PARLIAMENT OF THE REPUBLIC OF UGANDA

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FOR GOD AND MY COUNTRY

REPORT OF THE BUDGET COMMITTEE

ON

THE CHARTER OF FISCAL RESPONSIBILITY AND THE ECONOMIC AND FISCAL UPDATE FOR THE FY2021/22 - FY2025/26

NOVEMBER, 2021

LIST OF ACRONYMS

CFR	- Charter for Fiscal Responsibility;
EFU	- Economic and Fiscal Update;
PFMA	- Public Finance Management Act, 2015;
NDP III	- Third National Development Plan 2020/21 – 2024/25
MFPED	- Ministry of Finance, Planning and Economic Development;
BOU	- Bank of Uganda;
NPA	- National Planning Authority;
EPRC	- Economic Policy Research Center;
CSBAG	- Civil Society Budget Advocacy Group;
GDP	- Gross Domestic Product;
FY	- Financial Year;
DRMS	- Domestic Revenue Mobilisation Strategy;
TREP	- Taxpayer Register Enhancement Programme;
EAC	- East African Community;
MDAs	- Ministries, Departments and Agencies;
IPPS	- Integrated Personnel and Payroll System;
USD	- United States Dollar;
UGX	- Uganda Shillings;
IDA	- International Development Association;
ADF	- African Development Fund;
EXIM	- Export-Import;
PPP	- Public, Private Partnership;
EMAU	- East African Monetary Union;
MTEF	- Medium Term Expenditure Framework

1.0 INTRODUCTION

Rt. Hon Speaker and Members

The Charter for Fiscal Responsibility (CFR) and the Economic and Fiscal Update (EFU) were presented in the House on 9th September 2021 in accordance with Section 5 (5) of the Public Finance Management Act 2015 (PFMA, 2015). The Charter was referred to the Budget Committee for consideration in accordance with Rule 173 (3 (a) of the Rules of Procedure of Parliament.

The Committee examined the CFR and EFU and hereby presents its findings, observations, recommendations and proposed amendments to the Charter.

1.1 BACKGROUND

Rt. Hon Speaker and Members, this is the second Charter to be prepared as set out in Section 5 of the PFMA, 2015, and will run from FY2021/22 to FY2025/26.

The Charter for Fiscal Responsibility sets a framework for economic management in order to attain socio-economic transformation while maintaining macroeconomic stability. The purpose of the Charter is to enhance the credibility, predictability, and transparency of fiscal policy. The Charter fosters fiscal responsibility through numerical fiscal rules or objectives based on the following principles as set out in Section 4 (2) of the PFMA 2015:

(a) Sufficiency in revenue mobilisation to finance Government programmes;
(b) Maintenance of prudent and sustainable levels of public debt;
(c) ensuring that the fiscal balance, when calculated without petroleum revenues, is maintained at a sustainable level over the medium term;
(d) Management of revenues from petroleum resources and other finite natural resources for the benefit of current and future generations;
(e) Management of fiscal risks in a prudent manner;
(f) Consistency of the Medium Term Expenditure Framework to the National Development Plan; and
(g) Efficiency, effectiveness and value for money in expenditure.

To support the socioeconomic transformation agenda while ensuring macroeconomic stability and fiscal sustainability during the period FY2021/22 - FY2025/26, Government has proposed to adopt the following measurable fiscal objectives:

Objective 1: Total Public Debt in Nominal terms is reduced to below 50% of GDP by the financial year 2025/26, as shown in the table below;

	2021/22	2022/23	2023/24	2024/25	2025/26
Nominal Debt to GDP	52.7%	53.1%	52.4%	51.2%	49.3%

Objective 2: the overall Fiscal Balance (including grants) should gradually adjust to a deficit of not exceeding 3% of GDP by FY 2025/26 as shown in the table below;

	2021/22	2022/23	2023/24	2024/25	2025/26
Overall Fiscal Balance Including Grants	-6.4%	-5.4%	-4.6%	-4.2%	3.0%

Objective 3: A maximum of oil revenue worth 0.8% of the preceding year's estimated non-oil GDP outturn shall be transferred to the Petroleum Fund for budget operations. The balance shall be transferred to the Petroleum Revenue Investment Reserve for investment in accordance with the Public Finance Management Act (2015) as amended.

It is important note that the Charter takes into consideration the start of commercial oil production in FY2024/25, therefore the measurable fiscal objectives are mindful of the existence of petroleum revenues in the medium term fiscal framework.

2.0 METHODOLOGY

The methodology adopted by the Committee involved examination of relevant documents and interactions with stakeholders.

Documents Examined:

- The Public Finance Management Act, 2015 as amended;
- The National Development Plan III (NDPIII);
- The East African Monetary Union Protocol, 2013;
- Public Debt and other Financial Liabilities Management Framework FY 2018/19 -2022/23;
- Medium Term Debt Management Strategy for FY 2021-22;
- Domestic Revenue Mobilisation Strategy, FY 2019/20- 2023/24;
- Opposition Response to the CFR, Sept 2021

Stakeholders Consulted:

- Ministry of Finance, Planning and Economic Development (MFPED)
- Bank of Uganda (BOU)

- National Planning Authority (NPA)
- Economic Policy Research Center (EPRC)
- Civil Society Budget Advocacy Group(CSBAG)
- Office of the Leader of the Opposition

3.0 PERFORMANCE OF THE FIRST CHARTER FOR FISCAL RESPONSIBILITY FOR THE PERIOD FY2016/17-FY2020/21

The measurable fiscal objectives of the first Charter included:

Objective 1 - Government fiscal balance (including grants) is reduced to a deficit of no greater than 3% of GDP by FY2020/21;

Objective 2 - Public Debt in net present value terms is maintained below 50% of GDP; of which, the net present value of external debt is maintained below 30% of GDP and the net present value of domestic debt is maintained below 20% of GDP.

The Committee observes the following:

- An assessment of fiscal outturns against fiscal targets indicates deviations from the approved CFR. As at end of FY2020/21, the fiscal deficit (including grants) was UGX 14,563.6 (equivalent to 9.8%[1] of GDP), while present value of Public debt was reported at UGX 33,362.55 equivalent to 39.38% of GDP). This indicates that only objective two of the first CFR was met. Table 2 and 3 highlight the fiscal operations during the period of implementation of the first Charter for Fiscal Responsibility.

- The fiscal deficit expanded substantially from 7.1% in 2019/20 to 9.8% in FY2020/21 following the outbreak of the Covid-19 pandemic. This was driven by revenue shortfalls (as highlighted in table 1 below) caused by the slowdown in economic activity and increased fiscal expenditure requirements to respond to the impact of the Covid-19 crisis.

Table 1: Revenue Performance (Incl. Grants)

FY	Revenue Targets/Budget (UGX Billion)	Revenue Outturns (UGX Billion)	Variance (UGX Billion)
2016/17	14,459	13,899	**-560.00**
2017/18	16,698	15,149.80	**-1,548.20**
2018/19	18,046.16	17,332.96	**-713.20**
2019/20	22,546.42	18,074.05	**-4,472.37**
2020/21	23,529.60	21,238.80	**-2,290.80**

Source: Ministry of Finance, Planning and Economic Development (Budget Performance Reports)

[1] Updated data from the Annual Budget Performance Report, FY2020/21

- The fiscal deficit over the first CFR period was substantially financed through increased external and domestic borrowing. Present value of external and domestic debt as a percentage of GDP grew from 14.4% and 12.7% respectively in FY2016/17 to 22.5% and 16.8% respectively in FY2020/21 slightly below the set fiscal targets.

- **A fiscal deficit financed by domestic borrowing has a huge implication on the cost of doing business, due to its effect of crowding out of the private sector in the credit market and consequently leading to high interest rates or high cost of capital. It is well known that one of the bottlenecks to the development of the private sector is the limited access to and the cost of capital. Therefore domestic borrowing should be discouraged.**

Table 2: Summary of Fiscal Operations FY2016/17 – FY2020/21 (% GDP)

% of GDP	2016/17	2017/18	2018/19	2019/20	2020/21
Total Revenue and Grants	**12.8%**	**12.7%**	**13.6%**	**13.2%**	**14.4%**
o/w Tax Revenue	11.5%	11.7%	12.3%	11.5%	12.4%
Expenditure and Net Lending	**16.1%**	**16.8%**	**18.5%**	**20.3%**	**24.2%**
o/w Recurrent Expenditure	9.2%	9.1%	9.4%	10.8%	12.9%
o/w Development Expenditure	6.2%	6.3%	7.6%	8.6%	10.2%
o/w Net lending and investment	0.5%	1.2%	1.1%	0.6%	0.4%
o/w Other spending (clearance of arrears, etc.)	0.2%	0.3%	0.3%	0.3%	0.6%
Overall Balance	**-3.3%**	**-4.1%**	**-4.9%**	**-7.1%**	**-9.8%**
Public Debt					
Present value Debt as a % of GDP	27.10%	29.50%	26.70%	31.80%	39.38%
o/w External	14.40%	16.60%	15.40%	18.80%	22.55%
o/w Domestic	12.70%	12.90%	11.30%	13.00%	16.83%
Nominal value Debt as a % of GDP	31.1%	34.6%	35.3%	41.0%	49.2%
o/w External	20.4%	23.5%	23.5%	28.1%	32.07%
o/w Domestic	10.7%	11.1%	11.8%	12.9%	17.13%

Source: Ministry of Finance, Planning and Economic Development

Table 3: Summary of Fiscal Operations FY2016/17 – FY2020/21 (UGX Billion)

	2016/17	2017/18	2018/19	2019/20	2020/21
Total revenue and grants	13,896	15,281	17,965	18,442	21,238.8
Revenue	12,947	14,507	16,776	17,286	19,838.8
Tax revenue	12,463	14,076	16,248	15,912	18,336.8
Non-tax revenue (including AIA)	354	431	528	1,374	1,361.0
Oil revenues (including capital gains tax)	130	0	0	0	141.0
Grants	950	774	1,189	1,156	1,400.0

	2016/17	2017/18	2018/19	2019/20	2020/21
Expenditures and net lending	17,437	20,183	24,438	28,393	35,802.4
Current expenditures	9,994	10,916	12,417	15,093	19,156.6
Development expenditures	6,718	7,566	10,039	12,064	15,160.5
Net lending and investment	541	1,396	1,453	831	640.9
Other spending (clearance of arrears, etc.)	184	305	396	405	844.4
Overall balance (inl. Grants)	**- 3,541.1**	**- 4,902.3**	**- 6,472.7**	**- 9,950.3**	**- 14,563.6**
Financing	3,541	4,902	6,473	9,950	14,563.6
External financing (net)	2,609	3,496	3,699	6,195	6,487.9
Domestic financing (net)	603	1,358	2,510	3,878	7,457.0
Errors and omissions/gap	329	48	264	-123	618.7
Memorandum Items					
Nominal GDP	108,518	120,485	132,096	139,711	148,278
Real GDP	108,518	115,359	122,791	126,431	130,730
Present Value Debt	**29,408.38**	**35,543.08**	**35,269.63**	**44,428.10**	**58,273.25**
o/w External Debt	15,626.59	20,000.51	20,342.78	26,265.67	33,362.55
o/w Domestic Debt	13,781.79	15,542.57	14,926.85	18,162.43	24,910.70
Nominal Debt	**33,749.10**	**41,687.81**	**46,629.89**	**57,281.51**	**72,804.50**
o/w External Debt	22,137.67	28,313.98	31,042.56	39,258.79	47,448.96
o/w Domestic Debt	11,611.43	13,373.84	15,587.33	18,022.72	25,355.54

Source: Ministry of Finance, Planning and Economic Development

4.0 COMMITTEE OBSERVATIONS AND RECOMMENDATIONS ON THE CFR (FY 2021/22-FY 2025/26)

4.1 Compliance with the Legal Framework

(i) Submission of CFR to Parliament

Section 5(1) of the PFMA, 2015 requires the CFR to be submitted to Parliament, not later than three months after the first sitting of Parliament following the General election. The First sitting of the 11th Parliament was on held on 24th May, 2021 and the CFR was submitted on 9th September 2021, 16 days after the stipulated time. The Committee sought an explanation from the Minister on this anomaly and the Minister provided an explanation to the Committee.

The Committee recommends that in accordance with Section 78 (1) of the Public Finance Management Act, the Minister responsible for Finance should also make a report to Parliament on failure to meet the requirement of the PFMA.

(ii) Period of the CFR

Section 5(1) (a) (i) of the PFMA, 2015 stipulates that "the CFR shall provide a statement indicating measurable objectives for fiscal policy for a period not

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less than three fiscal years which are consistent with the principles set out in Section 4 of the PFMA, 2015 as amended".

The Committee observes that the CFR is specified for a period of 5 fiscal years (FY2021/22-FY2025/26) and therefore it is consistent with the law.

(iii) Methodology to be used to measure Performance

Section 5(1) (a) (ii) of the PFMA, 2015 stipulates that the CFR shall provide "an explanation of the methodology to be used to measure the performance of Government against the fiscal policy objectives required in subsection (1)(a)(i)";

The Committee observes that Chapter 4 of the CFR provides an explanation of the methodology to be used to measure the performance of Government against the fiscal policy objectives.

(iv) Sources of Data

Section 5(1) (a) (iii) of the PFMA, 2015 stipulates that the CFR shall provide "a list of the sources of data to be used to report developments against the fiscal objectives required in subsection (1)(a)(i)";

The Committee observes that Chapter 5 of the CFR provides for the sources of data for monitoring the performance of the measurable fiscal objectives in this charter. Therefore it is consistent with the law.

(v) Macroeconomic and Fiscal Projections

Section 5 (1) (a) (iv) of the PFMA stipulates that "the CFR shall provide a demonstration of how the fiscal objectives set under subsection (1)(a)(i) are consistent with the principles set out in Section 4 using the Macroeconomic and fiscal data, assumptions, and projections provided in the economic and fiscal update referred to in subsection (1)(b)".

The Committee observed that the Economic and Fiscal Update provides the macroeconomic and fiscal projections for the five year period of the CFR.

(vi) Format of the CFR

Section 5 (7) stipulates that "the CFR shall be in the format provided in Schedule 2 of the PFMA, 2015", as amended.

The Committee observed that the CFR has been provided in the format prescribed in the PFMA, 2015 (as amended) and therefore compliant with the law in this respect.

The format as provided in the Schedule include:

- **Statement of fiscal policy objectives** – Provided under Chapter 3 of CFR;
- **Methodology for assessing fiscal performance** – Provided under Chapter 4 of CFR;
- **Sources of data to be used for reporting fiscal performance** – Provided under Chapter 5 of CFR;
- **Consistency of Charter for Fiscal Responsibility with the principles in section 5** – Provided under Chapter 6 of CFR

4.2 Consistency with the National Development Plan III

The overall goal of NDP III's macroeconomic management is to accelerate and sustain inclusive economic growth, while maintaining macroeconomic stability and debt sustainability. The Macroeconomic objectives underpinning the strategy include among others;

(i) Pursuing a prudent fiscal policy with the aim of supporting macroeconomic stability consistent with regional and domestic fiscal rules. This includes a ceiling on debt to GDP of 50 percent in present value terms and a gradual achievement of a fiscal deficit of 3 percent by FY 2024/25;

(ii) Domestic revenue annual growth of 0.5% of GDP.

The Committee observed that the two fiscal objectives of the CFR namely: (i) total Public Debt in Nominal terms is reduced to below 50% of GDP by the financial year 2025/26; (ii) the overall Fiscal Balance (including grants) should gradually adjust to a deficit of not exceeding 3% of GDP by FY 2025/26; are in principal consistent with the NDP III. However, the CFR fiscal deficit target of -4.2% in FY2024/25 is not consistent with the NDPIII and EAC convergence criteria target of -3% by 2024/25. This raises implications on implementation of the NDPIII. This could therefore imply that NDP III's is reviewed in line with CFR.

4.3 Revenue Mobilization

The Committee observed that Uganda has implemented a wide range of tax and non tax reforms, which were meant to form the foundation for stronger revenue outcomes. These reforms, together with compliance initiatives, have resulted in increase in revenue to GDP growth from 11.9% in FY2016/17 to 13.3% in FY2020/21.

However, revenue mobilisation efforts have largely been hindered by the existence of large informal sector that constitutes about half of economic activity. Tax to GDP has marginally grown from 11.5% in FY2016/17 to 12.4% in FY2020/21, despite Government initiatives like the Taxpayer

Register Enhancement Programme (TREP) that commenced in 2015/16, and the Domestic Revenue Mobilisation Strategy (DRMS) 2019/20-2023/24.

In this regard, the Committee recommends that Government strengthens the implementation of the Domestic Revenue Mobilization Strategy (DRMS) and an evaluation of DRMS be expeditiously carried out in order to ascertain its efficacy.

In addition, the Committee recommends that the Local Government Domestic Revenue Mobilisation Strategy currently under formulation be fast tracked and implemented to support revenue mobilisation efforts at the sub-national level.

The Committee recommends a speedy formulation of a Tax Policy to guide revenue mobilisation efforts.

4.4 Domestic Arrears

The Committee observes that whereas Government has implemented several measures to tackle the problem of arrears including implementation of Commitment Control System, the total stock of domestic arrears has grown from to UGX 517 billion in 2006/07 to UGX 4.1 trillion as FY2019/20[2]. It should be noted that out of the stock of domestic arrears amounting to UGX 4.1 trillion, only UGX1.68 trillion has been verified by the Auditor General as at 30thJune 2020.

The main reasons for continued accumulation of Arrears include, among others;

(i) Court awards because of the inadequate management of construction contracts, unpaid land compensation, or not resolving disputes prior to judicial involvement, and frequent issuance of orders of mandamus against Government;
(ii) Diversion or use of funds for purposes other than what they were intended for;
(iii) Salary shortfalls caused by delays in Ministries, Departments and Agencies (MDAs) enrolling new staff on the Integrated Personnel and Payroll System (IPPS), arbitrary and erroneous drop offs of staff from the payroll, interdictions, and reinstatements after a very long time;
(iv) Pension and gratuity arrears caused by delays in processing pension files beyond a financial year, errors and inaccuracies on the pension payroll and weak accountability for pension funds;
(v) Insufficient budgets allocations for Utilities and other mandatory recurrent expenditures and failure by some MDAs to install prepaid utility meters;
(vi) Budget shortfalls for counterpart funding obligations for development projects; and

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[2] Strategy to Clear and Prevent Domestic Arrears 2021

(vii) Non-remittance of tax deductions on salaries (pay as you earn) and development projects (withholding tax) by some Accounting Officers to Uganda Revenue authority.

The continued increase in Domestic arrears reflects undisciplined approach to financial management. Domestic arrears undermines the attainment of the fiscal targets, increases the cost of supplying government (due to pricing in cost of delayed payments), diminishes working capital of suppliers, delay tax payments, compromise welfare of pensioners and erode investor confidence due to inability of government in meeting its obligations

The Committee recommends that:

- **Government fast tracks the verification of all outstanding domestic arrears;**
- **Government clears all verified outstanding Domestic Arrears within a period of 3 years;**
- **Sections 78 and 79 of the PFMA, 2015 (as applicable) is fully enforced for Accounting Officers who commit Government to an expenditure outside the approved cash flow plans and quarterly cash flow projections;**
- **Government should budget for utilities, obligations, salaries, pensions, and gratuities, and other compulsory obligations otherwise deductions in the Vote MTEF ceiling should be made to clear the outstanding arrears;**

4.5 Audit of Petroleum Fund

The Committee observes that the petroleum recoverable costs have not been audited for the last six years. Hence Government cannot be able to realistically quantify the recoverable costs by the Oil companies involved in petroleum exploration. If not tracked, these costs may escalate to unmanageable levels and impact on revenue generation from Petroleum.

The Committee therefore recommends that Auditor General should fast track the audit of recoverable costs since 2016 to date to ensure to establish credible recovery costs.

4.6 Public Debt

The total debt stock as at end December 2020, was USD 17.96 billion equivalent to UGX 65.83 trillion compared to USD 13.3 billion equivalent to UGX 49.0 trillion at end December 2019[3]. This represents an increase of 35.0% in debt stock, equivalent to USD 4.66 billion in one year. This increase was on account of a rise in external borrowing and its disbursements to address the socio-economic impact of COVID-19 as well as growth in domestic debt issuances to finance the fiscal deficit. The nominal

[3] Medium Term Debt Management Strategy for FY 2021-22_Bk

debt to GDP as at December 2020 stood at 47.2% compared to 38.0% as at December 2019.

According to the CFR's economic and fiscal update forecasts, total public debt as a percentage of GDP in nominal terms is projected to go slightly above the 50% CFR threshold by the end of FY2021/22 and peak at 53.1% in FY2022/23, before gradually reducing to 49.3% by the end of FY2025/26.

One of the factors driving up the cost of borrowing is the growing proportion of non-concessional debt. While highly concessional loans still make up 58.8% of the external debt stock, semi-concessional loans from the China EXIM Bank have rapidly grown over time and now make up 23.4% of the debt stock. Unlike concessional loans from the IDA and the ADF (Uganda's two largest lenders), which have interest rates below 1%, Chinese loans come with interest rates averaging 2%.

Debt sustainability analyses indicate that Uganda is not under debt distress and will not be so under the medium term. However, vulnerabilities have increased as some investment projects may not generate the envisaged return.

In this regard, the Committee recommends the following:

- **There is a critical need to scale up revenue mobilization through effective operationalisation of the Domestic Revenue Mobilization Strategy;**

- **In addition, there is need to sequence borrowing towards projects, with priority given to those generating a bigger growth dividend;**

- **Projects should be ready for implementation before funding is approved: Most of the foreign Debt is project support and one of the conditionality's for disbursement is project readiness. Some projects support loans are approved before project is ready for implementation. This had led to increased cost of debt in terms of continued payment of commitment fee and interest on undisbursed loans;**

- **Uganda faces increased exposure to increased interest rates due to the increasing non-concessional external financing. Therefore Government should contract non-concessional finance for projects whose rate of return exceeds the cost of credit and consider Swapping existing non concessional loans with Concessional loans;**

4.7 Fiscal risks

The Committee observed that the PFMA includes a fiscal principle on "management of fiscal risks in a prudent manner", that the fiscal objectives of the CFR must be based on. However, the Committee was informed by BOU that contingent liabilities like government loan guarantees, government-back guarantee schemes, legal proceedings and termination clauses in PPPs; are not part and parcel of public debt stock and consequently have not been considered in the current objectives of the CFR.

The Committee recommends that this principle could be reinforced with specific objectives on managing sources of fiscal risk, such as putting caps on government guarantees, the size of public-private partnership (PPP) commitments, and other contingent liabilities that are not captured in public debt statistics. These contingent liabilities, when they materialize increase public debt accumulation and could erode the sustainability of public finances.

4.8 Value for Money Audits

The Committee observed that the PFMA, 2015 provides for a principle on "efficiency, effectiveness and value for money (VFM) in expenditure", that fiscal objectives of the CFR must be based on. However, since 31st March 2009 when the first set of VFM audits were submitted to Parliament, OAG has submitted 118 VFM audit reports to Parliament to-date, and of which 29 VFM audit reports have been discussed.

The Committee therefore recommends that Parliament fast tracks the consideration of the Value for Money Audits and this would support attainment of the objectives CFR in line with the fiscal policy principles

4.9 Fiscal Council

The Committee observes that in order to effectively monitor and formulate credible fiscal policies there is a need to strengthen the institutional mechanisms governing fiscal policy through an Independent Fiscal Council (IFC). The effectiveness of a fiscal council hinges on several factors, including having full autonomy within the scope of their mandates, active and unfettered dissemination of their analysis, and their credibility.

The principal purpose of creating such an entity is to reduce the risks of Government failure to adhere to fiscal rules arising from political influence over technical aspects of fiscal policy formulation and monitoring. One might envisage the complete delegation of an Authority for setting the fiscal balance and debt target to an independent fiscal authority (IFA), similar to the delegation of monetary policy to an independent central bank.

There are several ways in which an independent body, or a fiscal council, with more circumscribed responsibilities can potentially contribute to improved fiscal performance. With respect to positive economic analysis, fiscal councils can intervene at any number of points in the policymaking process. They can be tasked with making independent macroeconomic forecasts, or providing assumptions or projections of key variables or parameters on which budget projections can be based. As previously noted, an important source of deficit bias in practice is an overly optimistic macroeconomic scenario.

The Committee is aware that the Parliamentary Budget Office is mandated to undertake functions similar to a fiscal council; however PBO has not attracted the attendant financial support to develop a robust integrated macroeconomic model as a tool required for evaluating fiscal policy alternatives.

In this regard, the Committee recommends that the macroeconomic modeling and forecasting capacity of the Parliamentary Budget Office is strengthened through funding of the development of an Integrated Macroeconomic Model to support the evaluation and monitoring of fiscal policy objectives. In addition, the model will also support legislative scrutiny through high-impact, evidence-based policy assessment that supports poverty reduction goals, maintains economic stability, and encourages growth.

5.0 PROPOSED AMENDMENTS TO THE CHARTER

The Committee proposes the following amendment to the Charter:

5.1 OBJECTIVE 1: PUBLIC DEBT

(a) **"Total Public Debt in Nominal terms is reduced to below 50% of GDP by FY2025/26, of which domestic debt to total public debt shall not exceed 34%, while external debt to total public debt shall not exceed 66%; as shown in the table below"**

	2021/22	2022/23	2023/24	2024/25	2025/26
Nominal Debt to GDP	52.7%	53.1%	52.4%	51.2%	49.3%
Domestic Debt as % of Total Debt	34%	33%	33%	33%	34%
External Debt as % of Total Debt	66%	67%	67%	67%	66%

Justification:

In line with the Public Debt and other Financial Liabilities Management Framework FY 2018/19 -2022/23, the Committee proposes that the public debt in Nominal terms is disaggregated to ensure that both external and *domestic debt levels can be explicitly monitored at prudent levels to support a strong and sound economy.*

(b) **"Total domestic debt interest payments to Total revenues (excluding grants) is reduced to 12.5%; as shown in the table below"**

	2021/22	2022/23	2023/24	2024/25	2025/26
Total domestic debt interest payments to Total revenues	15.2%	14.6%	14.1%	13.6%	12.5%

Justification:

Government has focused only on Solvency indicators in setting the Charter's objectives. Solvency indicators determine the country's ability to meet its debt obligations in the future. While liquidity indicators, on the other hand, determine the country's ability to pay its debt now. It is against the backdrop that the Committee sought it necessary to include a liquidity indicator that is consistent with the Public Debt and other Financial Liabilities Management Framework FY 2018/19 -2022/23.

(c) **"Government borrowing from the Bank of Uganda will cease by 2025/26"**

Justification:

Government borrowing from the Bank of Uganda can be inflationary if the BOU cannot fully mop the excess liquidity created by the Government borrowing from the central bank. In addition, mopping the additional excess liquidity is costly in terms of interest payments, which in turn erodes BOU capital. In this regard and in line with the requirements of the EAMU protocol, a commitment to fully phase out Government borrowing from the Bank of Uganda should be targeted.

(d) **"Nominal Publicly Guaranteed Debt to GDP is maintained below 5%"**

Justification:

Contingent liabilities pose a fiscal risk to the government. A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or nonoccurrence of one or more uncertain future events not wholly within the control of an entity. These contingent liabilities may result in expenditure by the government to settle the confirmed obligation of the entity. To ensure that Uganda's total Public debt exposure remains sustainable, the Committee sought it prudent to include this objective *that is consistent with the Public Debt and other Financial Liabilities Management Framework FY 2018/19 -2022/23.*

5.2 OBJECTIVE 2: FISCAL BALANCE

In addition to the current Objective 2 of the CFR, the Committee proposes two additional sub-rules or objectives as follows:

a) **"the ratio of Non-oil Revenue to GDP shall grow by at least 0.5 percentage points on an annual basis as shown in the table below"**

	2021/22	2022/23	2023/24	2024/25	2025/26
Non-oil Revenue to GDP	13.8%	14.4%	14.9%	15.4%	15.9%

Justification:

According to Section 4(3) of the PFMA, 2015, the Minister is mandated to set measurable fiscal objectives based on the fiscal principles highlighted in Section 4(2) of the PFMA, 2015. The first fiscal principle as per Section 4(2) is "sufficiency in revenue mobilisation to finance Government programmes".

The Committee observed that there is no explicit fiscal rule relating to the first fiscal principle of sufficiency in revenue mobilisation. It is against this backdrop that the Committee proposals an additional fiscal objective/rule in line with the fiscal principle of sufficiency in revenue mobilisation to finance Government programmes. It is important to set a rule that would foster Government to enhance its revenue effort

b) **"the *growth rate in recurrent spending as a percentage of GDP shall not exceed the growth rate of revenue (excluding Oil revenue) as a percentage of GDP"***

Justification:

This fiscal objective will ensure that the rise in recurrent spending matches the efficiency in revenue mobilisation. By default, expenditure increases are supposed to be in line with growth in revenue collections.

5.3 OBJECTIVE 3: PETROLEUM FUND TRANSFERS TO THE BUDGET AND PETROLEUM REVENUE INVESTMENT RESERVE (PRIR)

The principle in Section 4(2) (d) of the Public Finance Management Act, 2015 relates to the management of revenues from Petroleum resources and other finite natural resources for the benefit of current and future generations.

The Committee observed that the proposed measurable objective No.3 is selective given that it targets only the petroleum fund leaving out other finite natural resources particularly minerals. This underplays the contribution of the mining sector to the economy.

The Committee noted that fiscal rules on petroleum and other finite natural resources are necessary because of the need to insulate the budget from volatile revenues from the extractive industry that could cause harmful macroeconomic effects.

In this regard the Committee proposes the following amendments:

1. The Objective 3 in the CFR is amended to align with Section 4(2) (d) of the Public Finance Management Act, 2015 to read as follows:

"OBJECTIVE 3: MANAGEMENT OF REVENUES FROM PETROLEUM RESOURCES AND OTHER FINITE NATURAL RESOURCES"

2. In addition to the current Objective 3 of the CFR, the Committee proposes an additional rule to cater for the minerals revenue as follows:

   "A maximum of minerals revenue worth 0.8% of the preceding year's estimated non-minerals GDP outturn shall be for budget operations. The balance shall be saved for both the current and future generations"

In addition the Committee recommends that Government fast tracks the quantification of the present minerals and the establishment of a Minerals Fund and Minerals Reserve.

Justification:

This would ensure conformity with Section 4(3) of the PFM Act which requires that a measurable fiscal objective is set for the fiscal principle on the management of revenues from petroleum resources and other finite natural resources for the benefit of current and future generations.

5.4 DEVIATION FROM THE CHARTER-ESCAPE CLAUSE

Section 7 of the PFMA, 2015 stipulates that "the Minister may with the approval of Parliament, deviate from the objectives of the CFR where Uganda experiences a natural disaster, an unanticipated severe economic shock or any other significant unforeseen event that cannot be funded from the contingency fund or other funding mechanism provided in this Act or using prudent fiscal policy adjustments".

The Committee observed that whereas it may be obvious to determine a significant natural disaster that has occurred, it's not clear or obvious to determine "severe economic shock". In this regard the CFR should provide a quantifiable/measurable indicator of what constitutes a severe economic shock.

The Committee recommends that the Charter be amended to incorporate the following definition of a severe economic shock:

" a severe economic shock constitutes an unexpected or unpredictable event resulting into a large-scale economic downturn, measured by a contraction in real GDP by over 1% for at least two consecutive quarters in a quarter-to-quarter comparison from the preceding period"

Justification:

This definition is consistent with the previous Charter and is a more quantifiable/measurable definition that will support effective monitoring of the Charter

6.0 CONCLUSION

The objective of the CFR is to ensure that Government is fiscally responsible, transparent and accountable in its fiscal decision making. Fiscal responsibility is about ensuring that fiscal decisions are not dominated by present considerations at the expense of future ones.

I therefore request that the house adopts the recommendations and proposed amendments by the Committee.

Rt. Hon Speaker and Members, I beg to report

ANNEX 1: PROJECTED FISCAL OPERATIONS (UGX BILLION)

	2021/22	2022/23	2023/24	2024/25	2025/26
Total revenue and grants	23,850	26,862	30,807	35,615	43,858
Revenue	**22,425**	**25,972**	**30,069**	**34,915**	**42,244**
Non-Oil Revenue	22,425	25,972	30,069	34,862	40,435
Tax revenue	20,837	24,145	27,947	32,494	37,775
Non-tax revenue (including AIA)	1,588	1,827	2,121	2,368	2,660
o/w Appropriation in Aid	728	810	907	1,017	1,141
Oil revenues (including capital gains tax)	0	0	0	53	1,809
Grants	**1,424**	**890**	**739**	**700**	**1,614**
o/w Budget support	75	64	21	22	22
o/w Project grants	1,349	826	717	678	1,592
Expenditures and net lending	34,233	36,252	40,158	45,050	51,450
Current expenditures	18,967	20,443	22,569	26,986	31,238
o/w Wages and salaries	5,529	5,903	6,493	7,415	8,651
o/w Interest payments and commitment fees	4,698	5,038	5,394	6,049	6,837
o/w Other current spending	8,741	9,502	10,682	13,522	15,750
Development expenditures	**14,755**	**15,410**	**17,390**	**18,064**	**20,213**
o/w External	6,758	7,490	8,893	9,023	10,127
o/w Domestic	7,997	7,920	8,496	9,041	10,086
Net lending and investment	**111**	**0**	**0**	**0**	**0**
o/w HPP projects	111	0	0	0	0
Other spending (clearance of arrears, etc.)	**400**	**400**	**200**	**0**	**0**
Overall balance	**-10,383**	**-9,391**	**-9,351**	**-9,436**	**-7,592**
Primary balance	-5,685	-4,353	-3,957	-3,387	-755
Financing	**10,383**	**9,391**	**9,351**	**9,436**	**7,592**
External financing (net)	**7,240**	**6,051**	**6,090**	**5,556**	**6,429**
Disbursement	9,027	8,873	9,285	9,568	10,618
Amortisation (-)	-1,787	-2,822	-3,195	-4,012	-4,189
Domestic financing (net)	**3,143**	**3,339**	**3,261**	**3,879**	**1,163**
Bank financing	1,668	1,666	1,627	1,936	-1,233
Bank of Uganda	-8,347	-7,150	-7,334	-8,331	-9,021
o/w: CF Account	0	0	0	0	0
o/w: petroleum fund inflow	0	0	0	-53	-1,809
o/w: petroleum fund withdrawal	200	0	0	53	-1,809
o/w: domestic refinancing	-8,547	-7,150	-7,334	-8,331	-5,402
Commercial banks	10,015	8,817	8,961	10,267	7,788
o/w: securities for fiscal purposes	1,468	1,666	1,627	1,936	2,386
o/w: securities for domestic amoritisation	8,547	7,150	7,334	8,331	5,402

	2021/22	2022/23	2023/24	2024/25	2025/26
Non-Bank financing	**1,474**	**1,673**	**1,634**	**1,944**	**2,396**
Errors and omissions/gap	0	0	0	0	0
Memorandum items:					
Real GDP Growth Rate	4.3%	6.4%	7.0%	7.2%	7.0%
Nominal GDP growth	162,068	180,359	201,802	226,381.2	253,982.5
Public gross Nominal debt	**85,477.1**	**95,828.2**	**105,838.6**	**116,011.4**	**125,265.3**
o/w Domestic	28,749.6	31,980.4	35,091.9	38,727.7	42,300.5
o/w External	56,727.5	63,847.8	70,746.6	77,283.7	82,964.7

ANNEX 2: PROJECTED FISCAL OPERATIONS (% OF GDP)

	2021/22	2022/23	2023/24	2024/25	2025/26
Total revenue and grants	**14.7%**	**14.9%**	**15.3%**	**15.7%**	**17.3%**
Revenue	**13.8%**	**14.4%**	**14.9%**	**15.4%**	**16.6%**
Non-Oil Revenue	**13.8%**	**14.4%**	**14.9%**	**15.4%**	**15.9%**
Tax revenue	12.9%	13.4%	13.8%	14.4%	14.9%
Non-tax revenue (including AIA)	1.0%	1.0%	1.1%	1.0%	1.0%
o/w Appropriation in Aid	0.4%	0.4%	0.4%	0.4%	0.4%
Oil revenues (including capital gains tax)	0.0%	0.0%	0.0%	0.0%	0.7%
Grants	**0.9%**	**0.5%**	**0.4%**	**0.3%**	**0.6%**
Budget support	0.0%	0.0%	0.0%	0.0%	0.0%
Project grants	0.8%	0.5%	0.4%	0.3%	0.6%
Expenditures and net lending	**21.1%**	**20.1%**	**19.9%**	**19.9%**	**20.3%**
Current expenditures	**11.7%**	**11.3%**	**11.2%**	**11.9%**	**12.3%**
Wages and salaries	3.4%	3.3%	3.2%	3.3%	3.4%
Interest payments and commitment fees	2.9%	2.8%	2.7%	2.7%	2.7%
Other current spending	5.4%	5.3%	5.3%	6.0%	6.2%
Development expenditures	**9.1%**	**8.5%**	**8.6%**	**8.0%**	**8.0%**
External	4.2%	4.2%	4.4%	4.0%	4.0%
Domestic	4.9%	4.4%	4.2%	4.0%	4.0%
Net lending and investment	**0.1%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
Of which: HPP projects	0.1%	0.0%	0.0%	0.0%	0.0%
Other spending (clearance of arrears, etc.)	**0.2%**	**0.2%**	**0.1%**	**0.0%**	**0.0%**
Overall balance	**-6.4%**	**-5.2%**	**-4.6%**	**-4.2%**	**-3.0%**
Primary balance	-3.5%	-2.4%	-2.0%	-1.5%	-0.3%
Financing	**6.4%**	**5.2%**	**4.6%**	**4.2%**	**3.0%**
External financing (net)	**4.5%**	**3.4%**	**3.0%**	**2.5%**	**2.5%**
Disbursement	5.6%	4.9%	4.6%	4.2%	4.2%
Amortisation (-)	-1.1%	-1.6%	-1.6%	-1.8%	-1.6%
Payment of arrears	0.0%	0.0%	0.0%	0.0%	0.0%
Exceptional financing	0.0%	0.0%	0.0%	0.0%	0.0%
Domestic financing (net)	**1.9%**	**1.9%**	**1.6%**	**1.7%**	**0.5%**

	2021/22	2022/23	2023/24	2024/25	2025/26
Bank financing	1.0%	0.9%	0.8%	0.9%	-0.5%
Bank of Uganda	-5.2%	-4.0%	-3.6%	-3.7%	-3.6%
o/w: petroleum fund inflow	0.0%	0.0%	0.0%	0.0%	-0.7%
o/w: petroleum fund withdrawal	0.1%	0.0%	0.0%	0.0%	-0.7%
o/w: domestic refinancing	-5.3%	-4.0%	-3.6%	-3.7%	-2.1%
Commercial banks	6.2%	4.9%	4.4%	4.5%	3.1%
o/w: securities for fiscal purposes	0.9%	0.9%	0.8%	0.9%	0.9%
o/w: securities for domestic amoritisation	5.3%	4.0%	3.6%	3.7%	2.1%
Non-Bank financing	**0.9%**	**0.9%**	**0.8%**	**0.9%**	**0.9%**
Errors and omissions/gap	0.0%	0.0%	0.0%	0.0%	0.0%
Memorandum items:					
Public gross nominal debt	52.7%	53.1%	52.4%	51.2%	49.3%
Domestic	17.7%	17.7%	17.4%	17.1%	16.7%
External	35.0%	35.4%	35.1%	34.1%	32.7%

MEMBERS OF THE BUDGET COMMITTEE

THE REPORT ON THE CHARTER OF FISCAL RESPONSIBILITY AND THE ECONOMIC AND FISCAL UPDATE FOR THE FY2021/22 - FY2025/26

NO.	NAME	SIGNATURE
1	**Hon. Opolot Patrick Isiagi (Chairperson)**	
2	**Hon. Wamakuyu Ignatius Mudimi (V/Chairperson)**	
3	Hon. Aciro Paska Menya	
4	Hon. Adeke Anna Ebaju	
5	Hon. Akol Anthony	
6	Hon. Mbabazi Pascal	
7	Hon. Mbadi Mbasu Wilson	
8	Hon. Musherure Shartsi Nayebare Kutesa	
9	Hon. Mutono Patrick Lodoi	
10	Hon. Apollo Yeri Ofwono	
11	Hon. Akamba Paul ~~Busiki~~	
12	Hon .Muwanga Kivumbi Muhammad	
13	Hon. Mwine Mpaka Rwamirama	
14	Hon. Nakato Mary Annet	
15	Hon. Nambeshe John Baptist	
16	Hon. Namugga Gorreth	
17	Hon. Namujju Cissy Dionizia	
18	Hon. Atim Agnes Apea	
19	Hon. Akora Maxwell Ebong Patrick	

NO.	NAME	SIGNATURE
22	Hon. Niringiyimana James Ruugi Kaberuka	
23	Hon. Niwagaba Wilfred	
24	Hon. Nsamba Patrick Oshabe	
25	Hon. Nyangweso Dennis Samia	
26	Hon. Atwakiire Catheline Ndamira	
27	Hon. Aleper Moses	
28	Hon. Omara Paul	
29	Hon. Osoru Mourine	
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45	NAMUKUTA BRENDA	