Standards Bulletin Board in May 2000. Metadata updates were received in December 2008. Uganda is participating in three modules of the Fund's GDDS Project for Anglophone Africa, including: preparation for subscription to the Fund's Special Data Dissemination Standard (SDDS); government finance; and monetary and financial statistics. The project aims to assist participating countries to implement plans for improvement identified in their GDDS metadata, and is funded by the U.K. Department for International Development (DFID).

In February 2005 a STA mission prepared a data ROSC, with results published in July 2006. The ROSC mission assessed data compilation and dissemination practices against international standards in national accounts, prices, government finance, and balance of payments statistics; monetary and financial statistics were not assessed. In April 2007 a Special Data Dissemination Standard (SDDS) mission assesed dissemination practices vis-à-vis SDDS requirements for coverage, periodicity and timeliness.

Real sector statistics

Compilers have recently developed estimates of quarterly value added at constant 2002 prices using the International Standard Industrial Classification (ISIC) Rev III groups. However, methodological shortcomings remain relating to benchmarking and the use of appropriate indicator series. The Uganda Bureau of Statistics (UBOS) collects output data from a sample of manufacturing establishments in the industrial belt of the country to compile a Major and a Main Index of Industrial Production (IIP). Labor market indicators such as employment, unemployment, and wages/earnings are infrequently compiled and disseminated. UBOS aims to compile and disseminate labor market indicators on an annual basis, but due to resource and data unavailability, dissemination occurs with a two year lag. UBOS collects prices of consumer goods and services from six urban centers for computing inflation rates, which are disseminated on the last working day of every month. According to UBOS, there are plans to expand the coverage to include another urban center. UBOS collects producer prices from a sample of manufacturing establishments to compile the Producer Price Index for Manufacturing.

Government finance statistics

The Ministry of Finance, Planning and Economic Development (MoFPED) compiles the fiscal statistics on general government including budgetary central government and local governments but excluding extra budgetary institutions and the National Social Security Fund. A revised chart of accounts was implemented for use by all budgetary central government and local government units from July 1, 2003. Uganda reports Government Finance Statistics (GFS) data according to the *GFSM 2001* framework for the *GFS Yearbook*, but institutional

coverage are limited to budgetary central government and local governments. External debt for the public sector, external debt guaranteed by the public sector, and debt service schedule data are disseminated in millions of dollars and in Uganda shillings (using end of year exchange rates) for the fiscal year (July to June). Uganda does not report any high frequency data for inclusion in the *IFS*. In terms of the DFID Phase II project, a GFS mission visited Uganda in September 2008, to further assist with improving fiscal data.

Monetary and financial statistics

The March 2008 monetary and financial statistics mission found that substantial progress was made in reporting data to the Fund using standardized report forms (SRF) that align the monetary data in accordance with the Monetary and Financial Statistics Manual (*MFSM)*. Beginning in May 2008, the commercial banks have begun reporting their data for monetary statistics purposes on the new system that provide clear identification of positions with nonresidents, and breakdowns by domestic sectors and financial instruments. The SRF-based monetary data will be introduced in *International Financial Statistics* (*IFS*) and the *IFS Supplement* in January 2009. The data on other depository corporations do not include yet the positions of credit institutions, and microfinance deposit institutions, which also accept deposits. No progress has been made yet on savings and credit cooperatives.

External sector statistics

The 2005 data ROSC mission found that the balance of payments statistics broadly follow the fifth edition of the *Balance of Payments Manual (BPM5)*, but that there are some departures from recommended definitions, scope, and classifications. The mission urged completion of the conversion to the *BPM5* and the development of new source data and estimation techniques in the following areas: exports of freight and imports of passenger transportation, compensation of employees, direct investment abroad, portfolio investment and financial derivatives. International trade data could be improved by incorporation of results from the Survey of Informal Cross-Border Trade and greater use of trade partner country data sources.

Quarterly and fiscal year data are disseminated in the BOU's publications *Quarterly Economic Report* and *Annual Report*, as well as the UBOS annual *Statistical Abstract*. In principle, data cover the entire economy and include all transactions between residents and nonresidents. Quarterly balance of payments statistics are disseminated in an analytical format or on the basis of standard components, in accordance with the requirements of the IMF *Balance of Payments Manual, Fifth Edition* (*BPM5*).

A mission in April 2008 reviewed the private sector financial survey and an informal cross-border trade survey as well as estimation methods for remittances. Proposals were made for dealing with gaps in recording of transactions in the securities market by nonresidents through the secondary market and nominee accounts. It also proposed a priority program to cover developments in the oil industry and identified several alternative methods to improve the estimation of remittances. The mission also recommended a timely, small-scale quarterly survey of financial flows.

Uganda: Table of Common Indicators Required for Surveillance

(As of December 3, 2008)

	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]	Memo Items	
						Data Quality – Methodological Soundness[7]	Data Quality – Accuracy and Reliability[8]
Exchange rates	Aug. 2008	Sep. 2008	M	M	M		
International reserve assets and reserve liabilities of the monetary authorities[1]	Jan. 2007	Apr. 2007	M	M	M		
Reserve/base money	Sep. 2008	Nov. 2008	M	M	M		
Broad money	Sep. 2008	Nov. 2008	M	M	M		
Central bank balance sheet	Sep. 2008	Nov. 2008	M	M	M		
Consolidated balance sheet of the banking system	Sep. 2008	Nov. 2008	M	M	M		
Interest rates[2]	Aug. 2008	Sep. 2008	M	M	M		
Consumer price index	Sep. 2008	Oct. 2008	M	M	M	O, LO, O, O	O, O, LO, O, O
Revenue, expenditure, balance and composition of financing[3]—central government	June 2006	July 2006	M	M	M	O, LNO, O, LO	O, O, O, O, LO
Stocks of central government and central government-guaranteed debt[4]	June 2006	July 2006	M	M	M		
External current account balance	Q4. 2007	May 2008	Q	Q	Q	LO, LO, LO, LO	LO, O, O, O, LO
Exports and imports of goods and services	Q4. 2007	May 2008	M	M	M		
GDP/GNP	2006	July 2007	A	A	A	LO, LO, O, LO	LO, O, LO, O, O
Gross external debt	Dec. 2005	May 2006	M	Q	...		
International Investment Position[5]	2007	May 2008	A	A	A		

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] Including maturity composition.

[5] International Investment Position

[6] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

[7] Reflects the assessment provided in the data ROSC published on July 21, 2006 based on the findings of the mission that took place during February 9-22, 2005. For the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).

[8] Same as footnote 6, except referring to international standards concerning source data, statistical techniques, assessment and validation of source data, assessment and validation of intermediate data and statistical outputs, and revision studies.

INTERNATIONAL MONETARY FUND AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

UGANDA

Joint IMF/World Bank Debt Sustainability Analysis[1]

Prepared by the Staffs of the International Monetary Fund and
the International Development Association

Approved by Robert Corker and Dominique Desruelle (IMF)
and Sudhir Shetty and Carlos Alberto Braga (IDA)

December 19, 2008

Based on the joint Low-Income Country Debt Sustainability Framework of the World Bank and the IMF, Uganda is assessed to be at low risk of debt distress. Its debt ratios have improved substantially over the past few years on account of HIPC and MDRI debt relief. To accelerate and sustain high economic growth, the authorities plan to continue to address infrastructure constraints. Under the baseline scenario, external debt is expected to remain well below the thresholds over the medium and long term, while public debt exhibits stable debt dynamics. However, a permanent shock to real GDP growth under which growth is on average smaller by roughly 1 percent of GDP compared to the baseline scenario and where the path of nominal fiscal expenditure is not adjusted, results in a marked deterioration in public debt. This highlights the risk should the growth dividend from investments undertaken be lower than expected.

I. Background

1. **Uganda has achieved debt sustainability by implementing sound macroeconomic policies and receiving debt relief.** The HIPC and MDRI debt relief improved Uganda's debt sustainability outlook substantially by leading to a drastic reduction in Uganda's debt burden.[2] Over this period, all debt burden indicators declined to levels well below their policy-dependent thresholds.[3]

External Debt Indicators Before and After MDRI

[1] Prepared by the IMF and World Bank staff in consultation with the authorities. This DSA updates the DSA that the authorities had prepared in September 2008 to reflect the impact of the current financial crisis and the projected global slowdown. DSA assumptions and results have been discussed thoroughly with the authorities. All debt indicators refer to Uganda's fiscal year (July-June).

[2] Total MDRI relief (including future interest) delivered in 2005/06 and 2006/07 was about US$3.6 billion.

[3] The World Bank's Country Policy and Institutional Assessment (CPIA) ranks Uganda as a "strong performer." Debt burden thresholds for strong performers are NPV of debt to GDP ratio of 50 percent, NPV of debt-to-exports ratio of 200 percent, NPV of debt-to-revenue ratio of 300 percent, debt-service-to-exports ratio of 25 percent, and debt-service-to-revenue ratio of 35 percent.

	2004/05	2005/06	2006/07
External public debt (US $ bn)	4.4	4.5	1.5
External public debt (percent of GDP)	47.9	45.7	11.4
PPG debt service/Exports [4]	14.2	8.9	4.1

2. **Addressing the infrastructure gap has remained a key element of Uganda's fiscal strategy in the near and medium term.** Financing for the Bujagali hydroelectric plant, aimed to help ease power constraints, was secured in December 2007. The US$800 million project was financed by a private consortium with participation from multilateral lenders, with a public sector guarantee of only US$115 million (compared to US$400 million non-concessional borrowing envisaged in the 2007 DSA). Starting in 2008/09, the budget allocations to the road sector to finance reconstruction and maintenance of existing infrastructure almost doubled to 4.5 percent of GDP over three years, to be financed mainly domestically. The government of Uganda seems set to maintain infrastructure development (in transportation, electricity, and water) as a priority in the medium term. The construction of one more hydroelectric plant at Karuma (with about 0.7 percent of GDP per annum to be provided in the budget) will start in 2009/10. The infrastructure necessary for the development of the oil sector (such as a small refinery and pipelines) is still at the planning stage.

II. Assumptions

3. **On the back of Uganda's protracted prudent macroeconomic policies and strong growth, the slowdown in the global economy finds this economy on strong policy footing. Nonetheless, this small and open economy is not completely shielded from the effects of the crisis.** Whereas growth is not expected to decline dramatically, the balance of payments will probably come under pressure, with export growth likely to slow down, and private capital inflows—remittances, foreign direct investment, and portfolio flows—likely to revert back to the pre-2006 levels. The full magnitude of the shocks on these variables is still uncertain and with the international environment becoming more challenging, the sensitivity analysis becomes even more important.

4. **The fiscal DSA is based on Uganda's prudent fiscal stance, on improving public infrastructure over the medium term, and on a gradual tapering off of grant inflows.** It is assumed that grants will continue to decline from 4.5 percent of GDP in FY 2006/07, before stabilizing at around 3 percent of GDP in the medium term, while domestic revenues are projected to increase gradually to 15 percent of GDP in 2012/13, in line with the authorities' policy objective. Non-interest expenditures will increase smoothly on account of the energy crisis and infrastructure improvements and will stabilize at 20 percent of GDP, consistent with zero primary balance in the long run. However, the baseline DSA excludes a number of factors that are difficult to assess and quantify at this stage, specifically: (i) the investment in infrastructure in the oil sector; (ii) oil production (expected to commence in 2010), as the commercial viability and the scale of production is yet to be determined, and (iii) the impact of global economic slowdown on the availability of external financing for the PPPs. Box 1 summarizes the key assumptions of the baseline DSA.

[4] Updated export data contributed to the lower ratios compared with the 2007 DSA.

Box 1. Key Assumptions Underlying the Baseline DSA

Under the baseline scenario, construction of the Bujagali hydroelectric plant which began in 2007/08, will be completed by 2009/10, reflecting the higher investment in infrastructure and the subsequent increase in production.

Real GDP growth is expected to remain strong despite the impact of the global crisis. After a decline to 7 percent over the next three years (compared to 9½ percent in 2008/09), growth will increase to 8 percent in 2011/12. Activity will be boosted by construction activity and revitalization of production in post conflict North and elsewhere due to improvements in infrastructure.

The growth rate of the GDP deflator is expected to decline from 16.3% in 2008/09 to about 5-6%, as international prices fall and domestic liquidity growth is contained within appropriate levels.

Exports of goods and services are projected to grow 13 percent on average between 2007/08 and 2027/28, driven largely by an increase in the export volume of non-traditional exports. This recognizes the fact that exports will slow down effective 2008/09 on account of an expected decline in demand for Ugandan exports and lower export unit values.

The **current account** deficit would be above its historical norm by 1½ percentage points on average between 2007/08 and 2012/13 (peaking at 5½ percent of GDP in 2007/08) on account of higher imports related to the construction of the Bujagali plant, lower global demand for exports, as well as lower private transfer receipts. Ongoing adjustment of the economy (reflected in a growing share of non-traditional exports) would help the current account deficit stabilize at about 3 percent of GDP in the outer years. Excluding grants, the current account will average 3.2 percent of GDP over the twenty year period.

Fiscal revenues are assumed to increase gradually from 12½ percent of GDP in 2006/07 to 15 percent of GDP in 2012/13 and 18 percent beyond 2020, as tax administration improves and the share of manufacturing and service sectors in GDP increases, thereby expanding the tax base. Grants are assumed to decline to 2½ percent of GDP in 2018 and below 2 percentage points of GDP in outer years.

Non-interest expenditures —including 0.6 percent of GDP over four years for the construction of Karuma hydroelectric plant and stepped up road investment— are assumed to taper off at 20 percent of GDP, consistent with zero primary balance in the long term.

Official external loans are projected to increase tri-fold over 20 years from about US$500 million in 2008/09. The DSA assumes that multilateral creditors will scale up their support, and that IDA will support Uganda with lending operations throughout the projection period. Under the baseline, multilateral and bilateral official debt would, on average, be contracted on concessional terms. The US$115 million guarantee for Bujagali is assumed to be called in 2008/09 and paid for in five annual installments starting in 2009/10.

Compared with the 2007 Joint IMF-World Bank DSA, the current baseline scenario assumes a resilient economy in the near term and higher real GDP growth in the medium term, in spite of the global economic downturn. In part, this is on account of the better historical outcomes documented by improved statistics, compared to what was used in the 2007 DSA. At an average growth of 10 percent between 2008 and 2013, export performance is expected to be much lower than about 17 percent envisaged within the 2007 DSA. Import and export projections in particular are driven by lower demand and declining commodity prices. This DSA also uses improved statistics on transfers and services, with a better service balance contributing to slightly improved current account balances for historical years. Overall, the new assumptions result in a somewhat better current account. The current baseline scenario also includes an upward revision to expected external loans in line with the authorities' projections. The fiscal assumptions remain broadly unchanged. The coverage of the current DSA is more comprehensive, as it incorporates best estimates on the private external debt.

III. External Debt Sustainability Analysis

(a) Baseline scenario

5. **External debt is expected to remain sustainable over the next 20 years.** (Tables 1a, and 1b, and Figures 1 and 2).[5] All five debt-burden indicators remain well below their policy-dependent thresholds throughout the period. PV of debt-to-GDP ratio is expected to rise from 14.9 percent in 2006/07 to 17.2 percent in 2009/10, reflecting mainly Bujagali financing as well as higher IDA loans; by 2027/28, however, this ratio is expected to decline to 12.4 percent. The PV of debt-to-exports is expected to increase from 89.6 percent in 2006/07 and peak at 141 percent in 2012/13, as borrowing increases while export growth decelerates on account of the slowdown in global demand. The debt service-to-exports ratio is expected to gradually increase between 2007/08 and 2012/13 to a peak of 14.1 percent (by 2 percentage point higher than in 2006/07), before declining, reflecting the repayments for Bujagali and the delivery of HIPC and MDRI assistance.

(b) Standardized sensitivity analysis

6. **The stress tests point to low risk of debt distress even after taking into account the global downturn.** The standardized sensitivity analysis has been used to inform about the risks to debt sustainability that may arise, in particular, on account of a deeper global downturn and its impact on key macroeconomic variables in Uganda such as weaker medium-term export growth, a sharp depreciation of the Shilling, and lower concessionality of new external borrowing. [6] Under all standardized stress tests, the debt-to-GDP, debt-to-exports, and debt service-to-exports indicators of public and publicly guaranteed external debt remain below their threshold values throughout the next 20 years.

7. **However, a large macroeconomic shock could worsen Uganda's PV of debt-to exports ratio significantly, a risk heightened by the sharp revisions in the global outlook.** Lower export growth (export value growth at historical average minus one standard deviation in 2008/09-2009/10) would raise Uganda's PV of debt-to-exports ratio to a peak of 130 percent of GDP in 2012/13. A combined shock (by one-half standard deviation) to real GDP growth, exports, GDP deflator, and non-debt creating flows over the period 2008/09-2009/10 would increase Uganda's PV-to-GDP ratio to a peak of 22 percent in 2011/12 and its PV-to-revenue ratio to 156 percent in 2009/10. The global slowdown has only increased the downside risk of such shocks, which would have a significant impact on debt sustainability by putting the Ugandan economy at a high

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[5] Improved national statistics have resulted in an upward revision of the GDP and the current account balance that contributed to better debt sustainability indicators.

[6] While the baseline already incorporates lower forecasts, the downside risks are significant, as the impact of the financial crisis on global demand is still unfolding. Uganda's export opportunities could be reduced to the extent contagion across countries and sectors is worse than under the baseline. In the event that foreign investors unwind their position in Uganda, more costly access to private capital and downward pressure on the exchange rate would have an adverse effect on debt ratios.

indebtedness level for a prolonged period. Uganda's debt service ratios would nonetheless remain well below the policy-dependent thresholds. Historical scenarios also point to the risks associated with Uganda's uneven performances over the last ten years, with respect to GDP and export growth, inflation, transfers, and FDI inflows. Yet, stronger and more steady outcomes since 2001 would indicate an increased resilience that could help mitigate these risks. Moreover, Uganda's large foreign reserves accumulated in recent years would provide a significant cushion in the event of higher foreign-financing needs.

8. **Overall, Uganda's public and publicly guaranteed external debt will remain sustainable in case of shocks** (Figure 1)**.** Even under the extreme stress test, the PV of public external debt will not exceed 30 percent of GDP over the projection period. Similarly, the stress tests do not indicate any debt-servicing problem. However, the historical scenario points to the risks associated with lower performances, as indicators would continue to deteriorate during the entire projection period.

IV. Fiscal Debt Sustainability Analysis

9. **Indicators of total public debt, which include external debt and domestic public debt, are favorable** (Tables 2a, 2b, and Figure 2)**.** Under the baseline, the PV of public debt will worsen, but stabilize at 21 percent of GDP. The debt-service-to revenue ratio will also stabilize in the medium term. However, indicators would deteriorate markedly if growth were to be reduced for a long time, without any adjustment in the nominal primary expenditure path. As suggested by the sensitivity analysis, if growth were to turn out lower than the baseline by roughly1 percentage point, the debt to GDP, debt-to-revenue and debt-service to revenue ratios would all display an increasing trend even in the long run. The lack of adjustment in the nominal expenditure path in this context, leads to a primary deficit that is, on average, higher than in the baseline by 2.2 percentage points of GDP over the period 2009-2028. This demonstrates the importance of investment selection to ensure value for money and the adjustment in expenditure growth rates in the event of a permanent shock to GDP growth. Structural policies to ensure a favorable investment climate for the private sector will also be crucial.

V. Conclusion

10. **The DSA analysis shows that Uganda's public debt remains sustainable under the baseline scenario.** Uganda's public debt has been reduced significantly as a result of the MDRI, and with a prudent borrowing strategy and the continuation of the stability-oriented fiscal policy, debt should remain comfortably low during the projection period. While Uganda still disposes of additional fiscal space to finance a higher investment program, cautious borrowing and reliance on concessional financing remain a critical element of the debt management strategy. Furthermore, to minimize the risk of lower growth dividend from public investment, careful investment selection to ensure value for money and appropriate structural policies to sustain private investment will be essential.

Table 1a.: External Debt Sustainability Framework, Baseline Scenario, 2005-2028 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average	Standard Deviation	Projections									
	2005	2006	2007			2008	2009	2010	2011	2012	2013	2008-2013 Average	2018	2028	2014-2028 Average
External debt (nominal) 1/	**56.5**	**53.9**	**18.5**			**20.0**	**22.1**	**23.8**	**24.4**	**24.7**	**24.6**		**23.5**	**19.3**	
o/w public and publicly guaranteed (PPG)	47.9	45.7	11.4			12.3	13.9	15.6	17.1	18.3	19.0		20.1	16.9	
Change in external debt	-11.9	-2.5	-35.4			1.5	2.1	1.7	0.6	0.3	-0.1		-0.1	-0.6	
Identified net debt-creating flows	-15.6	-4.4	-11.9			-1.8	-0.9	-0.1	-0.2	0.0	-0.1		-0.3	-0.7	
Non-interest current account deficit	**1.9**	**2.5**	**2.0**	**3.4**	**1.9**	**5.5**	**4.7**	**5.2**	**4.7**	**5.1**	**4.8**	5.0	**3.6**	**1.9**	3.0
Deficit in balance of goods and services	10.7	12.7	11.2			12.5	12.2	11.7	11.2	11.4	10.7		8.3	5.1	
Exports	14.2	15.3	16.6			19.8	17.0	14.2	13.2	12.2	11.2		13.8	16.6	
Imports	24.8	28.0	27.8			32.3	29.2	25.9	24.4	23.6	22.0		22.1	21.7	
Net current transfers (negative = inflow)	-10.6	-11.6	-10.4	-9.6	2.1	-8.5	-9.2	-7.8	-7.5	-7.2	-6.8	-7.8	-5.2	-3.2	-4.6
o/w official	-8.5	-4.6	-4.5			-2.9	-4.4	-3.6	-3.5	-3.5	-3.4		-2.2	-1.0	
Other current account flows (negative = net inflow)	1.9	1.4	1.1			1.5	1.8	1.3	1.0	0.9	0.9		0.6	-0.1	
Net FDI (negative = inflow)	**-3.7**	**-3.8**	**-5.8**	**-2.7**	**1.4**	**-6.5**	**-5.0**	**-4.6**	**-4.2**	**-4.0**	**-3.8**	-4.7	**-3.3**	**-2.6**	-3.1
Endogenous debt dynamics 2/	**-13.8**	**-3.1**	**-8.0**			**-0.9**	**-0.7**	**-0.7**	**-0.8**	**-1.0**	**-1.1**		**-0.7**	**0.0**	
Contribution from nominal interest rate	1.0	1.0	0.8			0.6	0.5	0.7	0.7	0.7	0.6		0.9	1.3	
Contribution from real GDP growth	-3.4	-5.6	-3.9			-1.4	-1.2	-1.4	-1.5	-1.7	-1.7		-1.6	-1.2	
Contribution from price and exchange rate changes	-11.4	1.5	-5.0			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**3.7**	**1.9**	**-23.5**			**3.3**	**3.0**	**1.8**	**0.9**	**0.3**	**0.0**		**0.3**	**0.1**	
o/w exceptional financing	0.0	-0.9	-28.6			0.1	0.1	0.1	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	14.9			15.7	17.0	17.2	16.9	16.4	15.9		14.7	12.4	
In percent of exports	...	...	89.6			79.5	99.9	121.1	127.7	134.3	141.0		106.0	75.1	
PV of PPG external debt	**...**	**...**	**7.8**			**8.1**	**8.8**	**9.0**	**9.5**	**9.9**	**10.2**		**11.3**	**10.0**	
In percent of exports	**...**	**...**	**46.7**			**40.7**	**51.7**	**63.3**	**72.0**	**81.3**	**90.8**		**81.7**	**60.5**	
In percent of government revenues	**...**	**...**	**61.7**			**62.2**	**68.0**	**67.0**	**68.2**	**69.2**	**68.7**		**67.5**	**54.9**	
Debt service-to-exports ratio (in percent)	**25.4**	**18.7**	**12.0**			**7.7**	**8.3**	**10.2**	**12.2**	**12.7**	**14.1**		**12.0**	**12.8**	
PPG debt service-to-exports ratio (in percent)	**14.2**	**8.9**	**4.1**			**2.1**	**2.3**	**2.8**	**3.3**	**3.4**	**3.7**		**2.6**	**3.5**	
PPG debt service-to-revenue ratio (in percent)	**16.8**	**10.7**	**5.4**			**3.2**	**3.1**	**2.9**	**3.2**	**2.9**	**2.8**		**2.1**	**3.2**	
Total gross financing need (Billions of U.S. dollars)	0.2	0.2	-0.2			0.1	0.2	0.4	0.5	0.7	0.8		1.0	1.6	
Non-interest current account deficit that stabilizes debt ratio	13.8	5.0	37.4			4.0	2.7	3.6	4.1	4.8	4.9		3.7	2.5	
Key macroeconomic assumptions															
Real GDP growth (in percent)	6.3	10.8	8.6	8.8	5.3	9.5	7.4	7.3	7.1	8.0	8.0	7.9	7.4	6.7	7.6
GDP deflator in US dollar terms (change in percent)	20.1	-2.5	10.1	-1.0	11.0	11.4	12.5	10.8	3.9	3.9	4.9	7.9	2.1	2.1	2.0
Effective interest rate (percent) 5/	1.9	2.0	1.7	1.8	0.3	3.8	3.2	3.5	3.5	3.2	2.9	3.4	4.3	6.9	5.0
Growth of exports of G&S (US dollar terms, in percent)	29.4	16.4	29.9	10.6	18.7	45.4	3.7	-1.0	3.8	3.9	4.2	10.0	13.5	10.3	12.7
Growth of imports of G&S (US dollar terms, in percent)	26.6	21.8	18.8	10.9	9.6	41.6	9.2	5.2	5.2	8.6	5.4	12.5	9.2	9.1	9.7
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	53.5	44.7	51.8	53.4	53.7	52.8	51.7	49.6	47.0	48.6
Government revenues (excluding grants, in percent of GDP)	11.9	12.7	12.6			13.0	12.9	13.4	13.9	14.4	14.9		16.7	18.3	17.1
Aid flows (in Billions of US dollars) 7/	0.7	0.5	0.5			0.7	1.2	1.2	1.3	1.5	1.6		1.9	2.7	
o/w Grants	0.7	0.5	0.5			0.4	0.7	0.6	0.7	0.8	0.9		1.1	1.6	
o/w Concessional loans	0.0	0.0	0.0			0.3	0.5	0.6	0.6	0.7	0.7		0.8	1.1	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			4.0	5.9	4.8	4.7	4.7	4.6		3.3	2.0	2.9
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			77.4	72.9	74.8	75.9	76.2	76.2		75.8	73.8	75.3
Memorandum items:															
Nominal GDP (Billions of US dollars)	9.2	10.0	11.9			14.5	17.6	20.9	23.2	26.1	29.5		49.1	119.3	
Nominal dollar GDP growth	27.7	8.0	19.6			22.0	20.9	18.8	11.3	12.2	13.3	**16.4**	9.7	9.0	9.8
PV of PPG external debt (in Billions of US dollars)			0.9			1.2	1.5	1.9	2.2	2.6	3.0		5.6	12.0	
(PVt-PVt-1)/GDPt-1 (in percent)						2.1	2.6	1.9	1.6	1.6	1.6	1.9	1.3	0.6	1.1

Source: Staff simulations.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

Table 1b.Uganda: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2008-2028
(In percent)

	Projections							
	2008	2009	2010	2011	2012	2013	**2018**	2028
PV of debt-to GDP ratio								
Baseline	8	9	9	10	10	10	**11**	10
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008-2028 1/	8	10	11	12	12	13	**15**	23
A2. New public sector loans on less favorable terms in 2008-2028 2	8	9	10	11	12	12	**13**	12
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	8	9	10	10	11	11	**12**	11
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	8	10	11	12	12	12	**13**	10
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	8	11	14	15	16	16	**18**	16
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	8	12	13	14	14	14	**14**	11
B5. Combination of B1-B4 using one-half standard deviation shocks	8	15	21	22	22	21	**21**	16
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	8	12	12	13	14	14	**15**	14
PV of debt-to-exports ratio								
Baseline	41	52	63	72	81	91	**82**	61
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008-2028 1/	41	59	76	88	100	113	**110**	138
A2. New public sector loans on less favorable terms in 2008-2028 2	41	52	70	82	94	106	**95**	73
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	41	52	63	72	81	91	**81**	60
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	41	65	97	107	119	130	**111**	76
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	41	52	63	72	81	91	**81**	60
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	41	69	95	104	113	122	**100**	65
B5. Combination of B1-B4 using one-half standard deviation shocks	41	72	103	112	121	131	**105**	67
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	41	52	63	72	81	91	**81**	60
PV of debt-to-revenue ratio								
Baseline	62	68	67	68	69	69	**68**	55
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008-2028 1/	62	78	81	84	85	85	**91**	125
A2. New public sector loans on less favorable terms in 2008-2028 2	62	69	74	78	80	80	**78**	66
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	62	71	72	73	75	74	**73**	59
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	62	76	84	84	83	81	**75**	57
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	62	87	108	110	112	111	**109**	88
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	62	90	101	98	96	93	**83**	59
B5. Combination of B1-B4 using one-half standard deviation shocks	62	113	159	155	150	144	**126**	88
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	62	93	92	93	94	94	**92**	74

Source: Staff projections and simulations.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly 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.

Table 1b.Uganda: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2008-2028 (continued)
(In percent)

	Projections							
	2008	2009	2010	2011	2012	2013	**2018**	2028
Debt service-to-exports ratio								
Baseline	2	2	3	3	3	4	**3**	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008-2028 1/	2	3	3	4	4	5	**4**	6
A2. New public sector loans on less favorable terms in 2008-2028 2	2	2	3	3	4	5	**5**	4
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	2	2	3	3	3	4	**3**	3
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	2	3	4	5	5	5	**4**	5
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	2	2	3	3	3	4	**3**	3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	2	2	3	4	4	4	**3**	4
B5. Combination of B1-B4 using one-half standard deviation shocks	2	2	3	4	4	5	**4**	4
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	2	2	3	3	3	4	**3**	3
Debt service-to-revenue ratio								
Baseline	3	3	3	3	3	3	**2**	3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008-2028 1/	3	3	4	4	4	4	**3**	6
A2. New public sector loans on less favorable terms in 2008-2028 2	3	3	3	3	3	4	**4**	4
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	3	3	3	3	3	3	**2**	3
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	3	3	3	4	3	3	**2**	3
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	3	4	5	5	5	4	**3**	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	3	3	3	4	4	3	**3**	4
B5. Combination of B1-B4 using one-half standard deviation shocks	3	4	5	6	5	5	**4**	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	3	4	4	4	4	4	**3**	4
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	46	46	46	46	46	46	**46**	46

Source: Staff projections and simulations.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly 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 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 2a.Uganda: Public Sector Debt Sustainability Framework, Baseline Scenario, 2005-2028
(In percent of GDP, unless otherwise indicated)

	Actual			Average	Standard Deviation	Estimate	Projections								
	2005	2006	2007			2008	2009	2010	2011	2012	2013	2008-13 Average	2018	2028	2014-28 Average
Public sector debt 1/	57.4	55.3	23.6			23.1	21.6	22.8	23.0	23.4	23.5		28.8	28.0	
o/w foreign-currency denominated	47.9	45.7	11.4			12.3	13.9	15.6	17.1	18.3	19.0		20.1	16.9	
Change in public sector debt	-10.3	-2.1	-31.7			-0.5	-1.4	1.1	0.2	0.4	0.1		0.8	-0.4	
Identified debt-creating flows	-7.8	-1.8	-37.2			-1.2	-0.1	2.0	1.8	1.7	1.2		0.5	-0.5	
Primary deficit	-0.2	0.5	-0.2	1.3	1.6	0.6	2.6	2.9	2.9	3.1	3.0	2.5	1.8	0.3	1.2
Revenue and grants	19.3	17.7	17.1			15.7	17.1	16.5	16.9	17.4	17.8		19.0	19.6	
of which: grants	7.3	4.9	4.5			2.7	4.1	3.1	3.0	3.0	3.0		2.3	1.3	
Primary (noninterest) expenditure	19.0	18.2	16.9			16.3	19.7	19.4	19.8	20.4	20.8		20.8	19.9	
Automatic debt dynamics	-9.6	-2.4	-11.2			-2.0	-3.2	-1.4	-1.4	-1.6	-2.0		-1.6	-1.2	
Contribution from interest rate/growth differential	-5.0	-5.8	-4.8			-1.4	-2.2	-1.1	-1.1	-1.4	-1.6		-1.6	-1.2	
of which: contribution from average real interest rate	-1.0	-0.2	-0.4			0.6	-0.6	0.4	0.4	0.3	0.2		0.3	0.6	
of which: contribution from real GDP growth	-4.0	-5.6	-4.4			-2.1	-1.6	-1.5	-1.5	-1.7	-1.7		-1.9	-1.8	
Contribution from real exchange rate depreciation	-4.6	3.4	-6.4			-0.6	-1.0	-0.3	-0.2	-0.2	-0.4		...	...	
Other identified debt-creating flows	2.0	0.1	-25.8			0.1	0.6	0.4	0.3	0.2	0.2		0.2	0.3	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	-25.8			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	2.0	0.1	0.0			0.1	0.6	0.4	0.3	0.2	0.2		0.2	0.3	
Residual, including asset changes	-2.4	-0.3	5.5			0.7	-1.3	-0.8	-1.6	-1.2	-1.1		0.4	0.2	
Other Sustainability Indicators															
PV of public sector debt	9.5	9.6	19.4			18.4	16.2	16.4	15.7	15.4	15.0		20.2	21.2	
o/w foreign-currency denominated	0.0	0.0	7.2			7.7	8.5	9.2	9.7	10.2	10.5		11.5	10.2	
o/w external	...	...	7.2			7.7	8.5	9.2	9.7	10.2	10.5		11.5	10.2	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	15.9	13.4	11.1			8.0	9.8	8.7	8.6	8.1	7.7		9.0	9.0	
PV of public sector debt-to-revenue and grants ratio (in percent)	49.3	54.3	113.3			117.6	94.9	99.4	92.5	88.4	84.2		106.2	108.3	
PV of public sector debt-to-revenue ratio (in percent)	79.6	75.4	153.9			141.9	125.3	122.1	112.4	106.9	101.0		120.6	116.2	
o/w external 3/	…	…	57.0			59.4	65.6	68.5	69.8	71.0	70.5		68.5	55.6	
Debt service-to-revenue and grants ratio (in percent) 4/	52.2	46.1	42.6			12.8	16.3	13.8	14.4	13.4	13.2		18.0	18.9	
Debt service-to-revenue ratio (in percent) 4/	84.2	63.9	57.9			15.5	21.6	17.0	17.5	16.3	15.8		6.4	7.6	
Primary deficit that stabilizes the debt-to-GDP ratio	10.0	2.6	31.5			1.1	4.0	1.8	2.7	2.6	2.9		1.0	0.7	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	6.3	10.8	8.6	8.8	5.3	9.5	7.4	7.3	7.1	8.0	8.0	7.9	7.4	6.7	7.6
Average nominal interest rate on forex debt (in percent)	0.8	0.8	0.5	0.9	0.3	1.0	1.0	1.4	1.3	1.2	1.2	1.2	1.2	1.2	1.2
Average real interest rate on domestic debt (in percent)	3.5	9.3	5.4	7.4	2.8	6.6	-6.0	6.6	7.2	8.8	6.8	5.0	6.5	7.0	7.5
Real exchange rate depreciation (in percent, + indicates depreciation)	-8.6	8.0	-15.5	1.8	11.6	-5.4	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	8.0	2.3	7.4	3.8	5.0	6.2	16.3	5.8	5.2	5.1	6.3	7.5	5.0	5.0	5.0
Growth of real primary spending (deflated by GDP deflator, in percent)	0.0	0.1	0.0	0.1	0.1	0.1	0.30	0.06	0.10	0.11	0.10	0.12	0.07	0.07	0.1
Grant element of new external borrowing (in percent)	...	...	...	…	…	53.5	44.7	51.8	53.4	53.7	52.8	51.7	49.6	47.0	...

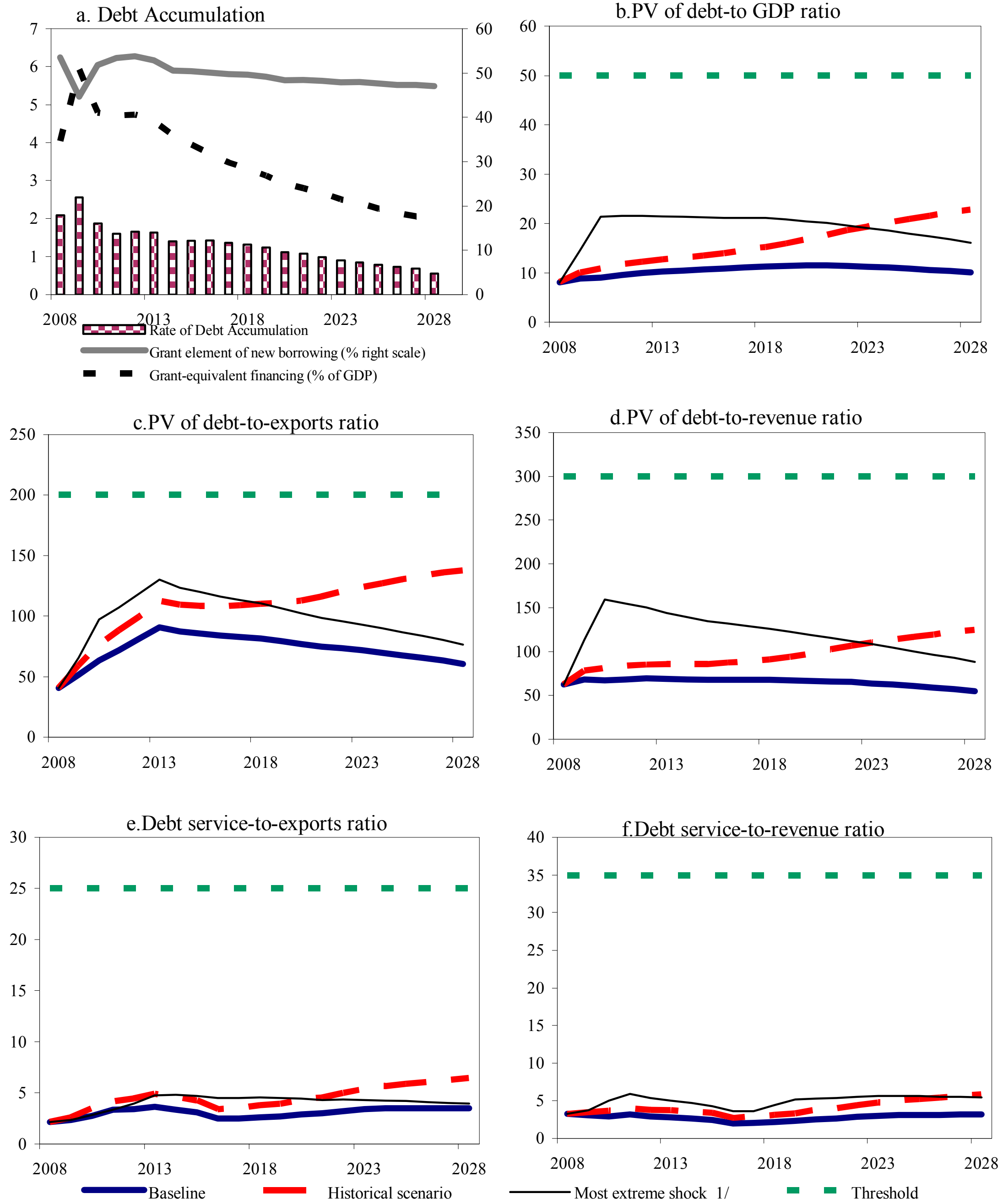
Sources: Country authorities; Bank and Fund staff estimates and projections.
1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]
2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.
3/ Revenues excluding grants.
4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.
5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 2b.Uganda: Sensitivity Analysis for Key Indicators of Public Debt 2008-2028

	Projections							
	2008	2009	2010	2011	2012	2013	2018	2028
PV of Debt-to-GDP Ratio								
Baseline	18	16	16	16	15	15	20	21
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	18	15	13	11	10	8	11	18
A2. Primary balance is unchanged from 2008	18	14	12	10	7	5	6	11
A3. Permanently lower GDP growth 1/	18	17	17	17	17	18	31	60
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2009-2010	18	17	19	19	20	20	30	39
B2. Primary balance is at historical average minus one standard deviations in 2009-2010	18	16	17	16	16	15	20	21
B3. Combination of B1-B2 using one half standard deviation shocks	18	16	15	15	15	15	22	26
B4. One-time 30 percent nominal depreciation in 2009	18	19	18	16	15	15	20	22
B5. 10 percent of GDP increase in other debt-creating flows in 2009	18	26	26	24	24	23	26	26
PV of Debt-to-Revenue Ratio 2/								
Baseline	118	95	99	92	88	84	106	108
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	118	87	82	67	55	45	59	93
A2. Primary balance is unchanged from 2008	118	84	75	57	42	29	32	58
A3. Permanently lower GDP growth 1/	118	97	104	100	100	100	159	301
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2009-2010	118	100	114	112	113	113	157	199
B2. Primary balance is at historical average minus one standard deviations in 2009-2010	118	97	101	94	90	85	107	109
B3. Combination of B1-B2 using one half standard deviation shocks	118	93	93	89	87	85	116	133
B4. One-time 30 percent nominal depreciation in 2009	118	109	108	97	89	82	103	112
B5. 10 percent of GDP increase in other debt-creating flows in 2009	118	151	155	144	136	128	139	134
Debt Service-to-Revenue Ratio 2/								
Baseline	13	16	14	14	13	13	18	19
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	13	16	13	9	7	5	9	17
A2. Primary balance is unchanged from 2008	13	16	13	7	4	1	3	10
A3. Permanently lower GDP growth 1/	13	16	14	15	15	16	28	55
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2009-2010	13	17	15	17	18	19	28	35
B2. Primary balance is at historical average minus one standard deviations in 2009-2010	13	16	14	15	13	14	18	19
B3. Combination of B1-B2 using one half standard deviation shocks	13	16	14	13	11	13	20	23
B4. One-time 30 percent nominal depreciation in 2009	13	17	15	16	15	15	20	23
B5. 10 percent of GDP increase in other debt-creating flows in 2009	13	16	18	48	20	32	23	26

Sources: Country authorities; Bank and Fund staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the length of the projection period.
2/ Revenues are defined inclusive of grants.

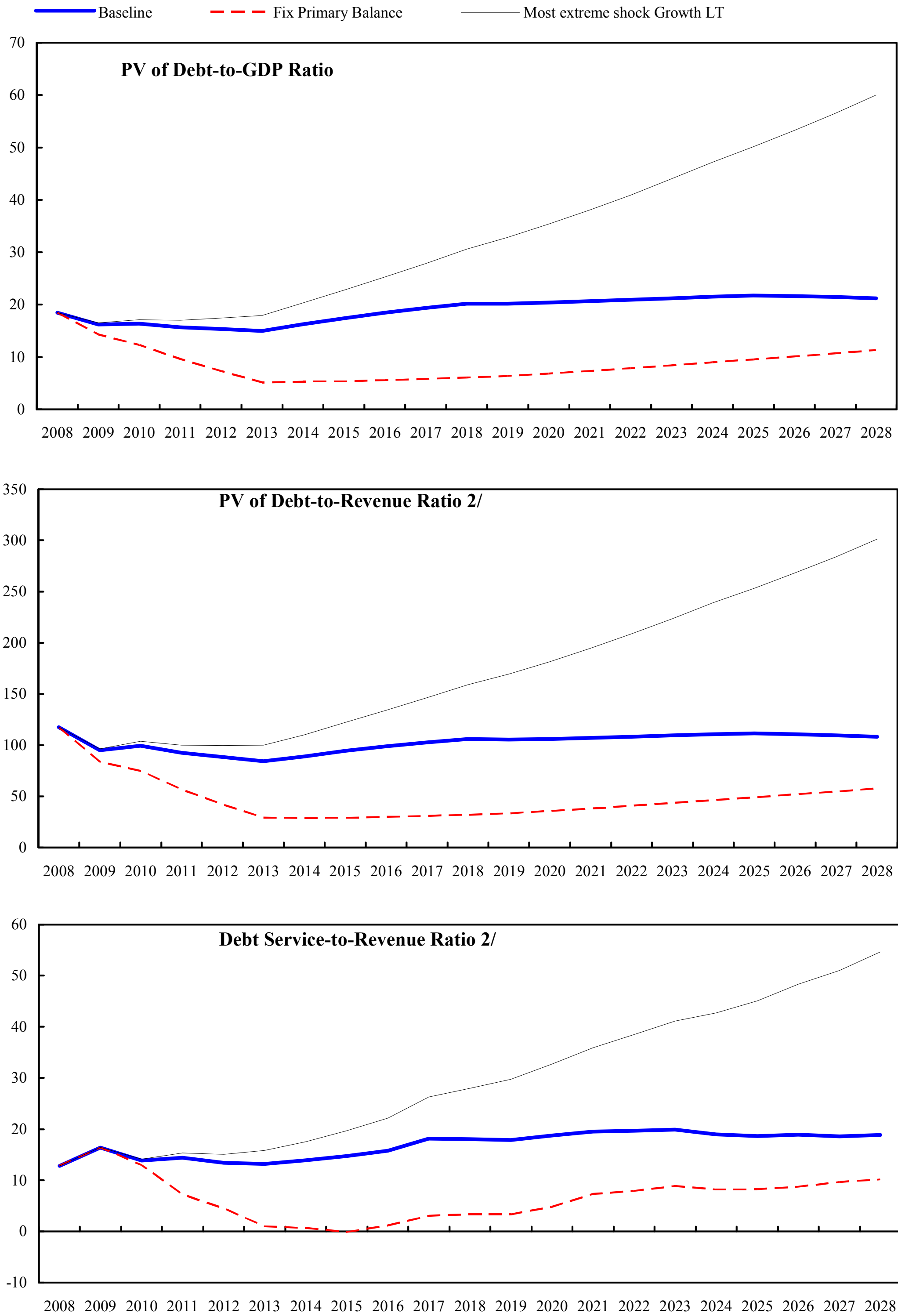
Figure 1. Uganda: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2008-2028 1/



Source: Staff projections and simulations.

1/ The most extreme stress test is the test that yields the highest ratio in 2018. In figure b. it corresponds to a Combination shock; in c. to a Exports shock; in d. to a Combination shock; in e. to a Terms shock and in picture f. to a Combination shock

Figure 2.Uganda: Indicators of Public Debt Under Alternative Scenarios, 2008-2028 1/



Sources: Country authorities; Bank and Fund staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2018.

2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND

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EXTERNAL RELATIONS DEPARTMENT

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700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2008 Article IV Consultation with Uganda

On January, 7, 2009, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Uganda.[22]

Background

Uganda's economy has been among the fastest-growing in Sub-Saharan Africa. Building on a foundation of two decades of sound policies, Uganda achieved an impressive economic performance, with high growth, low inflation, and steady poverty reduction.

In 2008, Uganda has been buffeted by two major shocks. First, the global surge in food and fuel prices has caused domestic inflation to rise above 15 percent, well beyond traditional comfort levels. Second, the global economic downturn is likely to affect both the demand for Uganda's exports and, more significantly, the availability of financing for critical investment projects. As a result, economic growth in 2008/09 is expected to decline from the high levels reached in recent years, but remain robust at 7–7½ percent by global and regional standards. At the same time, core inflation will benefit from the drop in international food and fuel prices, falling to an estimated 7 percent by June 2009. Monetary policy is expected to support the disinflation process, with base money growing at a substantially lower pace than in 2007/08.

[22] 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.

The economic slowdown poses some risks for public finances, and the fiscal deficit is projected to widen somewhat in 2008/09, as development expenditures are scaled up to address infrastructure needs, but recourse to domestic financing is expected to remain limited to less than 1 percent of GDP. Moreover, buoyant private capital inflows, which allowed international reserves to accumulate at a brisk pace in 2007/08, have abated and reserves are expected to drop moderately as demand for Ugandan exports falls and other inflows, including remittances and foreign direct investment, are scaled back. Uganda's financial system has been relatively insulated from the global financial crisis, but the economic slowdown could expose weaknesses in banks' credit portfolios.

Executive Board Assessment

Directors commended the authorities for their sound macroeconomic management that has contributed to an impressive economic performance and steady poverty reduction. The current global economic downturn and reduced prospects for external financing pose immediate challenges to the Ugandan economy. Directors considered the economy to be well-positioned to face these challenges given its low public debt, comfortable level of international reserves, and relatively sound banking sector. Nevertheless, this difficult external environment calls for heightened vigilance.

While the medium-term outlook remains favorable, Directors agreed with the authorities that infrastructure bottlenecks and dependence on subsistence agriculture represent important impediments to growth. Thus, they welcomed the preparation of a new National Development Plan, which entails, among other things, a scaling-up of government investment in infrastructure. In this connection, they stressed the need for careful evaluation of investment projects, including their impact on debt sustainability and on international reserves.

Directors recognized the strong fiscal performance in 2007/08, and agreed that fiscal policy should maintain the modest stimulus underlying the 2008/09 budget. In the event of a revenue shortfall for 2008/09, they encouraged the authorities to avoid precipitous cuts in current expenditures, strengthen expenditure management, and prevent further accumulation of domestic arrears. For the medium term, Directors supported the authorities' target to increase tax revenues by ½ percent of GDP annually and welcomed their consideration of introducing a fiscal rule, which would underpin fiscal consolidation and prudent use of oil revenues.

Directors stressed that monetary policy should aim at sustaining confidence in the currency, while supporting the disinflation process. They encouraged the authorities to seize the opportunity provided by falling international food and fuel prices to bring inflation back toward its medium-term objective. Directors underscored the importance of ensuring that

the necessary pre-conditions are in place before introducing a formal inflation-targeting framework.

Directors considered that Uganda’s flexible exchange rate regime has served the country well, facilitating adjustment to external shocks. They took note of the staff’s assessment that the real effective exchange rate is broadly in line with fundamentals, consistent with strong export performance over the past few years. Directors also saw scope for targeted intervention in the foreign exchange market to avoid excessive volatility.

Directors noted that Uganda’s banking sector remains sound overall, with banks being well-capitalized and relatively insulated from the global financial crisis. They noted, however, the recent rapid expansion of bank lending and the significant share of foreign-exchange loans in banks’ portfolios. To address these vulnerabilities, Directors saw the need to further strengthen prudential supervision as well as close collaboration with the home supervisors of banks operating in Uganda.

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.

Table 1. Uganda: Selected Economic and Financial Indicators, 2006/07–2012/13 [1]

	2006/07	2007/08		2008/09	2009/10	2010/11	2011/12	2012/13
	Act.	Prog.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.
GDP and prices (percent change)								
Real GDP	8.6	9.8	9.5	7.4	7.3	7.1	8.0	8.0
Headline inflation (end of period)	4.4	10.2	12.5	7.7	5.0	5.0	5.0	5.0
Core inflation (end of period)	7.3	11.3	12.1	7.0	5.0	5.0	5.0	5.0
External sector (percent change)								
Terms of trade (deterioration –)	5.5	...	-2.5	--	-3.6	-2.6	…	…
Real effective exchange rate (depreciation –)	2.7	…	…	…	…	…	…	…
Money and credit (percent change)								
Broad money (M2)	16.7	20.3	30.3	18.0	17.6	16.7	17.6	19.0
Domestic credit	-6.4	7.2	22.0	16.2	14.9	15.1	16.0	16.3
Credit to the central government [2]	-17.2	-7.6	-4.3	1.4	2.9	2.9	3.5	3.5
Private sector credit	22.9	31.4	56.1	26.4	19.9	19.9	19.9	19.9
Savings and investment (percent of GDP)								
Domestic investment	22.1	24.1	23.6	27.3	29.7	30.3	30.2	31.0
Public	4.9	4.9	5.5	9.2	11.1	11.2	10.6	10.9
Private	17.2	19.2	18.1	18.1	18.6	19.1	19.6	20.1
National savings (excluding grants)	14.8	15.4	14.5	17.7	20.2	21.3	20.9	22.2
Public	-0.7	-2.7	0.7	2.3	4.1	4.3	3.6	4.2
Private	15.5	18.1	13.8	15.4	15.4	17.0	17.3	18.0
External sector (percent of GDP)								
Current account balance (including grants)	-2.7	-3.6	-6.1	-5.3	-5.9	-5.5	-5.8	-5.4
Net donor inflows	6.5	7.7	4.9	7.0	6.5	6.4	6.3	6.1
Current account balance (excluding grants)	-7.3	-8.8	-9.0	-9.6	-9.5	-9.0	-9.3	-8.8
External debt (including Fund)	11.0	14.3	12.3	13.9	15.6	17.1	18.3	19.0
External debt-service ratio [3, 4]	1.2	2.6	1.6	1.8	1.6	1.2	1.3	1.1
Government budget and debt (percent of GDP)								
Revenue	12.6	13.3	13.0	12.9	13.4	13.9	14.4	14.9
Grants	4.5	5.3	2.7	4.1	3.1	3.0	3.0	3.0
Total expenditure and net lending	-18.2	-21.0	-17.8	-20.6	-20.4	-20.8	-21.4	-21.6
Overall balance (including grants)	-1.1	-2.4	-2.1	-3.5	-4.0	-3.9	-4.0	-3.8
Overall balance (excluding grants)	-5.6	-7.7	-4.8	-7.7	-7.0	-6.9	-7.0	-6.8
Stock of domestic debt	9.3	11.6	10.7	7.7	7.2	5.9	5.2	4.5
Memorandum items:								
Nominal GDP (U Sh billions)	21,168	24,069	24,648	30,782	34,950	38,363	44,687	51,287
Average exchange rate (U Sh per US$)	1,778	…	…	…	…	…	…	…
Treasury bill yield (percent)	9.4	…	8.3	…	…	…	…	…
Overall balance of payments (US$ millions)	704	569	572	-92	91	-78	-3	61
Gross foreign exchange reserves (months of next year's imports of goods and services)	5.3	6.0	6.3	5.7	5.6	5.0	4.7	…

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

[1] Fiscal year begins in July.

[2] Percent of M3 at start of the period.

[3] Percent of exports of goods and nonfactor services.

[4] Including Fund obligations; reflects actual debt service paid, including debt relief.

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Washington, D.C. 20431 USA
International Monetary Fund

IMF Executive Board Completes Fourth Review Under the Policy Support Instrument for Uganda

The Executive Board of the International Monetary Fund (IMF) has completed the fourth review under a three-year Policy Support Instrument (PSI) for Uganda. The PSI was approved on December 15, 2006 (see Press Release No. 06/281). The program goals include macroeconomic stability, sustainable economic growth, poverty reduction, financial sector deepening, and improved public sector financial management.

The IMF's framework for PSIs is designed for low-income countries that may not need IMF financial assistance, but still seek close cooperation with the IMF in preparation and endorsement of their policy frameworks. PSI-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners. This is intended to ensure that PSI-supported programs are consistent with a comprehensive framework for macroeconomic, structural and social policies to foster growth and reduce poverty. Members' performance under a PSI is reviewed semi-annually, irrespective of the status of the program (see Public Information Notice No. 05/145).

Following the Executive Board's discussion, Mr. Takatoshi Kato, Deputy Managing Director and Acting Chair, stated:

“Uganda’s economy has continued to thrive. Sound macroeconomic policies underpin Uganda’s good performance. Nevertheless, the current global financial crisis and economic downturn pose downside risks to Uganda’s growth prospects and the authorities will need to be vigilant.

“The authorities are committed to maintaining price stability. The recent fall in international food and fuel prices provides an opportunity to return inflation to its medium-term objective.

“The fiscal stance underlying the 2008/09 budget provides an appropriate modest stimulus. In the event of revenue shortfalls from budget targets, immediate cuts in current expenditures should be avoided as

these may exacerbate the economic downturn and lead to domestic arrears.
"Investing in infrastructure remains a critical priority for raising Uganda's medium-term growth potential. The current global environment could make raising foreign financing more challenging, placing a premium on careful project evaluation to ensure that public investment remains cost effective and consistent with long-term debt sustainability.

"Uganda's banking sector remains generally sound. However, vulnerabilities exist in some areas, reflecting the rapid expansion in bank lending and the significant share of foreign-exchange loans in banks' portfolios. Prudential supervision needs to remain vigilant to address potential risks," Mr. Kato said.

Statement by Samuel P. Itam, Executive Director for Uganda
January 7, 2009

Introduction

1. My Ugandan authorities thank the staff for the candid and constructive policy dialogue during the mission for the Article IV consultation and the fourth review under the Policy Support Instrument (PSI). The authorities remain committed to maintaining macroeconomic and financial stability, sustaining high and broad-based growth, and reducing poverty significantly. They agree with the broad thrust of the staff report and request Directors' support for the completion of the fourth review. All assessment criteria for the period were met. Also, all but one of the indicative targets were met; base money exceeded marginally the allowed 5 percent band.

Recent economic developments

2. The Ugandan economy continues to record buoyant performance because of disciplined macroeconomic policy implementation, and strong effort in carrying out structural reforms. Real GDP growth was broad-based, propelled by services and manufacturing. During 2008/09, however, Uganda has been buffeted by two shocks: the recent high, albeit subsiding, fuel and food prices; and the global economic and financial crisis. The shocks have triggered a rise in annual inflation from low single digits in the first half of 2007/08 to about 14 percent in November 2008. Further, real GDP growth is estimated to slow from 8.9 percent in 2007/08 to 7.4 percent in 2008/09 due to the adverse impact from the shocks.

3. Balance of payments performance and capital inflows have been strong, resulting in some appreciation pressures on the Uganda shilling against the US dollar in 2007/08. The shilling, however, experienced sharp depreciation pressures in October 2008 mainly because of the recent dollar appreciation against major currencies. In addition, the downside risks posed by the global financial crisis have resulted in investors in treasury bills and government bonds not rolling over these instruments on maturity, with the associated capital outflows. Gross international reserves remain at comfortable levels, being equivalent to about 6 months of imports at end-October 2008. All told, the real effective exchange rate appreciation has been modest. However, if the appreciation persists, it may, with a lag, hurt export competitiveness.

4. The macroeconomic performance and the outlook for the remainder of 2008/09 is in line with the Memorandum of Economic and Financial Policies (MEFP). The authorities recognize and remain committed to resolving a number of challenges to sustain the high growth performance. These challenges include scaling up resources to finance infrastructure, especially roads and energy; transforming the agricultural sector; strengthening the IFMS to ensure prudent budgeting, execution and monitoring; and putting in place mechanisms for appropriate management of oil revenues expected to come on stream in 2010.

Objectives and policies going forward

5. The authorities are replacing the Poverty Eradication Action Plan (PEAP) with a new five-year National Development Plan (NDP). The NDP aims at real GDP growth of about 8 percent per

annum over the medium term, supported by macroeconomic stability, open trade, sound public finances, and measures to address key constraints to private investment. In this regard, Uganda's recent sovereign credit rating that improved from a single B to a B+ is expected to boost confidence in the economy. Furthermore, the authorities plan to raise substantially public investment in infrastructure – roads, energy and railways – for the next three years to address one of the principal constraints on growth in Uganda. Understandably, the authorities are monitoring the economic situation closely in the wake of the global economic and financial crisis, and will use the available monetary and fiscal policy tools to limit damaging effects on the economy.

Fiscal policy

6. Regarding the budget for 2008/09, revenue has been somewhat lower in the first few months of the year but is projected to reach the target, as further improvements in tax administration take hold. Also, spending is expected to be as budgeted. However, should development spending be lower than projected, due to delays in implementation of road projects, unspent funds will be carried over to the next fiscal year. Going forward, the authorities will consider introducing a fiscal rule to tamper strong spending pressures, particularly when oil revenues begin to flow in 2010. For a transparent and prudent use of Uganda's oil wealth, a specific line on oil will be introduced in the National Accounts and incorporated into the Medium Term Fiscal Framework (MTFF). Furthermore, the authorities are committed to working on the three main areas where cash management could be improved and the build up of domestic expenditure arrears avoided: (i) cash flow forecasting;

Monetary and exchange rate policies, and financial sector reform

7. Uganda remains committed to keeping the average underlying annual inflation around 5 percent, guided by the reserve money target. The significant part of the run-up in prices in 2007/08 can be attributed to increases in international food and fuel prices. Monetary policy tools will continue to be used to anchor inflation and its expectation by, inter alia, reducing the growth of base money. The subsiding of international commodity prices in the wake of the global financial crisis may help reduce inflation further. In the context of the global financial crisis, reliance will be on an appropriate mix of sterilization instruments to manage liquidity, using a combination of domestic Open Market Operations and foreign exchange sales.

8. The Bank of Uganda (BOU) is preparing for an inflation-targeting framework for monetary policy. The Uganda Bureau of Statistics (UBOS) rolled out a new measure of underlying (core) inflation that would more accurately capture inflation trends and is expected to roll out a quarterly GDP series by end 2008. The BOU is in the process of designing appropriate monetary and exchange rate policy communication strategies. In this regard, the BOU will produce a semiannual monetary conditions report that would relate current economic and financial market trends to the real economy, growth in monetary aggregates and implementation of monetary operations, and the inflation target.

9. The exchange rate remains market-determined. However, interventions in the foreign exchange market will continue to deal with speculations that may cause damaging exchange rate movements. In view of the shallowness of Uganda's foreign exchange market, the authorities will also pay particular attention to other contributing factors in the effort to prevent undue exchange rate volatility.

10. Uganda's financial system has been relatively insulated from the global financial crisis, but the increasing risk aversion from investors and the spiral effects of a depressed world economy could present significant challenges. The banks have remained sound and stable as improved supervision has helped them build large capital cushions, while deposit mobilization has provided a stable source of funding. The diversified structure of the banks' balance sheets and income sources should also contribute to resilience in the banking system. Nevertheless, the BOU will carefully monitor developments in the banking system, particularly in light of the deterioration in the external environment.

Other structural reform

11. The government attaches utmost importance to meeting Uganda's growing demand for electricity. Financing arrangements for the Bujagali hydropower project have been completed and its construction is on track for commission by 2011. In the near-term, the government will continue to support the private sector by carrying some of the cost of temporary electricity generators.

12. To facilitate private sector's access to financing, Uganda is implementing a financial market development strategy in coordination with the other Central Banks of EAC partner states. Under the auspices of the EAC, the Monetary Affairs Committee (MAC) is stepping up its technical, policy and institutional preparedness for eventual EAC monetary union.