

EBS/87/107
Correction 1

CONFIDENTIAL

June 5, 1987

To: Members of the Executive Board

From: The Secretary

Subject: Uganda - Medium-Term Economic and Financial Policy Framework

The data relating to the structural adjustment facility arrangement were originally prepared to reflect a proposed decision to raise the second disbursement from 13.5 percent of quota to 20.0 percent of quota. Accordingly, the following corrections have been made in EBS/87/107 (5/21/87) to indicate the figures under the present rules regarding structural adjustment facility arrangements:

Page 15, para. no. 42, line 8: for "(US\$25 million)," read "(US\$17 million),"

line 9: for "US\$125 million." read "US\$117 million."

lines 10 and 11: for "US\$161 million," read "US\$169 million,"

Page 17, Table 2, column 3, stub SAF: for "24.9" read "16.8"

stub Financing gap: for "161.2" read "169.3"

Corrected pages are attached.

Att: (2)

period, while medium- and long-term loan disbursements could rise from US\$124 million in 1986/87 to about US\$209 million a year during the program period. Nearly half of this amount would come from the large stock of undisbursed commitments (estimated at about US\$400 million) existing at end-1986, as the adoption of the program leads to a return to normal disbursement patterns. IDA disbursements on already committed resources would average US\$43 million a year. New commitments are assumed to be about US\$174 million a year, including US\$100 million a year from IDA. This level appears to be a realistic estimate of what could be mobilized through the Consultative Group meeting envisaged for June 1987. Payments by Kenya under the arrangement for the settlement of assets of the East African Community would be about US\$29 million a year.

42. In 1987/88 the projected total financing requirement would be US\$466 million, including repurchases from the Fund of US\$72 million, the virtual elimination of external arrears (US\$103 million), and an increase in gross reserves (US\$30 million). A major part of this requirement could be met by anticipated loan disbursements from existing commitments (US\$133 million). In addition, loan disbursements from expected new commitments, including the second disbursement under the Fund's structural adjustment facility (US\$17 million), and payments by Kenya would total US\$117 million. Grants are expected to finance another US\$47 million. This would leave a financing gap of US\$169 million, which the Government would seek to fill by rescheduling a large part of its external arrears and debt service due in 1987/88 through the Paris Club and through comparable agreements with its other creditors, and from additional inflows of exceptional balance of payments assistance. In 1988/89, the financing requirement would decrease to US\$352 million, after allowing for repurchases of US\$60 million and a further buildup in gross reserves of US\$10 million. With disbursements of loans and grants from existing and expected new commitments assumed to total US\$308 million, a financing gap of US\$44 million would remain, which again could be filled by debt rescheduling. The financing requirements in 1989/90 would be covered by disbursements from existing and expected new commitments.

Table 1. Uganda: Selected Economic and Financial Indicators,
1982/83-1987/88

	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88
		Actual			Proj.	Prog.
(Annual percent changes, unless otherwise specified)						
National income and prices						
GDP at constant prices	7	5	-4	-1	4	5
Consumer prices (annual average)	27	29	100	129	248	91
Consumer prices (year-end over year-end)	26	16	158	153	270	30
External sector (on the basis of U.S. dollars)						
Exports, f.o.b.	20	7	1	-1	-5	13
Imports, c.i.f.	7	-15	-6	-3	29	12
Non-oil imports, c.i.f.	14	--	13	1	35	17
Export volume	15	-12	-3	-17	5	17
Import volume	-12	3	7	-12	21	8
Terms of trade (deterioration -)	-17	22	--	7	-13	-10
Nominal effective exchange rate (depreciation -) 1/	-18	-36	-40	-45	-1	...
Real effective exchange rate (depreciation -) 1/	-10	-34	-15	-6	154	...
Government budget 2/						
Revenue and grants	91	83	74	97	81	264
Revenue	116	77	74	76	100	236
Total expenditure	35	59	108	97	132	185
Money and credit 3/						
Domestic credit	65	33	145	67	140	9
Government (net)	33	-5	73	31	78	-17 4/
Private sector	32	39	72	36	62	26
Money and quasi-money (M2)	47	61	139	148	148	40
Velocity (GDP relative to M2)	12	11	9	10	13	16
Interest rate (annual rate, one-year savings deposit)	13	17	22	35	35	35
(In percent of GDP) 5/						
Central government budget deficit (-) 6/	-4.0	-2.8	-5.3	-4.5	-4.8	-4.5
Domestic bank financing	2.0	-0.4	4.2	1.9	3.4	-0.9 4/
Foreign financing (net)	0.8	0.5	0.7	1.4	0.7	1.2
Current account deficit 7/ (-) or surplus	-2.3	0.1	-0.4	1.1	-1.5	-3.8
(In percent of exports of goods and services)						
Current account deficit 7/ (-) or surplus	...	0.5	-2.5	7.7	-29.1	-30.6
External debt 8/						
Including use of Fund credit	...	259.9	250.3	257.1	277.5	304.8
Excluding use of Fund credit	...	171.3	179.7	191.9	220.5	265.0
Debt service ratio	28.6	40.6	46.2	51.2	53.3	42.3
Interest payments	10.6	12.4	13.3	11.3	10.4	8.8
(In millions of U.S. dollars)						
Overall balance of payments	-117	61	50	72	-80	23
External payments arrears (at end of period)	183	120	55	74	123	20
Gross reserves (end of period)	15	95	63	64	25	55

Sources: Data provided by the Ugandan authorities; and staff estimates.

1/ Change in yearly average, except for 1986/87, for which data indicate change during July 1986-February 1987.

2/ Fiscal year (July-June).

3/ In percent of money stock at the beginning of the period.

4/ Including accumulation of deposits in the blocked account at the Bank of Uganda.

5/ The following ratios should be treated with caution, owing to the tentative nature of the GDP estimates.

6/ On a commitment basis, including foreign grants.

7/ Includes grants.

8/ Excludes arrears.

Table 2: Uganda: Balance of Payments, 1985/86-1990/91

(In millions of U.S. dollars)

	<u>1985/86</u>	<u>1986/87</u>	<u>1987/88</u>	<u>1988/89</u>	<u>1989/90</u>	<u>1990/91</u>
	Actuals	Projections				
Trade balance	-7.9	-140.0	-153.2	-176.6	-159.0	-135.0
Exports, f.o.b.	380.5	361.4	406.8	443.2	494.8	540.0
Imports, c.i.f.	-388.3	-501.4	-560.1	-619.8	-653.8	-675.0
Aid	(104.8)	(136.1)	(179.8)	(183.8)	(207.5)	(209.0)
Non-aid	(283.6)	(365.3)	(380.2)	(436.1)	(446.3)	(466.0)
Services (net)	-93.5	-88.0	-83.6	-84.4	-84.5	-83.0
Unrequited transfers	131.6	118.0	107.2	116.9	133.2	152.0
Current account	30.2	-110.0	-129.7	-144.1	-110.2	-66.0
Capital account	42.2	30.0	152.9	174.1	195.6	168.0
Official medium- and long-term (net)	40.8	67.2	127.7	135.3	165.0	157.8
IDA Program lending	--	--	35.2	38.8	30.7	10.2
Private and official short-term (net) <u>1/</u>	1.4	-37.2	-10.0	--	--	--
SDR allocation	--	--	--	--	--	--
Overall balance	72.4	-80.0	23.2	30.0	85.4	102.0
Financing	-72.4	80.0	-23.2	-30.0	-85.4	-102.0
Monetary authorities	-84.8	-18.0	-76.7	-53.4	-75.3	-102.0
Gross reserve change	-0.9	39.0	-30.0	-10.0	-30.0	-85.0
IMF (net) <u>2/</u>	-80.3	-76.6	-71.6	-60.2	-45.3	-17.0
SAF	--	24.9	16.8	16.8	--	--
Other (net)	-3.6	32.0	--	--	--	--
Commercial banks (net)	--	--	-5.0	-10.0	--	--
External arrears	12.4	62.0	-102.7	-10.1	-10.1	--
Financing gap	--	--	169.3	43.5	--	--
<u>Memorandum items:</u>						
Foreign exchange reserves (end period)	63.7	25.0	55.0	65.0	95.0	180.0
Reserves/imports (months coverage)	2.0	0.6	1.2	1.3	1.7	3.2
Current account/GDP	1.1	-1.5	-3.8	-4.4	-3.1	-1.7

Sources: Bank of Uganda; and Fund staff estimates.

1/ Mainly consists of borrowing against future coffee shipments.2/ Excludes anticipated purchases under the Structural Adjustment Facility and in 1986/87 under the compensatory financing facility.

Table 3. Uganda: Timetable of Policy Actions Under the Structural Adjustment Facility, 1987/88-1989/90

Policy areas and related objectives	Actions	Timing
1. <u>Exchange rate policy</u>		
- Adopt an exchange rate policy consistent with the growth objective and conducive to the achievement of a structural improvement in the balance of payments.	- Adjust exchange rate to a realistic level.	May 1987
	- Review and adjust exchange rate in light of economic developments and the inflationary, budget, and external sector targets.	Periodically during the program.
2. <u>Liberalization of exchange and trade system</u>		
- Reduce distortions arising from the administrative allocation of foreign exchange; improve the supply of inputs to priority sectors.	- Establish an open general licensing (OGL) system for imports of key industries.	End-September 1987
	- Gradually expand OGL system to cover by end-1988 all domestic producers and traders; and all producer goods and basic necessities.	Quarterly beginning 1988:I
3. <u>Petroleum prices</u>		
- Adjust petroleum prices to restore fiscal revenue and reflect all costs.	- Substantially increase retail petroleum prices to cover the landed costs for all products, all domestic distribution costs, and a level and structure of taxation consistent with budgetary requirements and social and economic considerations.	July 1987
	- Subsequently adjust prices to reflect changes in world market prices and the exchange rate.	Periodically during the program.
4. <u>Public investment program</u>		
- Give greater emphasis to projects designed to restore the country's productive capacity and infrastructure.	- Introduce appropriate public investment program for 1987/88 to 1990/91 in consultation with the World Bank.	July 1987
5. <u>Agricultural producer prices</u>		
- Restore adequate incentives for production of key agricultural export crops (coffee, tea, cotton, and tobacco).	- Adjust minimum producer prices on the basis of recommendations of the Agricultural Secretariat, which will have consulted with the World Bank.	Periodically during the program, beginning with the 1987/88 agricultural season.