CHARTER FOR FISCAL RESPONSIBILITY

UGANDA

FY2021/22 – FY2025/26

February 2022

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 27th of January, 2022.

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MINISTER OF FINANCE, PLANNING AND ECONOMIC DEVELOPM

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Chapter 1: Introduction

1.1 This is the second Charter for Fiscal Responsibility ("the Charter") that will run for the period FY2021/22 – FY2025/26.

1.2 The purpose of the Charter is to provide Government's fiscal policy objectives in the next five years that will ensure sustainable delivery of the country's goal of socioeconomic transformation resulting in increased household incomes and improved quality of life of Ugandans.

1.3 This Charter sets out Government's commitment to managing fiscal policy in accordance with clear and measurable objectives that are consistent with 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.

1.4 This Charter takes into consideration the start of commercial oil production in FY2024/25, therefore the measurable fiscal objectives are mindful of the existance of petroleum revenues in the medium term fiscal framework

CHAPTER 2: LEGISLATIVE BASIS

2.1 The Public Finance Management Act (2015) sets out a legal framework for economic management to ensure macroeconomic stability. Section 4(2) of the PFM Act (2015) states the principles that must be based upon while setting Government's fiscal objectives.

2.2 Section 4(3) of the PFM Act requires that the Minister of Finance, Planning and Economic Development (The Minisiter) prepares a Charter for Fiscal Responsibility in which he/she shall set measurable fiscal objectives based on the fiscal principles.

2.3 Section 5 of the PFM Act gives guidelines on how and when to prepare the Charter, whose responsibility it is and what the contents should be. Section 5(1) of the PFM Act requires the Minister to submit the Charter to Parliament, not later than three months after the first sitting of Parliament after a general election, for approval. Section 5(2) states that the Charter shall be published not later than one month after approval by Parliament or such a time as may be determined by Parliament.

2.4 Section 6 of the PFM Act requires Cabinet to adhere to the Charter while making decisions with implications on public finances.

2.5 Section 7 of the PFM Act gives guidance on circumstances under which deviations from objectives of the Charter can occur. It also states the procedures for such deviations.

CHAPTER 3: STATEMENT OF FISCAL POLICY OBJECTIVES

3.1 To support the socioeconomic transformation agenda while ensuring macroeconomic stability and fiscal sustainability during the period FY2021/22 – FY2025/26, Government shall adopt the following measurable fiscal objectives;

Objective 1: Public Debt

a. *Total Public debt in Norminal terms is reduced to below 50% of GDP by financial year 2025/26.*

Public debt has been maintained at sustainable levels, despite the significant investment in infrastrucutre during the first and second National Development Plans (NDP I and NDP II). However, the advent of COVID-19 constrained tax revenues and created additional expenditure pressures, leading to an increase in nominal public debt from from 35.3% of GDP in FY2018/19 to an estimated 49.9% by the end of FY2020/21. This ratio is projected to go slightly above the 50% policy threshold by the end of FY2021/22 and to peak at 53.1% in FY2022/23, before gradually reducing to below 50% by the end of FY2025/26 as shown in the table below:

	FY2021/22	FY2022/23	FY2023/24	FY2024/25	FY2025/26
Nominal Debt to GDP	52.7%	53.1%	52.4%	51.2%	49.3%

b. *Total domestic debt interest payments to total revenues (excluding grants) is reduced to 12.5%:*

The domestic interest payments to total revenues indicator helps to assess the ability of government to meet maturing obligations. To foster debt sustainability, and ensure that government is able to pay its obligations as and when they fall due, this objective is essential. It is also consistent with the Public Debt Management Framework FY 2018/19-2022/23 with the path shown below:

	FY2021/22	FY2022/23	FY2023/24	FY2024/25	FY2025/26
Total domestic debt interest payments to total revenues	15.2%	14.6%	14.1%	13.6%	12.5%

c. *Nominal Publicly guaranteed debt to GDP is maintained below 5%*

Contingent liabilities pose a fiscal risk to the government. A contingent liability is a payment obligation that only arises if a particular event occurs. These contingent liabilities include guarantees by government and may result in expenditure to settle the confirmed obligations in case they arise. To ensure Uganda's total public debt exposure remains sustainable, the nominal pulicly guaranteed debt to GDP will be maintained below 5%.

d. *Government borrowing from the Bank of Uganda*

The Government may borrow from the Bank of Uganda only in accordance with section 36 (5)(a) and (b) of the Public Finance Management Act, 2015 as amended and section 33 of the Bank of Uganda Act. This will support efforts to maintain macroeconomic stability.

Objective 2: Fiscal balance

a. *The Overall Fiscal Balance including grants should gradually adjust to a deficit not exceeding 3.0 percent of non-oil GDP by financial year 2025/26.*

To achieve this objective, Government will enhance its revenue effort through closing loopholes in collection, as well as improve choice and timely implementation of public projects that will generate growth and create jobs.

The following table provides a path of the fiscal deficits that Government shall adhere to in order to ensure that fiscal deficit reduces to 3.0% and nominal public debt reduces to below 50% of GDP by financial year 2025/26.

	FY2021/22	FY2022/23	FY2023/24	FY2024/25	FY2025/26
Overall Fiscal Balance Including Grants	-6.4%	-5.2%	-4.6%	-4.2%	-3.0%

b. *The ratio of Non-oil revenue to GDP shall grow by atleast 0.5 percentage points on an annual basis*

According to section 4(3) of the PFMA, 2015, the Minister is mandated to set measurable fiscal objectives based on 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".

To enhance revenue effort by Government, this rule will be implemented as shown in the table below:

	FY2021/22	FY2022/23	FY2023/24	FY2024/25	FY2025/26
Non-oil revenue to GDP	13.8%	14.4%	14.9%	15.4%	15.9%

c. *The growth rate in recurrent spending as a percentage of GDP shall not exceed the growth rate of revenue (excluding oil) as a percentage of GDP.*

This fiscal objective will ensure that the rise in recurrent spending matches the efficiency in revenue mobilisation. This will ensure that expenditure increases are in line with growth in revenue collections.

Objective 3: Petroleum Fund Transfers to the Budget and Petroleum Revenue Investment Reserve (PRIR);

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

This measurable fiscal objective is meant to ensure prudent management of revenues from petroleum resources by insulating the budget from volatile oil revenues that could cause harmful macroeconomic effects, and ensure that both the current and future generations benefit from the proceeds of the petroleum natural resource. This fiscal objective will be reviewed when a minerals fund is created in order to include total revenues from other mineral resources.

DEVIATION FROM THE CHARTER

3.2 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.

3.3 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 and the adjustments to be done to bring the overall fiscal deficit back to the set path over the remaining financial years.

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

UPDATE OF THE CHARTER

3.4 In case the situation requires, the Minister may update the Charter for Fiscal Responsibility using the principles of Fiscal responsibility as set out in Sections 5(3)-(6) of the Public Finance Management Act (2015).

3.5 The Minister must submit the updated Charter to Parliament for approval.

3.6 The updated Charter shall be submitted alongside 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 fiscal policy assumptions that underpin the Medium Term Fiscal Framework (MTFF).

3.7 The Minister shall, within one week after approval by Parliament, publish the updated Charter for Fiscal Responsibility.

CHAPTER 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 "overall fiscal balance" means the difference between the revenues and expenditure.

(ii) "Non oil GDP" means the monetary measure of the market value of all goods and services, except oil, produced in a given time period.

(iii) "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.

(iv) "Grants" includes project and budget support grants from development partners.

4.3 The Economic and Fiscal Update accompanying this Charter shall include a medium term fiscal framework (MTFF) which shows how the fiscal objectives in this Charter will be met on the basis of the economic, fiscal and policy assumptions that underpin the MTFF.

4.4 The path for overall budget deficit **(in objective 2)** shall provide the basis for the annual assessment of Government's performance against the Charter for Fiscal Responsibility.

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

(i) Determining public expenditure plans which are consistent with the third National Development Plan program objectives, prioritised growth opportunities and supporting fundamentals identified in the third National Development Plan.

(ii) Setting annual expenditure ceilings which are compatible with the projected path of revenue and the fiscal balance.

4.6 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.

4.7 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.

4.8 The Fiscal Risks Statement shall also include a strategy for managing the fiscal risks under 4.7, including Government's decisions on bearing, mitigating and absorbing the risks identified.

CHAPTER 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 not later than 30 days after 1st February of each year.

(ii) **Half-year Fiscal Performance Report**, submitted to Parliament by the end of February of each year.

(iii) **Annual Fiscal Performance Report**, submitted to Parliament by the end of October of each 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 P**etroleum Revenue Holding Account and Petroleum Revenue Investment Reserve.**

(vii) **Annual Debt Management Report**, submitted to Parliament by 1st April each year.

(viii) **Debt Sustainability Analysis (DSA)**, prepared by 31st January of each year and published on the Ministry of Finance, Planning and Economic Development website.

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

6.1 The fiscal objectives in this Charter aim at achieving the following goals which are consistent with the principles of fiscal policy stated in section 4(2) of the Public Finance Management (PFM) Act.

i. Ensuring maintenance of fiscal sustainability by avoiding deficit bias and gradually reducing public debt.

ii. Insulating the budget from volatile oil revenues that could cause harmful macroeconomic effects.

iii. Ensuring intergenerational equity by spreading the benefits from oil beyond the current generation.