EBS/83/180
Supplement 1

CONFIDENTIAL

September 19, 1983

To: Members of the Executive Board

From: The Acting Secretary

Subject: Uganda - Stand-By Arrangement

Attached for the records of the Executive Directors is the text of the stand-by arrangement for Uganda agreed at Executive Board Meeting 83/141, September 16, 1983.

Att: (1)

Uganda - Stand-by Arrangement

Attached hereto is a letter, with annexed memorandum, dated June 24, 1983 from the President, Minister of Finance and the Governor of the Bank, of Uganda requesting a stand-by arrangement and setting forth the objectives and policies which the authorities of Uganda intend to pursue for the period of this stand-by arrangement.

To support these objectives and policies the Intenational Monetary Fund grants this stand-by arrangement in accordance with the following provisions:

1. For a period of one year from September 16, 1983, Uganda will have the right to make purchases from the Fund in an amount equivalent to SDR 95 million, subject to paragraphs 2, 3, 4, and 5 below, without further review by the Fund.

2. (a) Purchases under this stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 31.5 million until November 15, 1983, SDR 44 million until February 15, 1984, SDR 65 million until May 15, 1984, and SDR 80 million until July 1, 1984.

(b) None of the limits in (a) above shall apply to a purchase under this stand-by arrangement that would not increase the Fund's holdings of Uganda's currency in the credit tranches beyond 25 per cent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 per cent of quota.

3. Purchases under this stand-by arrangement shall be made from borrowed resources only, provided that any modification by the Fund of the proportions of ordinary and borrowed resources shall apply to amounts that may be purchased after the date of modification.

4. Uganda will not make purchases under this stand-by arrangement other than the initial purchase of the equivalent of SDR 31.5 million that it may request not later than within 15 days of the effective date of this arrangement, that would increase the Fund's holdings of Uganda's currency in the credit tranches beyond 25 per cent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 per cent of quota:

(a) during any period in which

(i) the limit on total net domestic credit described in paragraph 26(a) of the annexed memorandum, or

(ii) the limit on net credit to the Government described in paragraph 26(b) of the annexed memorandum, or

(iii) the target for supply of foreign exchange described in paragraph 26(c) of the annexed memorandum, or during the period after June 30, 1984 understandings are not reached beetwen Uganda and the Fund on exchange rate policies persuant to the second review referred to in paragraph 26 (g) of the annexed memorandum, or

(iv) if Uganda fails to observe the limits on the contracting of new public and publicly guaranteed foreign indebtedness described in paragraph 26(d) of the annexed memorandum, or

(v) the limit on external payments arrears described in paragraph 26(e) of the annexed memorandum

is not observed; or

(b) during the period after February 14, 1983, until the first review referred to in paragraph 26(g) of the annexed memorandum has been carried out and suitable performance criteria have been established in consultation with the Fund pursuant to paragraph 26(g) of the annexed memorandum, or after such performance criteria have been established, while they are not being observed;

(c) if Uganda fails to modify its dual exchange market arrangement in accordance with the understandings set in paragraphs 4 and 5 (iv) of the annexed memorandum and the schedule contained in President Obote's confidential letter of June 24, 1983 to the Managing Director;

(d) if Uganda

(i) imposes or intensifies restrictions on payments and transfers for current international transactions or other than as described in paragraph 5 (iii) of the annexed memorandum or,

(ii) introduces or modifies multiple currency practices, other than the modifications referred to in (c) above, or

(iii) concludes bilateral payments agreements which are inconsistent with Article VIII, or

(iv) imposes or intensifies import restrictions for balance of payments reasons.

When Uganda is prevented from purchasing under this stand-by arrangement because of this paragraph 4, purchases will be resumed only after consultation has taken place between the Fund and Uganda and understandings have been reached regarding the circumstances in which such purchases can be resumed.

5. Uganda's right to engage in the transactions covered by this stand-by arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generaly or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of Uganda. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 5, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and Uganda and understandings have been reached regarding the circumstances in which such purchases can be resumed.

6. Purchases under this stand-by arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, and may be made in SDRs if, on the request of Uganda, the Fund agrees to provide them at the time of the purchase.

7. The value date of a purchase under this stand-by arrangement involving borrowed resources will be normally either the 15th day or the last day of the month, or the next business day if the selected day is not a business day. Uganda will consult with the Fund on the timing of purchases involving borrowed resources.

8. Uganda shall pay a charge for this arrangement in accordance with the decisions of the Fund.

9. (a) Uganda shall repurchase the outstanding amount of its currency that results from a purchase under this stand-by arrangement in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchase as Uganda's balance of payments and reserve position improves.

(b) Any reductions in Uganda's currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

Ref.: PO/10.6 June 24, 1983

Mr. Jacques de Larosiere
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. de Larosière:

1. The adjustment measures taken in the context of the 1981/82 and 1982/83 financial programs which were supported by successive stand-by arrangements with the Fund, have resulted in a considerable improvement in Uganda's economic and financial situation. Production has increased markedly, the budgetary deficit has been reduced and the balance of payments situation has improved.

2. These achievements, notwithstanding, my Government feels that additional measures are needed to consolidate the gains achieved so far and to enable us to successfully implement the economic recovery program. These measures, which will be taken in the context of an economic and financial program for 1983/84, are described in the attached Memorandum.

3. In support of its financial program for 1983/84, the Government of Uganda is requesting from the International Monetary Fund a stand-by arrangement. My Government wants this stand-by arrangement to be the equivalent of 150 per cent of our quota, whereas, on the other hand, the Fund's Mission which has recently been to Uganda would want it to be SDR 95 million (equivalent to 127 per cent of Uganda's quota).

4. In view of Uganda's record in fulfilling the performance criteria since 1981, I most earnestly implore you to recommend to the Executive Board a stand-by arrangement equivalent to 150 per cent of Uganda's quota. On balance I propose tht our record, together with the request for 150 per cent of the quota, as well as the Mission's recommendation of 127 per cent of the quota, be submitted to the Executive Board for a decision.

5. The Government of Uganda will examine with the Fund the progress made in the context of this 1983/84 program in two reviews. These are described in paragraph 26(g) of the attached Memorandum.

6. The Government of Uganda believes that the policies set out in the attached Memorandum are adequate to achieve the objectives of the program. During the period of the stand-by arrangement, the Government of Uganda will consult with the Fund, in accordance with the policies of the Fund on such consultations and on the adoption of additional measures that may be appropriate to ensure the success of the program.

7. We would like to emphasize once again that the Government is fully committed to the economic and financial recovery of Uganda and to the objectives set out in the attached Memorandum.

Yours sincerely,

L. Kibirango
Governor
Bank of Uganda

A. Milton Obote
President and Minister
of Finance

Memorandum of Economic and Financial Policies for 1983/84

1. In 1983/84 the Government will be implementing an economic and financial program designed to further improve the incentives for agricultural production, promote the rehabilitation of equipment, increase capacity utilization in the nation's productive enterprises, and establish cost-price relationships and economic management procedures that will bring about a more efficient utilization of domestic and foreign resources.

2. - The prices of petroleum products have already been increased, effective June 20th, 1983.

- The operation of the dual exchange system will be improved concurrent with measures to increase the volume of transactions at the second window and to facilitate the unification of the two rates. In this connection, tight fiscal and monetary policies will be followed. Furthermore, appropriate adjustments will be made in domestic interest rates to encourage the banking system to participate more actively in the financing of economic activity.

- Agricultural producer prices will be raised to encourage the growth and diversification of exports.

- Special efforts will be made to speed up the utilization of foreign aid commitments and the implementation of development projects.

- On the external front, the Government intends to continue to rely on measures to stimulate growth and on cautious foreign borrowing policies as a means of providing the economy with the necessary imports.

- We will also be making a determined effort to eliminate all outstanding external arrears over the next two years.

- Government will continue to improve security in order to facilitate the process of economic recovery.

3. The specific policy measures to be implemented under the program are described below in sections which cover the exchange rate system, price policies, production policies and the operations of parastatals, public finance, money and credit, and external policies.

I. Exchange Arrangements

4. With the objective of promoting greater efficiency in resource allocation, the Government intends to operate the existing dual exchange rate system in such a way that the two rates can be unified at an equilibrium exchange rate within a reasonable period of time. As a first step in this direction, before the start of the 1983/84 fiscal year, all exports other than coffee and cotton, all non-oil cash imports, and servicing of all newly contracted public and publicly guaranteed foreign debt will be transferred from the first to the second window. In addition, the rate at the first window will be systematically depreciated to progressively narrow the gap, between the first and the second window rates. Concurrently, the foreign exchange sales at the second window will continue on an auction basis, and average weekly sales will be raised from about US$2 million in 1982/83 to, at least, US$3 million in 1983/84. These policies will be supported by a flexible application of existing exchange control regulations, tight credit policies, and selective upward adjustments in domestic interest rates.

5. In order to contain upward pressures on domestic prices and on the exchange rate at the second window, the program contains several measures to improve its functioning. These measures are as follows:

(i) The use of import licenses without foreign exchange was abolished in June 1983, subject to the following exception: goods brought in by importers with authorized external accounts, gifts, donations, personal effects, capital contributions in kind, imports under contracts with part or whole payments in foreign exchange, and imports under aid-financed projects requiring no foreign exchange. All other import licences will specify that foreign exchange is regularly provided, and no antidated import licences without foreign exchange will be accepted. However, the private sector will be allowed to import capital goods on a consignment basis by overseas borrowing.

(ii) According to new regulations introduced in June 1983, once foreign exchange has been granted, steps will be taken to check that goods are delivered in Uganda by reinforcing control by the Bank of Uganda in cooperation with commercial banks. In cases where the goods fail to arrive, the BOU will be empowered to impose strong sanctions upon the importer under the terms of the Exchange Control Act. The period of delivery for imports will be reduced from six months to four months in the case of shipping by surface and to two months in the case of shipping by air.

(iii) For businessmen (both importers and exporters), daily travel allowances of US$150 per person will be granted up to a maximum of $2,000 in a given year, instead of the present maximum allowance of $4,000. The maximum yearly travel allowances for purposes other than business will be reduced from $4,000 to $500 per person. In granting these allowances, steps will be taken to make sure that they are restricted to holders of airline tickets and that the date and the number of the ticket is written in the passport. Outside the auction, the practice of granting last minute approvals of travel allowance should be restrained and reduced to a minimum. All foreign exchange allocations for travel will be recorded in the passport of the applicant. The practice of allowing commercial banks to meet requests for travel allowances of US$500 or less without going through the bidding process will be abolished. Moreover, for all invisible payments and outward unrequited and capital transfers from the non-bank sector - excluding payments for education, medical treatment, advertising, emigration, remittances of expatriates, profits, dividends, and debt service - the maximum amount of foreign exchange that can be granted will be reduced from US$2,000 to US$500 per person per year, subject to proper documentation and approval by the Exchange Control Department.

(iv) All private importers who bid for foreign exchange at the second window will be required to submit with their bids a cheque, payable by the bidder or by a commercial bank to the Bank of Uganda, for the local currency equivalent of the amount of foreign exchange requested under their bids. For the bids which fail, the cheques will be returned within three business days. In the case of Government ministries and departments, their quarterly access to second window sales of foreign exchange will be limited to no more than 30 per cent of the total of such sales. Government ministries and departments will not be entering into the bidding process. Moreover, foreign exchange allocations to various ministries and departments will have to be backed by documents showing approval of the Central Tender Board, by an original budget authorization, and by the signature of the Secretary to the Treasury or an officer designated by him.

(v) Steps will be taken to strengthen customs surveillance at border posts, starting with Entebbe airport. Specifically, steps will be taken to improve coordination among various airport officials (of the security services, customs, and airport administration), and all operators in the airport area will be required to establish their identity.

(vi) The commercial banks will be required to submit to the Bank of Uganda weekly returns on all receipts of foreign exchange.

II. Prices

6. In early May 1983, the Government announced increases in the producer prices of the major cash crops. The producer prices were increased for coffee (Kiboko) for Shs.50/kg to Shs.60/kg, for cotton from Shs.40/kg

to Shs.50/kg, for tea from Shs.10/kg to Shs.15/kg, for tobacco from Shs.100/kg to Shs.115/kg and for cocoa from Shs.30/kg to Shs.40/kg. To provide farmers with higher net incomes in real terms, effective no later than July 1, 1983, minimum producer prices will be increased further to the following levels:

Coffee	Shs.80/kg;
Cotton	Shs.60/kg;
Tea	Shs.25/kg;
Tobacco	Shs.150.kg;
Cocoa	Shs.80/kg.

For tea, tobacco and cocoa - which will be exported at the second window rate - the above producer prices are minimum levels, which will be reviewed semi-annually in the light of developments in world prices and the exchange rate at the second window.

7. Throughout the year, the Government will ensure that the retail prices of petroleum products are set at levels that fully cover the rising local currency cost of imports that will result from the depreciation of the rate at the first window, and at the same time, generate a reasonable level of tax revenues for the budget. With these considerations in mind, on June 20th the pump prices of petroleum products were increased as follows:

Super	from Shs.150/litre to Shs.170/litre
Regular	from Shs.140/litre to Shs.160/litre
Kerosene	from Shs. 80/litre to Shs.100/litre
Fuel Oil	from Shs. 50/litre to Shs. 70/litre
Diesel	from shs. 90/litre to Shs.110/litre

Lubricants were transferred from the first to the second window.

8. To improve efficiency in production and marketing the Government will ensure that:

- textile mills remain able to purchase their lint requirements directly from processors at competitive prices;

- large tea producers will sell their teas from their gardens on the auction and other markets outside Uganda which will have been delivered by the Uganda Tea Authority, and such large tea producers will receive a selling commission which will be a percentage of the prices received;

- for Posts and Telecommunications, Railways, the Water and Sewage Corporation and other utilities, tariffs will be reviewed and appropriate adjustments will be made before November 1, 1983.

- for other parastatals, ex-factory prices will remain flexible.

III. Production Policies and Operations of Parastatals

9. During the fiscal year 1982/83, considerable progress was made with mobilizing foreign aid commitments for Uganda's Recovery Programme, particularly for key projects in the agricultural and industrial sectors. The Government will be making every effort to step up the actual utilization of these commitments and will be implementing several projects for increasing the outputs of food crops and boosting the production of export crops (coffee, tea, cotton, cocoa, and tobacco). In the parastatal sector the Government's objective is to make efficient use of foreign assistance with a view to improving the level of capacity utilization in key sectors and rehabilitating the capital equipment of selected units.

10. With the IDA Reconstruction II credit, the Government will continue to concentrate its rehabilitation efforts on a selected group of potentially viable enterprises, which will be able to import raw materials and spare parts at the window one exchange rate. Moreover, effective July 1, 1983, the Bank of Uganda will abolish the 5 per cent import deposit requirement and the UABT will be reducing its processing from one per cent to one-half per cent on all imports.

11. Furthermore, with the objective of undertaking a structural reform of the parastatal sector, the Government has drawn up a program of action. The terms of reference of a comprehensive study of parastatals have been established; the Government has requested bids to be submitted by end June 1983 from an international group of consultant firms; the selection of a consultant firm will be made in July 1983, and the study is to be initiated no later than September 1983. In addition, the Government will be examining all the bids received from various private investors under the Expropriated Properties Act to determine whether these enterprises are to be returned to former owners, sold to willing Ugandan buyers or any other person, restructured as a joint venture or retained by Government. A special negotiating authority has already been established in the Regulations of the Expropriated Properties Act, 1982.

IV. Public Finance

12. The 1982/83 budget deficit is likely to be about Shs.15.5 billion (1.6 per cent of GDP compared with 2.2 per cent in 1981/82). Bank financing of the deficit will be more than double the programmed level, as result of a shortfall in net foreign borrowing. While total revenues are estimated to rise by about 88 percent, the increase in expenditures will be about 57 percent.

13. In 1983/84, overall revenues (including foreign grants) are forecast to increase by about 65 percent. The key factors contributing to revenue growth are as follows:

(a) Revenues from coffee taxes are expected to more than double, with the share of coffee receipts going to the Government rising from 44 percent in 1982/83 to about 53 percent in 1983/84. With the transfer of tea and tobacco to Window Two, an explicit tax on these exports will be introduced and taxes will also be introduced on cotton, cocoa and maize exports. Given the current low level of exports of those crops, their revenue yield is not expected to exceed Shs.2 billion in 1983/84.

(b) Revenues from taxes on petroleum products are expected to increase by some 20 per cent, and those from non-oil imports by about 75 percent. With the rapid depreciation at Window One during the first half of 1983/84, petroleum prices and rates of customs duty will be reviewed at the time of the mid-term review.

(c) Rates of tax on domestic production are being reviewed. In light of the increase in input prices, the rate of duty on some soft drinks was recently reduced from 150 per cent to 66 per cent and further reductions are likely to be announced in the 1983/84 budget. At the same time, domestic enterprises will adjust their retail prices as their tax inclusive import costs rise with the depreciation of the Window One rate and, as a result, tax revenue from this source is expected to increase by about 40 per cent.

(d) Over the fiscal year as a whole, the exchange profits resulting from the operations of the dual exchange rate system are estimated at about Shs.8.2 billion, considerable lower than in 1982/83, reflecting the narrowing of the gap between the rates at the two windows.

14. In 1983/84 overall expenditure including net lending is expected to increase by about 52 per cent. Development expenditure is estimated to be Shs.36.3 billion compared to the revised estimate of Shs.15 billion, representing a rise of 142 per cent, debt service payments are expected to rise by 59 per cent, and recurrent expenditure by only 16 per cent. The rapid growth in development outlays reflects large anticipated increases in both foreign aid inflows and domestic contribution. In the case of debt service payments, the increase is largely due to the progressive depreciation of the Window One rate. Within the targeted growth of recurrent outlays, the wage and salary bill budgeted to go up by 50 per cent; consequently, the increase in nonwage outlays will be restrained to about 26 per cent. The latter will be achieved by reducing foreign exchange outlays, the domestic cost of which will be rising as all non-oil cash imports are shifted to the second window. As both revenues and expenditures are budgeted to grow at about the same rate, the overall fiscal deficit is targeted to increase by about

60 per cent to Shs.28.9 billion (17.6 per cent of expenditure). The Government plans to finance this deficit by foreign borrowing (Shs.24.9 billion), domestic bank credit (Shs.2.5 billion), and domestic non-bank borrowing for the remainder. However, if foreign loan disbursements were lower than anticipated, both development expenditure and the overall fiscal deficit will be lowered by about the same amount, the need for domestic financing remaining unchanged.

15. The current levels of wages and salaries are exceptionally low throughout the economy, the burden of income taxation is heavy and Government has attempted in the previous program to relieve the situation by granting special indirect benefits and allowances to civil servants and others, the implications of which for the whole economy has not been fully determined. On the matter of employment in the Civil Service, Government will maintain a selective freeze on the filling of vacancies.

16. The Government has commissioned the World Bank to do a Public Administration Sector Study. The study was to assess with Government priority areas for strengthening public administration and define to the extent possible an action program, and where appropriate propose areas for possible external support, including technical assistance. The Ministry of Public Service & Cabinet Affairs is also presently carrying out an exercise to establish the strength of the Civil Service department by department and by profession, as well as other related matters. Further, the Ministry of Public Service & Cabinet Affairs, in conjunction with the Ministry of Planning & Economic Development, are carrying out a national survey to establish the strength of the labor market for overall national employment. It is the intention of Government to mount a staff audit exercise after studying the World Bank report and the report of the two Ministries. A progress report will be given to the Fund during the mid-term review in October/November 1983.

17. The planned levels of development expenditure including on-lending to parastatals (Shs.36.3 billion) are based on estimates of likely inflows of foreign assistance from existing IDA and other foreign aid commitments of Shs.23.7 billion, related local contribution to the said foreign aid commitments of Shs.2.6 billion and projects financed by own resources amounting to Shs.10 billion. An amount of, at least, $40 million of the IDA Reconstruction II credit will be financed through the non-government sector paying cash or borrowing from the banking system. The proceeds will be paid into the Government's IDA project account.

18. To ensure that the expenditure objectives outlined above are achieved, the Government will take steps to improve the system of controls over expenditure commitments, and limit the recourse to the extra-budgetary account, as specified in the Technical Memorandum of Understanding, and as regards purchase of foreign exchange, as specified in paragraph 5(iv) above.

V. External Policies

19. In 1983/84, the Government's external objectives are to reduce its overall balance of payments deficit by about half, the level of its external arrears through cash payments by US$20 million and to increase its gross official reserves by about US$15 million.

20. To achieve these objectives, the Goverment will be directing its effort to promoting exports and making a more efficient use of external capital and imports. The surveillance of imports through the SGS has been beneficial and the authorities will be extending this surveillance to major export crops and the monitoring of export proceeds. Over the past year, the interministerial Aid Allocation Committee established procedures for regular meetings with major donors, and for the coordination of aid inflows. During 1983/84, efforts will be intensified to increase the mobilization of external assistance in the form of grants and concessional loans, and to improve the rate of utilization of existing aid commitments.

21. The ratio of Uganda's foreign debt service payments to exports is forecast to rise substantially over the next two fiscal years. To avoid a further deterioration in the debt burden, future foreign borrowing on non-conessional terms will be reduced. In addition, the Government plans to seek rescheduling of its external obligations (including both debt servicing and arrears) from its creditors through the Paris Club. With a view to improving the monitoring and management of the external debt, an External Debt Management Office has been set up in the Bank of Uganda. The Government would appreciate the Fund's technical assistance in the strengthening of the unit. With regard to the claims of the State of Israel, the Government of Uganda has taken two important measures. First, part of the claim has been submitted for arbitration and therefore is sub judice. The remaining portion is now being verified by a London consultant firm of merchant bankers.

VI. Money and Credit

22. On the basis of the expected increses in gross official reserves and anticipated net use of Fund resources under the 1983/84 financial program, the net foreign liabilities of the banking system are projected to increase from an estimated Shs.40 billion at the end of June 1983 to Shs.80 billion at the end of June 1984. Given this large increase in net foreign liabilities, a moderate expansion of broad money will be achieved by limiting the increase in overall domestic bank credit to about 19 per cent, which is less than the projected growth of nominal GDP. This overall increase in credit will be used to finance crop marketing, imports, and other areas of domestic economic activity.

23. In order to improve the attractiveness of bank deposits relative to Treasury bills, the rates on savings and time deposits will be raised by two percentage points in July 1983. At the same time, bank lending rates will be raised by the same amount.

24. The Libyan Arab Uganda Bank for Foreign Trade and Development was reopened on June 10, 1983, following the agreement reached between the Libyan shareholders of the Bank and the Government of Uganda. Among the outstanding issues which remain to be resolved are means of increasing the Bank's capital and of clearing its foreign accounts and outstanding debts to the Bank of Uganda. Progress has been made twoard rehabilitating the Cooperative Bank and technical assistance is expected to be provided by USAID on the basis of a study recently completed. The recommendations include increasing the equity capital, channelling USAID resources and strengthening administrative capacity of the Bank.

25. Since the Government began relations with the Fund in 1981, credit ceilings have been based on net domestic credit. The recent Fund Mission discussed with the Government on the matter of changing to net domestic assets. It was, however, realized that in the present state of the accounting system and the imperfection of the data base, it would be very difficult to measure and monitor net domestic assets at this time. Government is anxious to seek technical addistance from the Fund to improve the accounting system and the data base. It is the hope of the Government that with improvement it should be possible to introduce the system of the application of ceilings on net domestic assets in the next fiscal year beginning July 1984.

VII. Performance Criteria and Review Clause

26. The execution of the program contained in this Memorandum will be subject to the following performance criteria:

(a) Total net domestic credit will not exceed Shs.70.0 billion by September 30, 1983 and Shs.76.8 billion by December 31, 1983. The indicative ceiling for March 31, 1984 is Shs.81.1 billion and that for June 30, 1984 is Shs.84.1 billion.

(b) Net credit to the Government will not exceed Shs.41.1 billion by September 30, 1983 and Shs.41.6 billion by December 31, 1983. The indicative ceiling for March 31, 1984 is Shs.42.1 billion and that for June 30, 1984 is Shs.42.6 billion. The ceilings for September 30, 1983 and for December 31, 1983 will be reduced (raised) by the excess (shortfall) of the cumulative profits from the operation of the second window from July 1, 1983 above (below) the projected Shs.3.6 billion and Shs.5.3 billion, respectively.

(c) The Bank of Uganda will sell at the second window a minimum of US$39 million during the period between July 1, 1983 and September 30, 1983 and US$78 million between July 1, 1983 and December 31, 1983. As an indicative target, a minimum of US$78 million will also be sold during the first half of 1984.

(d) From July 1, 1983 through December 31, 1983, the contracting of new public and publicly-guaranteed external debt will not exceed US$30 million for maturities of 0-12 years and shall take the form of cash loans contracted by the Bank of Uganda. At least a third of these loan disbursements will be repaid before end-1983 and the balance before end-June 1984. No other loan of less than twelve years will be contracted until September 30, 1983. However, from October 1, 1983, through December 31,1983, Government may contract additional new public and publicly-guaranteed external debt for up to US$20 million for maturities of more than six years but less than twelve years. These limits will not apply to concessional loans, loans contracted to refinance existing debts, capital contributions to international financial institutions and to normal trade credits of less than one year. Concessional loans are defined as those by the DAC of the OECD, while normal trade credits are defined as credit gained from the supplier to be repaid following shipment of goods. Similar quantitative ceilings will be set on a cumulative basis for the first half of 1984 at the time of the first review of the program mentioned below. The situation will be reviewed with the staff in October/November 1983 at the mid-term review.

(e) Between July 1 and December 31, 1983, external arrears will be reduced through cash payments by at least US$10 million. As an indicative target, the level of net external arrears will be reduced by no less than US$20 million through cash payments by June 30, 1984.

(f) During the program period, no new restrictions on payments and transfers for current international transactions or import restrictions for balance of payments reasons will be introduced or existing ones intensified.

(g) The Government of Uganda will review with the Fund the progress made in the context of this program on two occasions: the first review will be completed by end-February 1984, and the second review by June 30, 1984. At the time of the first review, the Government will reach understandings with the Fund regarding the ceilings on net domestic credit and net credit to Government; the minimum targets for the reduction of external arrears through cash payments and for foreign exchange sales at the second window; and the ceilings on public and publicly-guaranteed foreign debt for the second half of the program period. During this review, the progress made toward the reunification of the dual exchange rate system will be assessed, and understandings will be reached regarding (i) tariffs of public utilities (paragraph 8) and (ii) petroleum prices and rates of customs duties (paragraph 13(b)) and the staff audit (paragraph 16). During the second review, understandings will be reached on exchange rate policy.