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**FOR
AGENDA**

EBS/88/184
Correction 1

CONFIDENTIAL

September 13, 1988

To: Members of the Executive Board

From: The Acting Secretary

Subject: Uganda - Staff Report for the 1988 Article IV Consultation
and Request for Second Annual Arrangement Under the
Structural Adjustment Facility

The following corrections have been made in EBS/88/184
(8/26/88):

Page 16, Table 5, footnote 8, line 1: for "Excludes" read "Includes"

Page 27, second full para., last line: for "Table 8" read "Table 9"

Page 33, Proposed Decisions,
para. No. 2, line 3: for "SM/87/--,...except for the"
read "SM/88/209,...except that the"

Page 35, para. No. 1, line 1: for "SDR 29.9 million"
read "SDR 29.88 million"

Page 60, last column, line 1: for "19,326" read "24,870"

line 2: for "(15,413)" read "(20,780)"

Corrected pages are attached.

Att: (5)

depreciation and that provided scope for an improvement in incentives for the production of coffee and other export crops. The authorities will review this rate at least quarterly, taking into account the effects on production in agriculture and industry, the budget, inflation, and social welfare. The thrust of these reviews will be to prevent any real appreciation of the Uganda shilling from the July 1, 1988 level.

To further strengthen Uganda's foreign exchange position, the authorities intend to increase external reserves by US\$20 million during 1988/89 and to reduce external arrears through debt rescheduling by an estimated US\$10 million. ^{1/} In addition, the authorities will work to reinforce the OGL system established in late 1987. Given the wide internal and external disequilibria and constraints on the availability of foreign exchange, the authorities will place primary emphasis on meeting the needs of currently eligible firms. Early in 1988/89 the administrative procedures for the processing of applications under the OGL system will be streamlined so as to permit requests for eligible transactions to be met expeditiously, and the system's coverage will be expanded as soon as feasible to include some agricultural inputs. Subsequently, as the availability of foreign exchange permits, the coverage of the system will be extended with the objective of including all industrial and agricultural inputs, basic necessities, and incentive goods by end-June 1991.

Measures to strengthen the balance of payments and improve growth prospects are also being taken or planned in the areas of import duties, export marketing, producer pricing, and transportation, as described below.

b. Fiscal policies

A major reduction in the fiscal deficit and improvements in public sector management are cornerstones of the 1988/89 adjustment program. The overall budget deficit for 1988/89, measured on a commitment basis, is projected at U Sh 9.8 billion, equivalent to 1.3 percent of GDP, compared with an estimated 3.7 percent of GDP during 1987/88 (Table 5). Total revenue and grants are projected at U Sh 81.7 billion, equivalent to 10.8 percent of GDP, with tax revenue accounting for U Sh 50.3 billion. Total expenditure is budgeted at U Sh 91.5 billion, equivalent to 12.1 percent of GDP, comprising current expenditure of U Sh 50.1 billion and development expenditure of U Sh 41.4 billion.

The budget provides for revenue-boosting measures. New receipts of U Sh 3 billion are projected from a 400 percent rise in deposits

^{1/} The balance of payments projections for 1988/89 show a reduction in arrears of US\$30 million, including nearly US\$20 million of overdue obligations to the Fund as of June 30, 1988.

Table 5. Uganda: Summary of Central Government Operations, 1983/84-1987/88

Fiscal Year Ending June 30	1983/84	1984/85	1985/86	1986/87 Prov.	1987/88 Prog.	Est.	1988/89 Budget
(In billions of Uganda Shillings)							
Revenue and grants	0.97	1.70	3.35	6.43	22.00	30.09	81.71
Revenue	0.93	1.62	2.85	5.87	19.18	24.87	55.68
Tax	0.87	1.59	2.79	5.66	16.79	20.78	50.30
Of which: coffee	(0.41)	(0.94)	(1.89)	(2.00)	(10.89)	(5.55)	(18.92)
Nontax	0.06	0.03	0.06	0.21	2.39	2.01	5.38
Currency reform levy	--	--	--	0.79	--	2.00	--
Grants	0.05	0.08	0.50	0.56	2.83	5.22	26.03
Total expenditure 1/	1.15	2.40	4.72	11.43	31.28	42.05	91.54
Current expenditure	0.70	1.57	3.52	7.29	14.16	24.75	50.13
Wages and salaries	0.13	0.44	0.54	1.16	...	3.70	6.38
Interest 2/ 3/	0.17	0.26	0.38	0.51	...	2.31	4.47
Other	0.40	0.87	2.42	5.62	...	18.74	39.28
Development 4/	0.13	0.35	1.21	4.14	17.11	17.30	41.41
Externally supported capital outlays 5/	0.13	0.35	1.21	4.14	...	12.05	33.12
External	(0.10)	(0.26)	(0.50)	(2.31)	(...)	(9.55)	(30.68)
Domestic counterpart	(0.03)	(0.09)	(0.71)	(1.84)	(...)	(2.50)	(2.43)
Other capital outlays	--	--	--	--	--	5.25	8.29
Unallocated expenditures 6/	0.33	0.48	--	--	--	--	--
Overall deficit (commitment basis)	-0.18	-0.70	-1.37	-4.06	-9.27	-11.96	-9.83
Changes in expenditure-related arrears (reduction -) 7/	-0.08	0.06	--	0.19	-0.63	-4.49	-11.28
Overall cash deficit	-0.26	-0.64	-1.37	-3.87	-9.90	-16.45	-21.11
Total financing	0.26	0.64	1.37	3.87	9.90	16.45	21.11
Foreign financing (net)	0.03	0.10	0.43	1.19	2.44	9.22	25.61
Drawings	(0.18)	(0.49)	(1.14)	(1.75)	(12.25)	(9.38)	(33.47)
Amortization (-)	(-0.15)	(-0.39)	(-0.70)	(0.56)	(-9.81)	(-4.76)	(-10.56)
Principal due (-)	(...)	(...)	(-0.83)	(...)	(-4.21)	(-4.76)	(...)
Change in arrears on principal (reduction -)	(...)	(...)	(0.13)	(...)	(-5.60)	(...)	(...)
Moratorium interest (-)	(--)	(--)	(--)	(--)	(...)	(0.63)	(...)
Debt relief	(--)	(--)	(--)	(--)	(8.47)	(5.24)	(2.70)
Domestic financing	0.02	0.54	0.94	2.68	-1.01	7.23	-4.50
Bank 8/	(-0.01)	(0.56)	(0.57)	(3.08)	(-1.91)	(7.51)	(-5.00) 8/
Nonbank	(0.03)	(-0.02)	(0.37)	(-0.39)	(0.90)	(0.28)	(0.50)
Memorandum items:							
GDP at current market prices	6.98	13.55	30.41	110.41	205.88	325.61	754.27
(In percent of GDP)							
Revenue and grants	14.0	12.5	11.0	5.8	9.3	9.2	10.8
Tax revenue	12.5	11.8	9.2	5.1	10.7	6.4	6.7
Total expenditure	16.6	17.7	15.5	10.4	15.2	12.9	12.1
Current expenditure 9/	14.8	15.1	11.5	6.6	6.9	7.6	6.6
Development expenditure	1.8	2.6	4.0	3.8	8.3	5.3	5.5
Overall deficit (commitment basis)	-2.6	-5.2	-5.6	-3.7	-4.5	-3.7	-1.3
(cash basis)	-3.8	-4.7	-4.5	-3.5	-4.8	-5.1	-2.8

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

1/ On a commitment basis.

2/ Includes IMF charges, which have been reclassified as domestic payments to the Bank of Uganda for onward payments in foreign currency to the Fund.

3/ Includes moratorium interest payments for 1987/88.

4/ Local capital outlays are mainly self-help schemes and projects for reconstruction and maintenance of assets in local areas financed solely from domestic resources. Capital outlays are, in contrast, large projects financed from both external and domestic sources.

5/ Includes lending, mainly to parastatals.

6/ Includes changes in the balance of the Treasury Main Clearance Account (excluding IMF charges), other government accounts with Bank of Uganda, and checks outstanding; derived residually.

7/ Apart from small payments of domestic arrears in 1986/87 and 1987/88, this item relates exclusively to changes in external arrears of interest or principal.

8/ Includes anticipated increase of U Sh 4.0 billion in government deposits at Bank of Uganda held in reserve toward the payment of external arrears.

9/ Including unallocated expenditure.

intend to continue to limit strictly the utilization of both short-term and nonconcessional borrowing over the medium term.

h. Benchmarks under the second annual SAF arrangement

To monitor credit and monetary developments quarterly benchmarks have been established for net domestic credit and net bank credit to Government (Table 9). The expansion in net domestic credit of the banking system from end-June 1988 will be limited to U Sh 3.5 billion through end-September 1988, U Sh 5.5 billion through end-December 1988, to U Sh 7.5 billion through end-March 1989, and to U Sh 8.6 billion through end-June 1989. In addition, relative to the position at end-June 1988, net credit to Government from the domestic banking system is to record a cumulative decrease of U Sh 1.0 billion at end-September 1988, U Sh 2.0 billion at end-December 1988, U Sh 3.0 billion at end-March 1989, and U Sh 5.0 billion at end-June 1989. Also as a benchmark, gross international reserves of the Bank of Uganda from end-June 1988 are to increase by US\$10 million as of end-March 1989 and by US\$20 million at end-June 1989. Relative to the position at end-June 1988, non-Fund external arrears are to decrease by US\$10 million by end-September 1988 and remain at or below the end-September 1988 level as of end-December 1988, end-March 1989, and end-June 1989. Broad money, which is not a benchmark, is projected to increase by 68 percent between end-June 1988 and end-June 1989, which is essentially in line with the 60 percent rise in consumer prices and 5 percent real growth in GDP envisaged during the year.

A limit of U Sh 9.8 billion has been set on the 1988/89 government budget deficit, as measured on a commitment basis and including grants. In addition, benchmarks have been established for central government tax receipts and current expenditure, as indicated in Table 9.

New concessional foreign borrowing by the public sector will be limited as follows: The Government and the Bank of Uganda will neither contract, guarantee, nor receive disbursements of an aggregate amount of external borrowing on nonconcessional terms (DAC definition) in excess of US\$10 million with an initial maturity of up to and including 15 years. This restriction excludes advance sales of export products, normal trade credits with a maturity of less than one year, and obligations undertaken as a result of debt rescheduling.

Policy implementation will also be followed closely, with the following considered as policy benchmarks: (1) periodic reviews of the exchange rate; (2) completion of the comprehensive review of customs duties and the domestic tax system; (3) implementation and maintenance of the interest rate policies as described in paragraph 12 of Annex I; and (4) semiannual reviews in agricultural producer prices.

Table 9. Uganda: Quantitative Benchmarks for the Second-Year Arrangement Under the Structural Adjustment Facility
September 1988-June 1989

	1988		1989	
	Sept.	Dec.	Mar.	June
<hr/>				
	(In billions of Uganda shillings; end of period)			
Cumulative change at end of period in				
Net domestic credit	3.5	5.5	7.5	8.6
Net bank credit to Government	-1.0	-2.0	-3.0	-5.0
Overall budget deficit on a commitment basis and including grants	...	...	...	9.8
Tax revenue	...	...	...	50.9
Current expenditure <u>1/</u>	...	...	...	50.1
	(In millions of U.S. dollars)			
Cumulative change at end of period in				
New nonconcessional borrowing, excluding advance coffee sales, short-term trade credits, and borrowing under debt rescheduling	5	5	10	10
External payments arrears	-10	-10	-10	-10
Gross foreign reserves	--	--	10	20

1/ Fund staff classification.

V. Proposed Decisions

"The following draft decisions are proposed for adoption by the Executive Board:

A. 1988 Consultation

1. The Fund takes this decision relating to Uganda's exchange measures subject to Article VIII, Section 2(a), and in concluding the 1988 Article XIV consultation with Uganda in the light of the 1988 Article IV consultation with Uganda, as amended, conducted under Decision No. 5392- (77/63), adopted April 29, 1977 ("Surveillance over Exchange Rate Policies").

2. Uganda maintains the exchange restrictions on payments and transfers for current international transactions described in SM/88/209, in accordance with Article XIV, Section 2, except that the restrictions arising from the allocation of foreign exchange, the restrictions evidenced by the accumulation of external payments arrears and the restrictive features of some bilateral payments arrangements with Fund members, are subject to approval by the Fund under Article VIII, Section 2(a). The Fund notes the intention of Uganda to eliminate these restrictions and encourages the authorities to remove them as soon as possible. In the meantime and with the exception of the restrictive features of the bilateral payments arrangements with other members, the Fund grants approval for the retention of existing restriction by Uganda until the completion of the 1989 Article IV consultation, or December 31, 1989, whichever is earlier."

**B. Second Annual Arrangement Under the
Structural Adjustment Facility**

1. The Government of Uganda has requested the second annual arrangement under the structural adjustment facility.
2. The Fund has appraised the progress of Uganda in implementing the policies and reaching the objectives of the program supported by the first annual arrangement, and notes the updated policy framework paper (EBD/88/239).
3. The Fund approves the arrangement set forth in EBS/88/184.

UGANDA - Second Annual Arrangement Under
the Structural Adjustment Facility

Attached hereto is a letter, with an annexed Memorandum of Economic Policies, dated August 25, 1988 from the Minister of Finance of Uganda requesting from the Fund the second annual arrangement under the three-year structural adjustment arrangement, and setting forth the objectives and policies of the program to be supported by the second annual arrangement.

To support these objectives and policies, the Fund grants the requested arrangement in accordance with the following provisions and subject to the Regulations for Administration of the structural adjustment facility:

1. The second loan in the amount equivalent to SDR 29.88 million is available for disbursement at the request of Uganda.

2. Before approving the third annual arrangement, the Fund will appraise the progress of Uganda in implementing the policies and reaching the objectives of the program supported by the second annual arrangement, taking into account primarily:

(a) the indicators specified in paragraphs 19 and 20 of the letter attached to the Memorandum of Economic and Financial Policies,

(b) the imposition of restrictions on payments and transfers for current international transactions,

(c) introduction of multiple-currency practices,

(d) conclusion of bilateral payments agreements which are inconsistent with Article VIII,

(e) imposition or intensification of import restrictions for balance of payments reasons.

3. In accordance with the attached letter, Uganda will provide the Fund with such information as the Fund requests in connection with the progress of Uganda in implementing the policies and reaching the objectives supported by the second annual arrangement.

4. In accordance with the attached letter, Uganda will consult with the Managing Director on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing

Director requests consultation because of deviations from any of the indicators under paragraph 2 above or because he considers that consultation on the program is desirable. These consultations may include correspondence and visits of officials of the Fund to Uganda or of representatives of Uganda to the Fund.

Attachments

UGANDA--Basic DataArea, population, and GDP per capita

Area:	241,139 square kilometers
Population (1987):	
Total	16.0 million
Growth rate	3.0 percent (1973 to 1985)
GDP per capita (1987):	US\$225

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
<u>National Accounts</u>	<u>(In millions of Uganda shillings)</u>				
GDP at factor cost (at 1966 prices)	7,171	6,787	6,715	6,643	6,838
Agriculture, forestry, and fishing	4,050	3,619	3,486	3,318	3,413
Manufacturing	290	300	267	235	248
Construction	32	34	39	43	49
Commerce	575	533	574	551	576
Government	909	923	932	941	950
	<u>(In percent)</u>				
Annual real rate of growth	4.3	-5.4	-1.0	-1.1	-2.9
	<u>1983/84</u>	<u>1984/85</u>	<u>1985/86</u>	<u>1986/87</u>	<u>1987/88</u> Est.

<u>Price movements</u>	<u>(Percentage change from the previous year) 1/</u>				
Cost of living:					
GDP deflator 2/	40	107	127	260	181
Cost of living index	29	100	130	256	189

1/ Fiscal year July-June; increase in yearly average.

2/ Staff estimates.

UGANDA--Basic Data (continued)

	<u>1983/84</u>	<u>1984/85</u>	<u>1985/86</u>	<u>1986/87</u>	<u>1987/88</u> Staff Est.
Central government finance	(In millions of Uganda shillings)				
Revenue and grants	974	1,689	3,350	6,433	24,870
Of which: revenue	(929)	(1,621)	(2,846)	(5,871)	(20,780)
Expenditure	1,154	2,397	4,723	11,433	27,768
Current	(695)	(1,568)	(3,517)	(7,290)	(14,967)
Development	(129)	(349)	(1,206)	(4,143)	(11,505)
Unallocated	(330)	(480)	(--)	(--)	(1,296)
Overall deficit (commitment basis)	-180	-698	-1,690	-4,065	-8,442
Change in arrears	-84	63	317	193	-744
Overall deficit (cash basis)	-264	-635	-1,373	-3,872	-9,186
Financing	264	635	1,373	3,872	9,186
Foreign (net)	(30)	(96)	(432)	(1,184)	(4,838)
Domestic (net)	(234)	(539)	(94)	(2,684)	(4,348)
Of which: banking system	[-27]	[556]	[572]	[3,077]	[4,458]
	(In percent of GDP)				
Revenue and grants	14.0	12.5	11.0	5.8	6.2
Expenditure	16.6	17.7	15.5	10.4	9.0
Overall deficit (commitment basis)	-2.6	-5.2	-5.6	-3.7	-2.7
	(Annual percentage change) 3/				
<u>Money and credit</u>					
Domestic credit (net)	34	145	82	107	135
Government (net)	(-4)	(72)	(31)	(68)	(51)
Nongovernment	(38)	(73)	(51)	(39)	(84)
Money plus quasi-money	62	139	148	96	167

1/ Fiscal year (July-June)

2/ Data for first nine months.

3/ As percent of broad money at the beginning of the period.