



CHARTER FOR FISCAL RESPONSIBILITY

UGANDA
FY2016/17 – FY2020/21

December, 2016
Ministry of Finance, Planning and Economic Development



Pursuant to the PFM Act, 2015 (Section 5(2)), I present to you the Charter for Fiscal Responsibility as approved by Parliament on the 21st of December 2016.

A handwritten signature in black ink, appearing to read "Matia Kasaija", with a large, stylized flourish extending from the end.

Matia Kasaija (MP)

MINISTER OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

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1. BACKGROUND

1.1 The Charter for Fiscal Responsibility (“the Charter”) presents Government’s strategy for operating a fiscal policy which is consistent with sustainable fiscal balances over the medium term and the maintenance of prudent and sustainable levels of public debt. The Charter also specifies measurable fiscal objectives for the medium term and its implementation will enable Uganda attain the EAMU Convergence Criteria (Article 6(2)) in year 2021.

1.2. The EAMU convergence criteria includes the following fiscal objectives:

- A ceiling of the fiscal balance (including grants) of 3% of GDP.
- A ceiling of gross public debt of 50% of GDP in Net Present Value terms.

The measurable objectives and fiscal policy procedures set out in this Charter for Fiscal Responsibility are consistent with the requirements of the EAMU Protocol.

1.3 The Public Finance Management Act (2015) sets out a legal framework for economic management to ensure macroeconomic stability. The Act provides that measurable medium term fiscal policy objectives be defined in a Charter for Fiscal Responsibility, and that these objectives be reported on, in annual and semi-annual reports.

1.4 The Charter for Fiscal Responsibility is required to be submitted to Parliament, not later than three months after the first sitting of Parliament following a general election.

1.5 Once approved by Parliament, publication of the Charter will not be later than one month or such a time as may be determined by Parliament.

2. CONTENTS OF THE CHARTER

2.1 The Charter is structured in four parts as specified in Schedule 2 of the Public Finance Management Act (2015):

- (i) **Chapter 2: Statement of fiscal objectives.** Contains Government's measurable objectives for fiscal policy over the medium term and demonstrates their consistency with the principles for the development of fiscal policy required by Section 4(2) of the PFM Act.
- (ii) **Chapter 3: Methodology for assessing fiscal Performance.** Sets out the methodology to be used to measure the performance of the Government against the fiscal objectives set out in Chapter 2.
- (iii) **Chapter 4: Sources of Data.** Contains the sources of Data to be used in the assessment against the Charter.
- (iv) **Chapter 5: Consistency with the Principles of Fiscal Policy.** Demonstrates how the Fiscal objectives in chapter 2 are consistent with the principles set out in section 4(2) of the Public Finance Management Act (2015).

3. STATEMENT OF FISCAL OBJECTIVES

3.1 Government's Fiscal objectives over the medium term will be based on the following fiscal principles:

- (i) Sufficiency in revenue mobilisation to finance Government programmes.
- (ii) Maintenance of prudent and sustainable levels of public debt.
- (iii) Ensuring that the fiscal balance, when calculated without petroleum revenues, is maintained at a sustainable level over the medium term.
- (iv) Management of revenues from petroleum resources and other finite natural resources for the benefit of current and future generations.
- (v) Management of fiscal risks in a prudent manner.
- (vi) Consistency of the Medium Term Expenditure Framework with the National Development Plan.

(vii) Efficiency, effectiveness and value for money in expenditure.

3.2 Government shall adopt the following measurable objectives for fiscal responsibility.

Objective 1: Fiscal balance

The Government fiscal balance (including grants) is reduced to a deficit of no greater than 3% of GDP by FY2020/21, consistent with the Performance Convergence Criteria under the EAC Monetary Union Protocol.

Objective 2: Public Debt

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 maintained below 20% of GDP.

DEVIATION FROM THE CHARTER

3.3 Section 7(1) of the PFM Act 2015 provides the circumstances in which deviation may occur due to force majeure and be approved by Parliament.

These circumstances are :

- (i) A natural disaster.
- (ii) An unanticipated severe economic shock.¹
- (iii) Any other significant unforeseen event that cannot be funded under the PFM Act 2015 or using prudent fiscal policy mechanisms.

3.4 The Minister shall within thirty days following the deviation, publish a report in the gazette and on the website of the Ministry explaining the reasons for the deviation.

3.5 The Minister may update the Charter for Fiscal Responsibility using the principles of the Fiscal responsibility as set out in Sections 5(3)-(6) in the

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

Public Finance Management Act (2015). The Minister must submit the updated Charter to Parliament alongside:

- (i) An explanation of the reasons for the deviation from any of the previous objectives.
- (ii) A demonstration of how the updated fiscal objectives are consistent with the fiscal principles set out in Section 4(2) of the PFM Act.
- (iii) An updated Medium Term Fiscal Framework(MTFF) for the remaining period of the Charter, which shows how the updated fiscal objectives will be met on the basis of the economic and policy assumptions that underpin the MTFF.

3.6The Charter shall be updated, in line with the requirements in Section 3.5, to establish specific operational objectives for petroleum revenue management once there is certainty of the flow of petroleum revenues. The target level for petroleum-related objectives shall:

- (i) Determine the flow of all revenues out of the Petroleum Fund to support the implementation of the fiscal policy framework.
- (ii) Be based on analysis aimed at establishing an appropriate balance between using oil revenues to fund public investments and saving in the petroleum revenue investment reserve for future generations.
- (iii) Be based on a strong analytical underpinning, including realistic and reliable oil revenue forecasts, long-term projections and a risk analysis.
- (iv) Be consistent with Government's petroleum investment management policy framework.
- (v) Be consistent with the petroleum related fiscal principles in the PFM Act, stated in Sections 3.1(iii) and (iv) in this Charter.

4. METHODOLOGY FOR ASSESSING FISCAL PERFORMANCE

4.1 Coverage of fiscal data shall be based on Public Finance Management Act 2015 fiscal reporting requirements.

4.2 In assessing performance against the measurable objectives for fiscal responsibility, Government shall use the following definitions:

- (i) The “Government fiscal balance” means the difference between the revenues and expenditure
- (ii) “Petroleum revenue” means tax paid under the Income Tax Act on income derived from petroleum operations, Government share of production, signature bonus, surface rentals, royalties, proceeds from the sale of Government share of production, any dividends due to Government, proceeds from the sale of Government’s commercial interests and any other duties or fees payable to the Government from contract revenues under a petroleum agreement, as defined in the PFM 2015 Act.
- (iii) “Grants” includes project and budget support grants from development partners.
- (iv) “Public debt in net present value terms” means the sum of all future debt service payments (principal and interest) discounted using an appropriate discount rate.

4.3 All data required to report developments against the fiscal objectives shall be published at least annually as indicated in the following publication schedule:

Table 1 – Data sources publication timetable

Data	Release Date
First GDP estimates	end September
MTFF / 1 st resource envelope	October
Revised GDP estimates	early January
MTFF / 2 nd resource envelope	February

Preparation of forecasts

4.4 To ensure the reliability of fiscal forecasting, Government shall:

- (i) Apply the major domestic and international assumptions that form the basis of the macro and fiscal forecasts.
- (ii) Compare macro and fiscal forecasts with previous forecasts and provide an explanation of differences.
- (iii) Monitor the petroleum sector to provide a reasonably accurate estimate for the petroleum revenues due to Government.
- (iv) Ensure that revenue forecasts are based on the key assumptions for tax base growth, tax policy measures and revenue administration efficiency gains.

5. SOURCES OF DATA TO BE USED FOR REPORTING FISCAL PERFORMANCE

5.1 The sources of data for monitoring the performance of the measurable fiscal objectives in this charter will include the following Government reports:

- (i) **Annual Budget Framework Paper (BFP)**, published no later than 30 days after 1st February.
- (ii) **Half-year Fiscal Performance Report**, submitted to Parliament by the end of February of each financial year.
- (iii) **Full-year Fiscal Performance Report**, submitted to Parliament by the end of October of each financial year.
- (iv) **Annual report of the petroleum revenue investment reserve**, submitted to parliament by 1st April of the following year.
- (v) **Audited consolidated accounts of Government.**
- (vi) Audited accounts of the **petroleum revenue holding account and petroleum revenue investment reserve.**
- (vii) **Value for money audits**, produced by the Auditor General's Office on request, will provide an assessment on the principle of effectiveness, efficiency and value for money in expenditure.

5.2 In addition to the reports under Section 5.1, Government shall report on performance against the public debt objective contained in this Charter in the following documents:

- (i) **Annual Debt Management Report**, submitted to Parliament by 1st April each financial year.
- (ii) **Debt Sustainability Analysis (DSA)**, prepared by 31st January each financial year and published on the Ministry of Finance website.

Content of reports

5.3 The half-year and full-year Fiscal Performance Report shall follow the requirements of Section 18(1) and 18(2) in the Public Finance Management Act (2015).

5.4 In addition to the requirements of the PFM Act 2015 set out in Schedule 3, the annual BFP shall also include inter alia the following information:

- (i) An account of developments since the previous official forecast.
- (ii) A medium term macroeconomic forecast, along with the assumptions underpinning it and a comparison with the previous forecast and outturn of the macroeconomic aggregates.
- (iii) Medium term fiscal forecasts, including detailed breakdowns of revenue forecasts (petroleum and non-petroleum) and the assumptions they are based on, and forecasts for public debt.
- (iv) Projections for the Petroleum Fund, including revenues and expected draw-downs over the medium term.
- (v) Fiscal policy for the deficit, debt, revenues and expenditure, including an explanation and costing of the impact of all significant fiscal policy measures introduced by Government since the last BFP and an explanation of the methodology used to cost the fiscal impact of each of these measures.

5.5 The Debt Management Report will include;

- (i) A comprehensive portfolio review.

- (ii) Debt management compliance with the objectives under the Charter for Fiscal Responsibility and the annual year-ahead budget financing plan.

5.6 The Debt Sustainability Analysis (DSA) Report under Section 5.2 shall consider the trends in the ratios of debt stock and debt service to macroeconomic variables. These ratios shall be benchmarked against the pre-set sustainability thresholds and subjected to exogenous shocks to establish the likelihood of debt distress. The annual DSA report shall track trends in the following debt burden indicators:

- (i) Net present value of total public debt as a share of GDP
- (ii) Net present value of external debt as a share of GDP
- (iii) Net present value of external debt as a share of exports
- (iv) Net present value of external debt as a share of domestic revenues
- (v) Total external debt service as a share of exports
- (vi) Total external debt service as a share of domestic revenues

6. CONSISTENCY OF THE FISCAL OBJECTIVES WITH THE PRINCIPLES OF FISCAL POLICY

6.1 Consistency between the Fiscal objectives and the principles of fiscal policy shall be explained in the Economic and Fiscal update (EFU) and the annual Budget Framework Paper (BFP).

6.2 The Economic and Fiscal Update shall include:

- (i) A medium term fiscal framework (MTFF) which shows how the fiscal objectives in the Charter will be met on the basis of the economic, fiscal and policy assumptions that underpin the MTFF.
- (ii) An assessment of Government's overall performance against the Charter for Fiscal Responsibility.
- (iii) An updated Fiscal Risks Statement.

6.3 The annual Budget Framework Paper shall determine the medium term expenditure framework limits for each financial year consistent with the National Development Plan and objectives for fiscal responsibility included in this Charter by:

- (i) Determining public expenditure plans which are consistent with the sector policy objectives, prioritised growth opportunities and supporting fundamentals identified in the National Development Plan.
- (ii) Setting annual expenditure ceilings which are compatible with the projected path of revenue and the fiscal balance.

6.4 A Fiscal Risks Statement (FRS) shall be included in the annual Budget Framework Paper. The statement shall contain the main sources of annual risks to the fiscal objectives of Government included in this Charter.

6.5 The Fiscal Risks Statement shall identify and analyse the following:

- (i) Macroeconomic risks.
- (ii) Risks in public debt management, including the results of the annual Debt Sustainability Analysis.
- (iii) Specific fiscal risks such as loans and guarantees, Public Private Partnerships, natural disasters and any other contingent liabilities.
- (iv) Institutional risks, such as data quality and capacity constraints.
- (v) Risks from narrow and/or volatile revenue sources including natural resources and donor grants.

6.6 The Fiscal Risks Statement shall also include a strategy for managing the fiscal risks under Section 6.5, including Government's decisions on bearing, mitigating and absorbing the risks identified.

MINISTRY OF FINANCE PLANNING & ECONOMIC DEVELOPMENT