FOR AGENDA

EBS/83/5

CONFIDENTIAL

January 10, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Uganda - Staff Report for the 1982 Article IV Consultation and Review of Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report for the 1982 Article IV consultation with Uganda and a review of the stand-by arrangement. Draft decisions appear on pages 35 and 36.

This subject will be brought to the agenda for discussion on a date to be announced.

Att: (1)

INTERNATIONAL MONETARY FUND

UGANDA

Staff Report for the 1982 Article IV Consultation and Review of Stand-By Arrangement

Prepared by the Staff Representatives for the 1982 Consultation with Uganda

Approved by J.B. Zulu and S. Kanesa-Thasan

January 6, 1983

I. Introduction

A Fund mission visited Kampala during the period October 15-November 6, 1982 to conduct the Article IV consultation discussions and review Uganda's performance under the financial program supported by a 12-month stand-by arrangement ending August 11, 1983. The Ugandan representatives included His Excellency Milton Obote, President and Minister of Finance, Ambassador E. Kamuntu of the Ministry of Finance, Mr. S. Odaka, Minister of Planning and Economic Development, Mr. L. Kibirango, Governor of the Central Bank of Uganda, and other senior officials of ministries and agencies concerned with economic and financial matters. The staff team consisted of Messrs. L. Goreux (head-AFR), C.V. Callender (AFR), Z. Ebrahim-zadeh (AFR), M. Holmes (FAD), M. Nowak (ETR), and Miss P. Ilagan (secretary-INST).

The Government of Uganda made the final purchase under the 1981/82 stand-by arrangement in May 1982 (Table 1). The current stand-by arrangement, which was approved by the Executive Board on August 11, 1982, provides for a total amount of SDR 112.5 million. The Executive Board subsequently approved a request for a waiver and modification of the performance criterion on minimum sales of foreign exchange at the second window of the exchange market on November 24, 1982. 1/ So far, the Government of Uganda has made purchases of SDR 50.0 million and the remaining amount of SDR 62.5 million would be available in two further purchases after satisfactory completion of the review with the Fund in February 1983 and subject to observance of performance criteria for December 1982 and March 1983.

A meeting of the Paris Club to consider Uganda's request for further debt rescheduling took place on December 1, 1982. The rescheduling terms received by Uganda were identical to those of last year, and cover debt service due from July 1982 to June 1983. 2/

1/ EBS/82/196 (10/22/82) and Supplement 1 (11/15/82).
2/ SM/82/248.

Table 1. Uganda: Actual and Proposed Purchases and Repurchases
During the Period, June 1, 1981 - June 30, 1983

	1981		1982		Total	1982		1983		Total
	June 1- Sept. 30	Oct. 1- Dec. 31	Jan. 1- March 31	April- June 30		July 1- Sept. 30	Oct. 1- Dec. 31	Jan. 1- Mar. 31	April 1- June 30	
				(In millions of SDRs)						
Purchases	82.5	40.0	--	35.0	157.5	37.5	12.5	25.0	37.5	112.5
Ordinary resources	19.4	18.1	--	15.8	53.3	14.94	--	--	--	14.94
Borrowed funds	18.1	21.9	--	19.2	59.2	22.56	12.5	25.0	7.5	97.56
CFF	45.0	--	--	--	45.0	--	--	--	--	--
Repurchases	--	0.3	4.4	--	4.7	--	0.63	0.63	3.13	4.39
Oil facility	--	0.3	0.9	--	1.2	--	--	--	--	--
CFF	--	--	--	--	--	--	0.63	0.63	3.13	4.39
Repurchases of Fund's holdings of national currency in excess of 75 per cent of quota	--	--	3.5	--	3.5	--	--	--	--	--
Net purchases	82.5	39.7	-4.4	35.0	152.8	37.5	11.87	24.37	34.37	108.11
Fund holdings (total)	195.2	234.9	230.5	265.5	265.5	303.0	314.87	339.24	373.61	373.61
				(As per cent of quota)						
Total Fund holdings	260.3	373.2	307.3	354.0	354.0	404.0	419.8	452.3	498.2	498.2
Holdings excluding oil facility and CFF	158.7	212.0	307.3	254.0	254.0	304.0	319.8	352.3	398.2	398.2

Source: Data provided by the Treasurer's Department.

The World Bank operations in Uganda have continued to expand. Disbursements under the Second Reconstruction Credit, Industrial Rehabilitation Credit, and the Phosphate Engineering Study, are expected to begin shortly. Negotiations are expected to start shortly on an Agricultural Credit and an Education Credit.

Uganda continues to avail itself of the transitional arrangements of Article XIV. A summary of Uganda's relations with the Fund and tables of selected economic and financial indicators and of proposed World Bank credits are shown in Appendix I.

II. Background to the Discussions

After a decade of economic prosperity during the sixties, the economic and financial situation of Uganda deteriorated rapidly in the seventies. By the time the present Government took office in December 1980, the modern sector had virtually collapsed as a result of poor economic management and the physical damage caused by the war and widespread looting. Real GDP was lower in 1980 than in 1971, involving a sharp decline in per capita income. With the exception of subsistence agriculture, output declined in virtually every sector. Domestic investment fell sharply as a result of a fall in the rate of savings and considerably lower capital inflows. The rate of inflation accelerated sharply to an average of 70 per cent per annum, as the effects of shortages on the supply side were reinforced by excessive demand which was fuelled by expansionary fiscal and monetary policies. The ratio of budgetary deficits to total expenditure rose from an average of less than 20 per cent in the late 1960s to more than 50 per cent in the three years ended 1980/81; expansion in broad money rose from an average rate of 16 per cent in the second half of the sixties to 81 per cent during the seventies. The balance of payments also deteriorated as the value of exports fell sharply. Foreign exchange earnings from cotton, copper, tea, and tobacco virtually ceased and export receipts from coffee fell sharply on account of declining volume. A greatly overvalued exchange rate, which resulted in a thriving parallel market for foreign exchange, lack of incentives to farmers, shortages of inputs and raw materials, and inadequate transport, processing and marketing facilities as well as inefficient management were the main factors responsible for the decline in exports. Faced with a decline in export earnings and a worsening of the balance of payments situation, the Ugandan authorities introduced restrictive measures to constrain imports but this only served to weaken further the production base.

The Government which tool office in 1980 was therefore faced with the formidable task of rebuilding a shattered economy as quickly as possible. In the short run, the Government had to concentrate on halting the deterioration in the economic and financial situation and laying the basis for sustained economic growth. This involved tackling the problems of the overvalued exchange rate, the considerable price distortions, the decline in output, the budget, and the chronic foreign exchange shortage. The necessary policy adjustments were implemented as part of successive one-year stand-by

arrangements approved by the Fund (Table 2). Its medium-term goal was to restore and expand the productive base of the economy by increasing investment in agriculture, industry, and transportation. To that end, it modified the ten-year Program of Action and began preparing a two-year Recovery Program, which was implemented in 1982/83. The Recovery Program sets out the Government's objectives and priorities, its investment goals and possible sources of financing. Recognizing the resource constraints, particularly the foreign exchange constraint, the Program gives priority to rehabilitation and utilization of idle capacity in all sectors. Emphasis is placed on increasing agricultural production, especially for export, expanding manufacturing output, particularly in the import-substitution industries, and improving transportation facilities. The Program was well received at a Consultative Group meeting held in Paris in May 1982. The World Bank considers the Program to be realistic and supports its objectives and investment priorities.

III. Recent Economic and Financial Developments and Report on the Discussions

The developments and policies associated with the two consecutive financial programs (1981/82 and 1982/83) and the medium-term policies and prospects of the economy are outlined below by reviewing, successively, the exchange system, production and prices, public finance, the parastatal sector, money and credit, and the balance of payments.

1. Exchange arrangements

In order to reduce price distortions, discourage smuggling, and encourage the reallocation of resources from speculative to productive activities, the 1981/82 financial program (June 1, 1981 to June 30, 1982) contained a comprehensive policy package designed to bring about an overall realignment of relative prices. In June 1981, the exchange rate was devalued from U Sh 8.4 = US$1 to U Sh 78 = US$1 and, in a series of smaller adjustments, the rate was subsequently depreciated further to U Sh 97 = US$1 by the end of the program period. This action, in conjunction with corresponding increases in producer and petroleum prices, contributed to a significant improvement in Uganda's economic and financial situation and to its ability to fulfill its external commitments.

Nonetheless, the Bank of Uganda remained unable throughout 1981/82 to satisfy all bona fide requests for foreign exchange and, although the premium on the parallel market declined sharply from about 30:1 prior to June 1981 to around 300 per cent by the end of the period, it was clear that the official exchange rate remained significantly overvalued. 1/ Moreover, procedures for rationing the limited supplies of foreign exchange did not prove satisfactory; allocations, as administered by the Foreign

1/ The prevailing rates were U Sh 250 per US dollar in May 1981 and U Sh 380 per US dollar at end-June 1982.

Table . Uganda: Policy Measures Under the 1982/83 Stand-By Program: Current Status of Implementation

Program	Current Status of Implementation
1. Exchange rate	
a. Establishment of a dual exchange rate system with a modest depreciation in one market (Window 1) which would remain managed and a sharp appreciation in the other (Window II) with weekly auctions	On August 27, 1982 the dual exchange system became operational. The rate at Window I depreciated from U SH per US$ at end-August to U Sh 99.25 per US$ at end-December. The rate at Window II was initially set at U Sh 300 per US$. The rate appreciated progressively to U Sh 240 in December.
b. The Bank of Uganda will sell a minimum of US$8 million during each four-week period through the auction market	In the first twelve weeks of the dual exchange system (August 27-November 12) a total of US$13 million was surrendered through the auction market. This amount was below the required minimum. This condition was modified to cumulative sales of US$24 million by end-December 1982. Sales at December 24, 1982 were already in excess of US$25 million.
c. Measures adopted to increase sales through the auction market	Administration procedures for obtaining the necessary documentation have been simplified. Import duties were reduced and both the one per cent fee charged by UABT and five per cent advance import deposits have been suspended. The issuance of import licenses to importers with their own foreign exchange has been suspended. More commodities have been transferred to the auction market and the sectoral limits on commercial bank lending have been relaxed.
2. Supply-side measures	
a. Producer price increase for the main export crops ranged from 33 per cent to 100 per cent. Increases in price of petroleum products ranged between 75 per cent and 128 per cent	Both implemented between June 1982 and November 1982.
b. Liberalization of both external and domestic trade	Policies being gradually implemented. Removal of zoning restrictions. Measures taken to increase supply of raw materials and spare parts.
3. Public finance	
a. Wage policy included zero rating of PAYE and an increase in civil servants' wages of 20 per cent in first half of 1983	Zero rating of PAYE implemented in July 1982.
b. Minimizing cash releases and recourse to extra-budgetary expenditure	Steps have been taken for restraining automatic cash releases for recurrent expenditure and only the highest priority development expenditures were allowed. New measures to limit recourse to extra-budgetary accounts, notably the Treasury main clearance account were implemented.
c. Revenue collection administration to be improved	Revenue collection procedures being implemented. Government collected U Sh 2.3 billion of arrears primarily on custom duties, sales tax and excise duty by September 1982.
d. Increase in tariffs for some public utilities	Implemented in November 1982.
4. Monetary measures	
a. Increase in deposit rates and most categories of lending rates by one percentage point	Implemented in June 1982.
b. Increase in lending rates for trade and commerce and unsecured loans	These lending rates were allowed to float up to a maximum of 20 per cent November 1982.
c. Rates on Treasury bills to be increased by an average of 1.5 percentage points	Increased by an average of 2.5 percentage points in November 1982.

Exchange Allocation Committee, were heavily skewed in favor of public administration and certain invisible payments (such as travel), while relatively small amounts were allotted to the productive sector.

As a means of achieving a more efficient allocation of foreign exchange and discouraging parallel market activities, the authorities established, in the context of the 1982/83 financial program, a temporary dual exchange market. Under this arrangement, in one market (the "first window"), foreign exchange proceeds derived from traditional exports (coffee, cotton, tea, and tobacco) and Bank of Uganda loan and interest receipts are sold at a managed exchange rate; the same rate is applied to purchases of foreign exchange for debt service and arrears payments, contributions to international organizations, and specified imports deemed essential to the rehabilitation of the economy (such as petroleum products, equipment, and spare parts). All remaining transactions are conducted in the other market (the "second window"), where foreign exchange is allocated at an exchange rate determined through weekly auctions held by the Bank of Uganda. The excess foreign exchange sold at the second window over the amount surrendered, at that window, is met from the first window and the profits realized from this operation credited to the Treasury.

The introduction of the dual market was accompanied by a substantial liberalization of Uganda's exchange control regulations. Quantitative limits on invisible transactions, such as travel, and expatriate remittances and emigrant transfers were raised substantially, while outward unrequited and capital transfers were permitted up to specified amounts. In addition, all restrictions on profit, dividend, and debt service remittances were lifted.

Under the stand-by arrangement, the Bank of Uganda was required to sell at the second window US$8 million during each four-week period. These sales constituted a performance criterion. The authorities requested a waiver and modification of this performance criterion when it became clear that, because of implementation difficulties, the sales target could not be attained. The waiver was approved by the Executive Board on November 24 and the performance criterion was modified to require that a cumulative minimum of US$24 million be sold before end-December 1982 (EBS/82/196 and Supplement I). To promote sales at the second window and reduce both the premium and the volume of transactions on the parallel market, a series of remedial measures were introduced during October and November: the 1 per cent fee charged for the issuance of import licenses and the 5 per cent advance deposit were suspended; import duties were reduced selectively and the practice of granting licenses to importers with their own foreign exchange was terminated; and certain items, notably motor vehicle spare parts and tires, were transferred from the first window. In addition, the ceiling on lending rates to trade and commerce was increased, which should assist importers bidding at the second window.

The measures implemented contributed to an increase in sales at the second window from an average of US$1.1 million during the first twelve weekly auctions (August 27 through November 5) to an average of US$2.08 million during the six auctions held between November 12 and December 24. The value of foreign exchange surrendered to the second window amounted to US$9.06 million through December 10, well in excess of original expectations.

The authorities view the dual market as a transitory arrangement aimed at bringing about a unification of the exchange arrangements at a level which fully reflects the prevailing scarcity of foreign exchange. Between the end of August and December 29, 1982, the exchange rate at the second window appreciated from U Sh 300 = US$1 to U Sh 240 = US$1, while that at the first window was depreciated from U Sh 99 = US$1 to U Sh 105 = US$1. The authorities remain committed to completing the reunification process before mid-1984 through further adjustments in the exchange rate at the first window, the continuation of tight financial policies to reduce the second window rate, and the transfer of transactions from the first to the second window.

2. Production and prices

In order to stabilize the economy and eventually revive investment and production, the Government adopted several other bold measures in June 1981. These measures included the elimination of price controls except for major export crops, petroleum products, and public utility tariffs. In a series of adjustments beginning May 1981, the Government has substantially raised official producer prices for export crops, retail petroleum prices, (Table 3), and utility rates. The sharp increases in producer prices during the period May 1981 to June 1982 have provided farmers with higher returns compared with other cash crops, reduced price differentials vis-à-vis neighboring countries and had a significant impact on output. Real GDP grew at an estimated rate of 10 per cent in 1981/82 compared with a decline of 8 per cent in 1980/81. Agricultural production increased significantly in 1981/82 and there has been a noticeable diversion of supplies back into official channels. Food production rose markedly as a result of favorable weather conditions, the increased availability of inputs, and a larger supply of agricultural tools. As a result, Uganda returned to self-sufficiency in food and suspended the emergency food program which was adopted in 1979. Production of export crops rose significantly in 1981/82, owing largely to the increase in producer prices. Coffee production rose by 53 per cent in 1981/82 to 150,000 tons. Consequently, Uganda fulfilled its quota for the coffee year ending September 1982 which was 45 per cent larger than in 1980/81. Cotton production rose by an estimated 105 per cent in 1981/82 over 1980/81, partly reflecting higher producer prices, and the availability of warehouses and ginneries which were severly damaged during the liberation war. Tea production doubled to 3,000 tons in 1981/82 and a small quantity was exported. Production of tobacco, which used to be Uganda's fourth highest foreign exchange earner, rose from less than 240 tons in 1980/81 to about 500 tons in 1981/82, which is equivalent to 11 per cent of the level of production achieved in 1971/72.

Table 3. Uganda: Commodity Prices,
1981 - November 1982

	1981				1982			Nov. 1982/ April 1981 ratio
	April	May	June	October	January	June	Nov.	
Minumum producer prices for export crops								
	(Uganda shillings per kg)							
Coffee	7.00	20.00	20.00	35.00	35.00	50.00	50.00	7.14
Tea	1.35	1.35	4.00	6.00	6.00	10.00	10.00	7.41
Cotton	6.00	15.00	15.00	30.00	30.00	40.00	40.00	6.67
Tobacco	8.60	8.60	20.00	50.00	50.00	100.00	100.00	11.62
Cocoa	3.20	3.20	3.20	3.20	20.00	20.00	20.00	6.25
Consumer prices for petroleum products								
	(Uganda shilling per liter)							
Premium gas	7.44	27.00	81.00	85.00	85.00	120.00	150.00	20.16
Regular gas	7.13	25.00	78.40	80.00	80.00	110.00	140.00	19.64
Diesel	6.00	15.00	47.20	50.00	50.00	60.00	90.00	15.00
Kerosene	4.00	7.00	30.00	30.00	35.00	40.00	80.00	20.00

Source: Data provided by the Ugandan authorities.

After declining continuously over the past several years industrial production rose markedly in 1981/82, particularly of textiles, beer, cement, cigarettes, sugar, and soap. The increase is attributable to the freeing of prices, which allowed companies to reduce their losses and in some instances to make profits, and greater availability of imported raw materials and spare parts. A substantial portion of these imports was financed under the IDA First Reconstruction Credit.

Further adjustments in producer prices since June 1982, greater availability of imported inputs and raw materials, improved transportation, processing and marketing facilities, and the return to a more market-oriented economy are expected to have a major impact on production in 1982/83. Real output is expected to increase by 10 per cent in 1982/83. Agricultural production is estimated to rise by 9 per cent, reflecting higher output of both domestic food crops and export crops. Domestic food production is expected to benefit from the provision of better seeds to farmers and an increase in the supply of agricultural implements. The major increases among the export crops are expected from cotton, tea and tobacco, reflecting better crop husbandry, greater availability of inputs, increased use of chemicals and fertilizers and, in the case of cotton, expanded acreage. Coffee production in 1982/83 is expected to be 10 per cent higher than in 1981/82; cotton production is estimated to increase fivefold and output of tea and tobacco is expected to increase by 58 per cent and 200 per cent, respectively.

It is expected that, in the industrial sector, capacity utilization should increase with improved access to foreign exchange and the installation of the newly imported machinery and spare parts. As a result, industrial production, especially of beverages, edible oil, tobacco, hoes, sugar, textiles, and cement is expected to increase substantially.

Despite the continuing depreciation of the Uganda shilling, the rate of inflation fell from an estimated 110 per cent in 1980/81 (June-June) to about 11 per cent for the period end-June 1981 through June 1982 (Table 4). Prices had risen sharply in June 1981 after the initial depreciation, and the freeing of prices and accompanying measures; thereafter, up to end-June 1982, they increased only moderately. The decline in the rate of inflation is attributable to the improvement in internal transport and distribution facilities, increased supply of domestically produced and imported consumer goods, and tighter monetary and fiscal policies. Between end-June 1982 and end-November 1982, consumer prices increased by 15 per cent, partly on account of temporary shortages of consumer goods resulting from external transportation difficulties and partly on account of increases in the prices of fuel and transportation. Although consumer prices have been decontrolled, competitive forces remain weak and profit margins in some cases remain extremely high. Therefore, to strengthen competition, steps are being taken to further improve marketing and distribution. Private importers are being encouraged to paticipate in the importation of consumer

Table 4. Uganda: Average Monthly Consumer Price Index for Middle Income Groups, June 1981 - November 1982

(April 1981 = 100)

Items	Weight	1981 April	1981 June	1981 Sept.	1981 Dec.	1982 March	1982 April	1982 June	1982 Sept.	1982 Oct.	1982 Nov.
Food	41.0	100.0	136.9	125.1	124.2	147.0	167.3	169.1	186.1	195.9	205.2
Drinks and tobacco	17.0	100.0	131.8	109.8	104.9	113.9	120.9	112.1	119.6	125.0	117.8
Fuel and lightening	6.0	100.0	125.4	124.7	120.1	147.6	146.9	164.5	168.3	168.3	204.5
Transport	10.0	100.0	186.2	241.2	241.9	241.5	241.5	255.3	255.3	342.5	346.6
Clothing	14.0	100.0	343.6	324.7	330.2	348.6	351.3	343.7	347.2	347.7	349.1
Other consumer goods	10.0	100.0	139.7	115.5	124.8	136.6	141.8	143.9	147.0	146.1	152.4
Other manufactured goods	2.0	100.0	235.8	210.2	200.3	245.1	235.3	205.3	230.3	231.4	233.3
Consumer price index	100.0	100.0	171.5	162.8	162.9	180.0	190.2	190.4	200.2	213.9	219.9

Sources: Bank of Uganda; Ministry of Planning and Economic Development; and staff estimates.

goods and spare parts through the second window. The Government is also taking measures to increase competition in the transportation industry. As part of the effort to increase competition, textile mills have been authorized to purchase their lint requirement directly from the processors instead of obtaining it from the Lint Marketing Board. Similarly, large tea estates will be allowed to market tea directly instead of having to sell them to the Uganda Tea Authority.

In order to maintain the momentum of recovery, the Government adopted a modest two year Recovery Program beginning in 1982/83, focussing on improving agricultural and industrial production and transportation facilities. There will be concerted effort on a relatively few projects which promise rapid earnings of foreign exchange through increased exports or savings of foreign exchange by import substitution. Investment under the Program is expected to total US$737 million of which 30 per cent will be allocated to agriculture, 29 per cent to industry and tourism and 21 per cent to transportation; the remaining 20 per cent will be allocated to telecommunications and social services.

In the agricultural sector, the Government proposes to expand extension services, increase the supplies of seeds and agricultural implements, improve production techniques, and introduce new crops. In addition, coffee processing plants, cotton ginneries, and tobacco curing barns are being rehabilitated with a view to increasing their productive capacity. These measures, in conjunction with adequate producer pricing policies, are expected to increase agricultural output significantly in the medium-term. The Government is also taking steps to increase commercial milk and meat production by improving breeding stocks, expanding artificial insemination services and rehabilitating existing ranches.

In the industrial sector, the focus will be on the promotion of selected agro-based industries for processing exports and import-substituting industries. Policies to increase industrial output will include encouraging greater private sector participation, strengthening credit and procurement arrangements, mobilizing additional capital resources, and improving training services. The Uganda Development Bank is being strengthened to channel external resources to individual industries (see section 5 below), while the return of the former owners of a number of nationalized companies is expected to provide better management as well as additional capital.

In view of Uganda's land-locked position, the improvement of transportation facilities plays a big role in the strategy for economic recovery. Consequently, the Government is intensifying its efforts to alleviate all bottlenecks in marketing and exports of agricultural produce. It is acquiring additional wagons, rehabilitating the railway facilities and improving port services at Jinja and Port Bell.

3. Public finance

The policy and institutional changes since June 1981 have represented a sharp break with the past, but their full impact is difficult to assess. This reflects the nature, magnitude and frequency of policy changes. On the expenditure side, the successive depreciations and the opening of Window 2 have had an enormous impact on the shilling costs of import and service transactions, including payments of debts which have been accumulating over the years, and have involved substantial foreign exchange losses on arrears. In addition, the shift from controlled prices to market prices increased government expenditure substantially. On the revenue side, the freeing of prices, which increased the tax base enormously, the replacement of specific tax rates with ad valorem rates, the merging of various taxes, and efforts to collect tax arrears have contributed to a considerable increase in receipts.

The budget outcome for 1981/82 represents a substantial turnaround in fiscal performance; the overall deficit fell from 75 per cent of total expenditure in 1980/81 to 35 per cent in 1981/82. Despite weaknesses in tax administration and expenditure control, the various policies adopted under the 1981/82 financial program led to an increase in revenue of about 800 per cent, while the increase in expenditure, after allowing for some accumulation in domestic arrears, was about 230 per cent (Table 4). Revenue from all trade-related (internal and external) taxes increased sharply. Receipts from coffee duty rose from U Sh 0.1 billion to U Sh 6.7 billion. This reflected a variety of factors, including a new tax formula which effectively raised the duty to 100 per cent of coffee receipts after excluding specified payments; the increase in grants passing through the budget was attributable mainly to the depreciation of the shilling. The major factors contributing to the budgeted increase in expenditure were the depreciation of the shilling and the freeing of prices. The Government's decision to increase wage and salary rates by only 25 per cent was a significant factor in restraining expenditure. However, efforts to improve expenditure control were hindered by the lack of administrative capacity. Consequently, the overall budget deficit turned out to be about 50 per cent higher than in 1980/81. However, as a proportion of total expenditure, it declined from 76 per cent in 1980/81 to 36 per cent in 1981/82. Bank financing of the deficit was higher than in the previous year but the rate of increase during 1981/82 fell from 44 per cent in the first half of the year to 14 per cent in the second half.

The Government's strategy in 1982/83 is to strengthen budgetary discipline so as to contain the growth in expenditure while continuing to improve tax administration. The original budget estimate envisaged an increase in revenue of about 80 per cent, reflecting the continuing impact of the measures taken in 1981/82 and those taken in connection with the 1982/83 financial program, particularly the profits from the operation of the dual exchange market. It was estimated that the overall budget deficit would be about the same in absolute terms as in 1981/82 (U Sh 15 billion),

Table 5. Uganda: Budgetary Operations, 1980/81 - 1982/83

(In billions of Uganda shillings)

	1980/81	1981/82 Latest Estimate	1982/83 Preliminary Estimate	1982/83 Revised Estimate
Total receipts	3.3	27.9	45.8	47.8
Revenue	2.7	24.4	44.0	45.6
Income tax	(0.5)	(2.3)	(2.4)	(2.4)
Export tax	(0.1)	(6.7)	(9.8)	(13.1)
Customs duty	(0.6)	(5.2)	(6.2)	(7.1)
Excise duty	(0.1)	(1.8)	(3.0)	(3.0)
Sales tax	(1.3)	(7.5)	(9.5)	(9.3)
Exchange profits	(--)	(--)	(11.0)	(8.5)
Other	(0.1)	(0.9)	(2.2)	(2.2)
Grants	0.6	3.5	1.7	2.2
Total expenditure 1/	13.1	43.0	60.9	60.8
Recurrent	12.0	30.7	39.7	41.3
Wages and salaries	(5.1)	(6.4)	(6.4)	(7.0)
Other recurrent 2/	(6.9)	(24.3)	(33.3)	(34.3)
Development	2.0	7.4	16 6	14.4
Foreign exchange loss on arrears)				
Reduction in external arrears)	--	2.9	1.5	2.0
Uncovered foreign exchange	--	1.2	--	--
Reduction in domestic arrears	--	0.6 3/	3.1	3.1
Adjustment 4/	-0.9	0.2		
Deficit	-9.8	-15.1	-15.1	-13.0
Financing	9.8	15.1	15.1	13.0
External (net)	0.8	1.0	12.6	6.4
Borrowing	(1.0)	(4.5)	(16.0)	(11.1)
Repayments	(-0.2)	(-3.5)	(-3.4)	(-4.7)
Domestic	9.0	14.1	2.5	6.6
Bank	(8.8)	(13.0)	(2.0)	(5.1)
Nonbank	(0.2)	(1.1)	(0.5)	(1.5)

Sources: Ministry of Finance, and staff estimates.

1/ On a cash basis. Does not include accumulation of arrears.
2/ Includes statutory expenditure other than principal payments on external debt.
3/ Payments on account of internal defense debts.
4/ To adjust checks issued (recurrent and development) to a cash basis.

representing a reduction in its ratio to total expenditure from 36 per cent to 25 per cent. However, as a result of developments in the first quarter of the fiscal year and various policy decisions taken subsequently, it is now estimated that the overall budget deficit will decline to about U Sh 13 billion, about 21 per cent of total expenditure.

Bank financing of the deficit will amount to about U Sh 5 billion, compared with an original program estimate of U Sh 2 billion, reflecting an increase in the proportion of domestically financed expenditure (see below). This represents a reduction in the ratio of bank financing to beginning money stock from 62 per cent in 1981/82 to 15 per cent in 1982/83.

Despite the lower exchange profits from the second window, total revenue in the first quarter of fiscal 1982/83 was about 7 per cent higher than anticipated. The principal reason for this performance was the improvement in tax administration, which was reflected in collections of tax arrears of some U Sh 2.3 billion (more than 20 per cent of total collections). Reflecting the measures taken in November 1982 to increase foreign exchange transactions at the second window, exchange profits are now estimated to total U Sh 8.5 billion in 1982/83 (U Sh 1.9 billion in the first half of 1982/83 and U Sh 6.6 billion in the second half). The additional revenue resulting from the increase in petroleum product prices (estimated at about U Sh 2 billion) will more then offset the impact of the selective reduction in customs duties. Export duties on coffee will be about U Sh 3.3 billion higher as a result of the further depreciation of the first window rate. Taking into account these changes, the revised estimate for total revenue in 1982/83 is U Sh 45.6 billion, about 10 per cent higher than originally projected, and 87 per cent higher than in the previous year.

Expenditure control remains the most difficult facet of budgetary policy. Significant progress has been made in controlling expenditure at the disbursement level but insufficient attention has been paid to controlling commitments. During September 1982, in order to remain within the credit ceilings, the Government introduced severe cutbacks in expenditure. As a result of these measures as well as lower expenditure resulting from the slow disbursement of external aid, checks issued for recurrent and development expenditure in the first quarter totalled less than 10 per cent of the budget estimate for the full year, and net credit to Government at end-September 1982 was U Sh 33.6 billion, well below the unadjusted ceiling of U Sh 35.7 billion under the stand-by program.

Regarding the prospects for the remainder of the fiscal year, several factors are generating upward pressures on expenditure. The exchange rate at the second window will be higher than originally anticipated in the program and the range of government transactions at that rate will be greater than expected; the depreciation of the rate at the first window and higher petroleum product prices will also boost expenditure; and the

decision to increase wages and salaries by 20 per cent in the second half of 1982/83 and to export maize to Tanzania in settlement of part of its debt obligations, increased capital contributions to various banks as a precondition for disbursements under the Industrial Rehabilitation Credit, and higher than budgeted IMF charges in the second half of 1983 will also tend to increase expenditure. However, the authorities expect to be able to accommodate the additional expenditure within the original program estimate. In order to attain their objective, the Government is undertaking, with the help of a budget advisor under the Fund's technical assistance program a comprehensive reassessment of the 1982/83 expenditure.

A major factor contributing to the anticipated reduction in the overall budget deficit is the slow disbursement of external aid. This reflects a variety of concerns on the part of donors and implementation difficulties in Uganda. While a substantial strengthening of aid coordination is being undertaken and some acceleration in disbursements is already apparent, for the year as a whole they will be substantially below the original program estimate. This will have serious implications for the two-year Recovery Program.

The budgetary problems facing the Ugandan authorities remain substantial. The harsh across-the-board measures, which have been applied to exert some control over expenditure, highlight the institutional weaknesses which developed during the 1970s and were compounded by the 1979 war. With a view to strengthening the Ministries of Finance and Planning, technical assistance is being provided by the Fund, the World Bank, and the Commonwealth Fund for Technical Cooperation; the operations of the Government's accounts in the Bank of Uganda are being improved with the aid of Fund technical assistance.

It is envisaged that budgetary performance will continue to improve in the medium term as expenditure control mechanisms become more effective and as tax administration improves. At a policy level, the major expenditure issues which need to be addressed relate to expenditure on wages and salaries, security, and parastatals. Wages and salaries of civil servants will have to be increased significantly in real terms in the years ahead if they are to be expected to perform effectively. The 20 per cent increase to be effected in the first half of 1983 is only an initial step in this process. In the medium term increases in wages and salaries may have to come largely from a reduction in the number of civil servants. A report from a Salaries Review Commission established in 1981 and a study of the civil service, the funding of which is being considered by the World Bank, will form the basis of future decisions in this field. Considerable progress has already been made in reducing the share of expenditure of security-related items, but the authorities consider that further improvement in the security situation is a necessary condition for the success of the current economic program. The parastatal subsector has made heavy demands on the budget in recent years and, in other areas, notably those related to trading, poor management has contributed to declining profitability. Parastatals are discussed in some detail in the section below.

On the revenue side, the measures taken to improve the structure of the tax system have been substantial (see RED). Virtually all the major recommendations contained in the 1980 Fund tax report have been implemented. The major issues now confronting the authorities are tax administration, the measures to be taken to replace exchange profits when the exchange rate is unified, and the taxation of exports. The authorities have already made substantial progress in improving tax administration, which is reflected not only in the collection of tax arrears but also in current collections. The recent reductions in customs duty rates are expected to ease tax administration difficulties as an increasing flow of imports is diverted through official channels. The underlying tax base is expanding rapidly and, as the bulk of trade-related tax rates are based on the official (first window) rate, there should be a substantial increase in revenue when the rates are merged. The rates of duty on exports and the commodities subject to duty will be determined partly by the shortfall in revenue following the elimination of exchange profits resulting from the merging of the two exchange rates. Coffee is the only export which is effectively taxed at the moment and the authorities are examining changes in the taxation of coffee designed to encourage improvement in quality. Moreover, in view of the response of other exports to recent exchange rate and pricing developments, the authorities are examining the scope for introducing additional export taxes. Rates of sales tax and excise duty will be kept under close review to ensure that they do not adversely affect production, although such an impact will be minimized by falling unit prices as production increases.

Substantial improvements in the utilization and monitoring of external aid are required. To this end, the authorities have established an Aid Coordination Committee which will, amongst other things, examine all current aid-funded programs and projects to ensure that they are of high priority. In the event that they are not, attempts will be made to redirect the funds into high-priority areas, notably those covered by the two-year Recovery Program. This Committee will also ensure that all promises of aid are followed up and that the domestic counterpart of commodity aid is properly accounted for.

4. The parastatal sector

The parastatal sector expanded substantially in the 1970s putting considerable strain on already weak management resources and creating an additional burden on the budget. Therefore, the authorities intend to reduce the number of parastatals by abolishing some and by either selling others or returning them to their previous owners. Beginning in 1980, a number of former property owners were invited to return to Uganda and take up a 49 per cent interest and management responsibility in enterprises they had previously owned. Most prominent among these were sugar refining, oilseeds, steel and soap. Under the Expropriated Properties Bill, which was enacted in early December 1982, claims on property expropriated during the 1970s will be considered. Once the consequences of this Bill become clearer, the Government expects to undertake a closer examination of the parastatal sector. This examination will be facilitated by the in-depth

economic and financial study of parastatals which is expected to commence early in 1983. The proposal envisages that up to twelve consultants will be engaged in the study.

An area which has been subject to close scrutiny has been that of pricing policy. The freeing of most administered prices in mid-1981 has given parastatals the opportunity to improve their financial position by bringing prices more in line with current costs. Inadequate management has, however, continued to affect adversely the operations of most parastatals. The tariffs of public utilities continue to be determined by the Government and, because of their economic and social significance and their potential demands on the budget, they have been kept under constant review and will be a major focus of the study mentioned above. Tariff increases have been made in the following areas:

	July 1981	January 1982	July 1982	November 1982
	(percentage change)			
Uganda Electricity Board	--	50	50	--
Water and Sewerage Corporation	--	33 1/3	--	--
Uganda Railways	400-500	--	--	100
Posts and Telecommunications	--	200-500	--	--
Uganda Transport Corporation	800-1,000	--	--	--
Uganda Airlines*	--	--	--	40

*In November 1981 excursion tickets were eliminated

The determination of appropriate tariff levels has been made difficult by delays of up to 12 months in billing and by non-payment of bills. The financial study mentioned above will pay close attention to these questions. The World Bank is undertaking more detailed studies on some of the important parastatals, including Posts and Telecommunications, Uganda Electricity Board, and the various agricultural marketing boards. While the major benefits from these measures will be longer-term, it is expected that preliminary reports will influence policy decisions in 1983/84.

Government support for parastatals is also being subjected to closer scrutiny and the conditions for this support are being placed on a more formal basis, through the development of standard agreements covering repayment of principal, interest rate, dividend policy, etc. In submitting

requests for subsidies or loan guarantees for 1982/83, parastatals were required to submit income and expenditure statements and cash flow projections for the year. The response was encouraging and it is intended in future that data will be provided on a more regular basis and that, for the 1983/84 budget, there will be an exercise similar to that undertaken in 1982/83. The Government also intends to pursue its policy of not providing guarantees for more than 75 per cent of any loans extended to parastatals, thus encouraging commercial banks to adopt a more active role in assessing the economic viability of any activity for which a loan request is made. At the same time, the Government recognizes the constraints on bank lending and, as indicated above, will step in where it considers some activity to be essential to the rehabilitation and development of the economy.

5. Money and credit

At the inception of the 1981/82 financial program there was a large amount of excess liquidity in the financial system. At the end of June 1981, the commercial banks' ratio of loans to deposits was only 44 per cent, compared with a maximum permissible ratio of 70 per cent. Owing to the depressed state of the economy, demand for loans from the private sector was very low. About 32 per cent of oustanding loans was allocated to crop finance and 36 per cent to trade and commerce, which financed mainly speculative activities. In the circumstances, the commercial banks had very little incentive to try to attract deposits from the public.

The broad objective of monetary policy during 1981/82 was to facilitate the economic recovery, while dampening the inflationary impact of the depreciation of the shilling. To that end, the monetary authorities increased the cash reserve ratio from 10 per cent to 15 per cent in order to reduce the excess liquidity and to encourage the banks to mobilize a larger amount of savings to finance the resurgence in economic activity. As an accompanying measure, the structure of interest rates was raised. Rates on savings deposits were raised from a minimum of 3 per cent to 5 per cent in June 1981 and to 8 per cent in October 1981, while at the same time rates on time deposits with a minimum maturity of one year were raised from 4 per cent to 5 per cent and 12 per cent. Rates on fixed deposits were made negotiable. Lending rates were raised in October 1981; the rate for agriculture was raised from 8 per cent to 13 per cent; for export and manufacturing from 12 per cent to 14 per cent; and for commerce from 12 per cent to 15 per cent. The bank rate was raised by 2 percentage points to 10 per cent, while increases in the rates on Treasury bills and Government stock ranged between 1.5 percentage points and 4 percentage points to a maximum of 9 per cent. At the same time, the limit on the issues of Treasury bills was raised from U Sh 1.2 billion to U Sh 8 billion.

As part of the financial program, quantitative ceilings were placed on total domestic credit and net credit to Government. The implied target for private sector credit provided for a considerable expansion in such credit to accomodate the additional demand for crop finance resulting from the increase in producer prices and the increased demand for credit arising from the new market-oriented policy and the expected economic recovery. The selective credit policy through which a certain proportion of total credit was allocated to the respective sectors of the economy was not vigorously enforced. Instead, banks were advised to use their discretion in granting credit on the basis of the overall needs of the economy. The implied expansion in broad money in 1981/82, consistent with the balance of payments objective, was to be 91 per cent.

The authorities succeeded in achieving some of their objectives. Time and savings deposits increased by 60 per cent during the year ending June 30, 1982, following the expansion of banking facilities in the rural areas to tap the rising incomes of the coffee and cotton farmers, and the increase in interest rates. Although individual banks continued to be very liquid, the liquidity position of the commercial banking system tightened as the ratio of loans to deposits increased from 44 per cent to 64 per cent. Credit to the private sector increased by 144 per cent (Table 6). Most of the increase went to crop financing, trade and commerce, and manufacturing. The authorities explained that this increase in credit had been achieved despite slower than anticipated disbursements of external assistance and impediments to commercial bank lending, such as inadequate collateral and lack of audited accounts. In accordance with the program's objectives, the actual increase in net credit to Government was limited to 63 per cent and that in total net domestic credit to 82 per cent, which were lower than the proposed ceilings. Broad money increased by 63 per cent, somewhat lower than originally envisaged.

The principal objective of monetary and credit policy in 1982/83 is to contain the inflationary pressures which could result from the currency depreciation and the introduction of a dual exchange rate system, while meeting reasonable credit needs of the productive sectors. It is important especially to provide adequate credit to the private sector for crop financing and to finance imports associated with the Recovery Program. Initially, the 1982/83 financial program provided for an increase in targeted total net domestic credit of 33 per cent and net credit to Government of 6 per cent. During the review by the staff, in order to reflect the changed budgetary situation and the increase in the budgetary deficit, the increase in net credit to Government was raised to 16 per cent and total domestic credit to 36 per cent. This compares with increases of 63 per cent for net credit to government and 82 per cent for total domestic credit in 1981/82. The revised figure for total domestic credit in 1982/83 would be consistent with an increase in broad money of 19 per cent and the balance

Table 6. Uganda: Monetary Survey, June 1980-June 1983

(In billions of Uganda Shilings)

	1980		1981				1982				1983		1982/81	1982/83
	June	Dec.	March	June	Sept.	Dec.	March	June	Sept.	Dec.	March	June	June per cent charge	June per cent charge
1. Foreign asets (net)	-0 1	-0.4	-0.3	-5.3	-9.0	-14.6	-13.7	-18.0	-20.2	-24.3	-24.8	-29.2		
Monetary authorities	-0.2	-0.5	-0.3	-5.7	-9.7	-15.5	-14.3	-18.9	-21.1	-25.3	-25.8	-30.3		
Commercial banks	0.1	0.1	--	0.4	0.7	0.9	0.6	0.9	0.9	1.0	1.0	0.9		
2. Domestic credit	16.4	20.8	22.4	26.5	34.4	40.8	43.5	48.2	52.5	62.6 2/	64.2 2/	65.5 3/	81.9	35.9
Claims on government (net)	11.3	14.9	16.3	20.4	25.9	29.3	29.9	33.3	33.6	36.0 2/	38.0 2/	38.5 3/	63.2	15.6
Claims on private sector	5.1	5.9	6.1	6.1	8.5	11.5	13.6	14.9	14.9	26.6	26.2	27.0	144.3	81.2
3. Broad money (M2)	13.9	17.4	18.4	20.9	29.3	32.7	34.0	34.0	36.4	42.6	43.7	40.6	62.7	19.4
Money (M1)	10.2	12.9	13.5	15.9	23.5	26.5	26.3	26.0	27.1	...	...	...	63.5	...
Quasi-money	3.7	4.5	4.9	5.0	5.8	6.2	7.7	8.0	9.3	...	...	...	60.0	...
4. Other items (net)	2.4	3.0	3.7	0.3	-3.9	-6.5	-4.2	-3.8	-4.1	-3.8	-4.3	-4.5		

Sources: Data provided by the Bank of Uganda; and staff estimates.

1/ Staff projections.
2/ Ceilings.
3/ Indicative ceilings.

of payments and GDP objectives. In addition to the quantitative ceilings, the monetary authorities raised lending rates for agriculture and for export and manufacturing by 1 percentage point to 15 per cent in June 1982. Rates for commerce and for unsecured loans which were 16 per cent and 17 per cent, respectively, were allowed to float up to a maximum of 20 per cent in November 1982. At the same time, in order to increase sales of Treasury bills to the non-bank public and raise the proportion of non-bank financing of the budget deficit, the rates on Treasury bills were raised by an average of 2.5 percentage points, to a maximum of 12 per cent.

Interest rates on deposits have not been increased since June 1981. In explaining their reluctance to raise deposit rates further, the Ugandan authorities argued that interest rate adjustments since June 1981 had brought the level of interest rates broadly in line with the rate of inflation (11 per cent) during the period July 1981 to end-June 1982. They added that, until certain institutional difficulties were resolved, increases in interest rates would not have a significant impact on savings mobilization. Although some commercial banks with branches in the rural areas had succeeded in mobilizing additional time and savings deposits, other banks were hesitant to expand their activities in those areas because of increased costs of administration, allowance for bad debts, and losses from fraudulent practices. The banks contended that the increase in costs would more than offset their profits from the use of the additional resources. In the circumstances, the authorities did not propose to raise interest rates further at this time, but would continue to encourage the banks to expand their mobile banking facilities. In the event of an excessive tightening of commercial bank liquidity, the Bank of Uganda will rediscount crop finance paper from the commercial banks.

The data for the third quarter of 1982 indicate that monetary and credit restraint measures have been successful. Domestic credit expanded by 9 per cent, compared with an increase of 30 per cent in the corresponding period in 1981. Nearly the entire increase went to the private sector, most of which was for crop-financing, trade and commerce, and manufacturing. Net foreign assets continued to decline, though not as sharply as in 1981, and broad money grew by only 6 per cent compared with an increase of 40 per cent in the corresponding period in 1981.

The monetary authorities said that considerable progress had been made in the updating and presentation of the Government accounts. This would enable them to monitor more closely credit to Government and avoid the repetition of the sudden drastic measures to curtail expenditure which had occurred in the second and third quarters of 1982. With respect to credit to the private sector, they anticipated a sharp increase in the second half of 1982 to finance the larger 1982/83 cotton crop and additional imports purchased through Window 2 and through the Second IDA Reconstruction Credit. They expected some progress in the removal of institutional obstacles

to commercial bank lending. For example, the undertaking by the Coffee Marketing Board (CMB) to guarantee commercial banks' loans to the cooperatives should facilitate the flow of crop finance for the marketing of export crops. In the past, lending to industry has been impeded by the uncertainty regarding the ownership of companies, the need to revalue their assets to reflect the depreciation of the shilling, and the consequent lack of adequate collateral. The revaluation of companies assets to take account of the exchange rate float was proceeding slowly, while the Expropriated Properties Act should help to resolve the problem of ownership. These steps are expected to facilitate lending to the industrial sector. The measures recently taken to expand the operations at the second window together with the raising of the lending rates should result in an expansion in commercial bank credit for trade and commerce.

The Ugandan Government is also taking steps to increase the flow of financial resources into priority projects in accordance with the objectives of the Recovery Program. To that end, the share capital of the Uganda Development Bank has been increased and its role is being expanded to channel loans from the IBRD, EEC, ADB, the European Investment Bank, and other bilateral donors into the industrial and agricultural sectors. Although most of the external loans are allocated directly to specific projects,which are mainly determined by donors' preferences, the Government is trying to give priority to industries which use local raw materials as inputs. Such industries include the tannery at Jinja, the Hima cement factory, and edible oil factories.

6. Balance of payments

During the period between the international coffee price boom in 1977 and the implementation of the 1981/82 financial program, Uganda experienced a sharp deterioration in its balance of payments position. By 1980, the volume of exports had contracted to one-half of the level recorded in 1972, while the share of coffee in total exports nearly doubled over this period to 99 per cent. The chronic shortage of foreign exchange, which was further exacerbated by rising oil payments and a growing debt service burden, led to a sharp contraction in the volume of imports and to the accumulation of substantial arrears.

The action taken with regard to the exchange rate and producer and petroleum prices, in conjunction with other policy initiatives adopted in the context of the 1981/82 financial program, contributed significantly to easing Uganda's balance of payments pressures. Despite a decline in export prices of over 10 per cent, the value of exports rose by 38 per cent during the 12-month period ended June 1982 (Table 7). The financial program also facilitated the mobilization of additional external assistance. In particular, Uganda benefitted from an additional US$30 million balance

Table 7. Uganda: Balance of Payments, 1980/81-1982/83 1/

(In millions of U.S. dollars)

	1980/81 Est.	1981/82 Prov.	1982/83 Prog. Proj.	1982/83 Rev. Proj.
A. Trade balance	-209	-136	-227	-207
Exports, f.o.b.	213	294	365	348
Imports, c.i.f.	-422	-430	-592	-555
B. Services (net)	-83	-75	-116	-98
C. Unrequited transfers	65	80	129	104
D. Current account (A+B+C)	-227	-131	-214	-201
E. Debt cancellation	7	69	3	--
F. Capital account (net)	81	-38	176	167
Official inflows	118	168	259	260
Of which: rescheduling 2/	(--)	(95)	(80)	(88)
Official outflows	-94	-177	-95	-89
Principal payments 3/	(-87)	(-100)	(-46)	(-49)
Principal rescheduled	(--)	(-32)	(-49)	(-40)
Principal cancelled	(-7)	(-45)	(--)	(--)
Private (net) 4/	57	-29	12	-4
G. SDR allocation	7	--	--	--
H. Overall balance (D+E+F+G)	-132	-100	-35	-34
I. Financing	132	100	35	34
External arrears 5/	91	-40	-50	-63
Monetary authorities 5/	41	140	85	97
Change in gross reserves	(-54)	(63)	(-20)	(-7)
IMF (net)	(67)	(73)	(119)	(118)
Other (net)	(28)	(4)	(-14)	(-14)
Memorandum item:				
Gross reserves, in weeks of imports	12	5	4	4

Sources: Bank of Uganda; and staff estimates.

1/ 12-month period, July-June.
2/ Rescheduled debt service payments and arrears treated as effective refinancing.
3/ After rescheduling and cancellation.
4/ Includes net errors and omissions.
5/ Minus sign denotes decrease in net liabilities.

of payments support, the cancellation of US$69 million of outstanding debt, and the rescheduling of some US$95 million in debt service payments and arrears. This debt relief permitted a reduction in the debt service ratio (defined to include obligations of the Bank of Uganda) from 51 per cent in 1980/81 to 46 per cent in 1981/82. New aid commitments rose appreciably during 1981/82 with the first IDA reconstruction credit alone amounting to US$95 million. However, Uganda's capacity to quickly absorb external assistance remained limited and the actual utilization of externally-generated resources fell well below expectations. Consequently, the value of imports in dollar terms rose only slightly in 1981/82, and fell in real terms by about 6 per cent. This, together with the revival in export performance, accounted for a reduction of one-half in the current account deficit to US$131 million, approximately US$100 million less than previously anticipated.

Despite a turnaround in the capital account from a surplus of US$81 million in 1980/81 to a deficit of US$38 million in 1981/82, the overall balance of payments deficit narrowed to US$100 million during the 12-month period ended June 1982. The considerable improvement in performance over the previous year was largely attributable to a sharp reduction in the current account deficit. After a reduction in external arrears of US$40 million, the deficit was covered by net purchases from the Fund and a decumulation in gross foreign reserves to a level equivalent to five weeks of merchandise imports.

At the end of June 1982, Uganda's external public medium- and long-term public debt (disbursed) totalled US$574 million, of which 41 per cent and 32 per cent represented obligations to foreign governments and multilateral agencies, respectively. Reflecting the cancellation of debt by the United Kingdom and West Germany and principal payments to Tanzania and Zambia, total debt to foreign governments declined by US$93 million during the 12-month period ended June 1982. The bulk of Uganda's external debt has been contracted on highly concessionary terms; tentative estimates indicate an average interest rate on this debt of around 5 per cent, with an average maturity of approximately 20 years. Largely as a result of rescheduling agreements, Uganda's debt service profile reveals a sharp drop in debt service (including those to the Fund) in 1982/83 to the equivalent of 27 per cent of merchandise exports (Table 8). Thereafter, the debt service ratio is projected on the basis of existing and anticipated commitments to rise to a peak of 34 per cent in 1984/85 before tapering off to around 22 per cent in 1986/87.

At the end of June 1982, the stock of external arrears to Fund members totalled US$164 million, a reduction of US$40 million from end-June 1981. 60 per cent of the amounts outstanding represented overdue payments of principal and interest on official debt and a further 32 per cent arrears on commercial transactions, primarily term letters of credit. The scheme whereby local currency deposits against approved foreign exchange requests

Table 8. Uganda: Projected Debt Service Payments, 1/
1981/82 - 1986/87

(In million of US dollars)

	1981/82 Actual	1982/83	1983/84	1984/85	1985/86	1986/87
Total debt service payments	134	95	108	139	140	116
Official debt	105	54	55	54	46	45
Bank of Uganda debt	29	41	65	107	116	98
Of which: IMF	(15)	(25)	(55)	(107)	(116)	(98)
Memorandum items						
Total debt service ratio 2/	45.5	27.2	29.7	33.8	29.1	21.6
Official debt service 3/	35.7	15.5	13.6	11.3	8.1	6.8

Sources: Bank of Uganda, and staff estimates.

1/ On the basis of existing and anticipated commitments.
2/ As percentage of merchandise exports. Includes IMF and other Bank of Uganda obligations.
3/ As percentage of merchandise exports. Excludes IMF and other Bank of Uganda obligations.

are lodged in frozen accounts in the banking system appears to have operated satisfactorily and has permitted an improvement in the recording of arrears data.

The broad objective of the current financial program (1982/83) with respect to the external sector is to consolidate the gains achieved during 1981/82 and lay the foundation for a sustained improvement in the balance of payments over the medium-term. Specifically, Government policies are designed to promote export growth through greater diversification of the export base, to increase both the flow and the rate of utilization of external aid, to generate sufficient inflows of imports to meet the targets of the Recovery Program, and to accelerate the rate of reduction in external arrears.

In view of Uganda's membership in the International Coffee Organization, the scope for increasing the volume of coffee shipments appears somewhat limited over the medium-term. Uganda was granted a reduced quota for crop year 1982/83 and, as production is likely to exceed the revised quota, the excess may have to be sold at a substantial discount. The authorities are, therefore, anxious to diversify Uganda's export base in order to ensure continued growth in foreign exchange earnings. The depreciated exchange rate at the second window has already produced an increase in non-traditional exports well in excess of expectations, while the lifting of the export ban on a variety of small-holder crops can be expected to provide further support to this trend. The diversification process will also be encouraged by the increased importation of spare parts, raw materials, and capital equipment, which should contribute to an improvement in both the quality and quantity of non-coffee exports, particularly cotton and tea. Consequently, although coffee exports are expected to rise by only 7 per cent in 1982/83, the increase in total exports is projected at 18 per cent. This would reduce the share of coffee in total exports from 97 per cent to 90 per cent.

The authorities acknowledge that domestic resources will, for some time, be insufficient to finance the rehabilitation effort. Accordingly, they are intensifying their efforts to mobilize external assistance in the form of grants, concessional loans, and debt relief. The recently established interministerial Aid Coordination Committee should play a major role in that area. With regard to debt relief, Uganda has negotiated with Tanzania the postponement of approximately US$30 million in debt repayments due during 1982/83. These arrangements also provide for cash payments amounting to US$6 million for the year, supplemented with shipments of maize valued at nearly US$8 million. In December 1982 Uganda successfully obtained, within the framework of the Paris Club, a rescheduling of maturities due in 1982/83 amounting to about US$10 million; the agreement also contains provision for a rescheduling of 1983/84 maturities subject to the fullfilment of conditions, including the continuation of a program with the Fund,

as stipulated under a "goodwill clause." In addition, some US$36 million in overdue suppliers' credits were rescheduled between August and November 1982 and the authorities are confident of rescheduling at least a further US$12 million in arrears by the end of the program period.

The projections for export growth and foreign aid suggest that more resources will be available, once Uganda's fixed commitments (debt service and arrears payments) have been met, to finance Uganda's critical import needs during 1982/83. The program envisages a rise in imports against cash payments of nearly 30 per cent and, as an indication of the improved cash flow position, it is anticipated that approximately 42 per cent of non-oil imports will be financed through direct cash payments, compared with 33 per cent the previous year (Table 9). The authorities have terminated the practice of purchasing imports directly in exchange for coffee under barter contracts; in 1981/82 over 10 per cent of total imports were financed under such arrangements.

The full impact on export diversification and import substitution of the measures implemented in 1982/83 will not be felt for some time. Accordingly, in view of the strong growth projected for imports through direct cash payments and the fact that most of the external assistance to Uganda will be provided in the form of concessional loans linked to imports, the deficit on current account is expected to widen to US$201 million in 1982/83. However, reflecting the success of the second window in attracting invisible receipts, this deficit is somewhat smaller than previously projected. The program's original target with respect to the overall balance of payments deficit for 1982/83 remains virtually unchanged at US$34 million; a modest accumulation of reserves is projected.

Between June and September 1982, Uganda liquidated on a cash basis US$11 million in external arrears, well in excess of that required under the program. During the program period as a whole, the authorities intend to reduce arrears through cash payments by a total of US$15 million; including to the amounts rescheduled, this implies an overall reduction of US$63 million. This target is consistent with the objective of eliminating all arrears incurred against Fund members by the end of 1984/85.

Uganda's balance of payments situation is expected to improve considerably in the medium-term. Investment and accompanying policies undertaken in the context of the financial programs and the Recovery Program are expected to begin to have a major impact on production and export by 1984/85. Although coffee export earnings are projected to increase only moderately in the next few years, growth in non-coffee exports are expected to increase substantially. This should permit an average increase in total exports of over 15 per cent during the three-year period ending 1984/85. Despite the current economic climate in the donor countries, commodity-tied aid inflows are expected to be maintained at their present

Table 9. Uganda: Foreign Exchange Cash Flow, 1981/82-1982/83

(In millions of U.S. dollars)

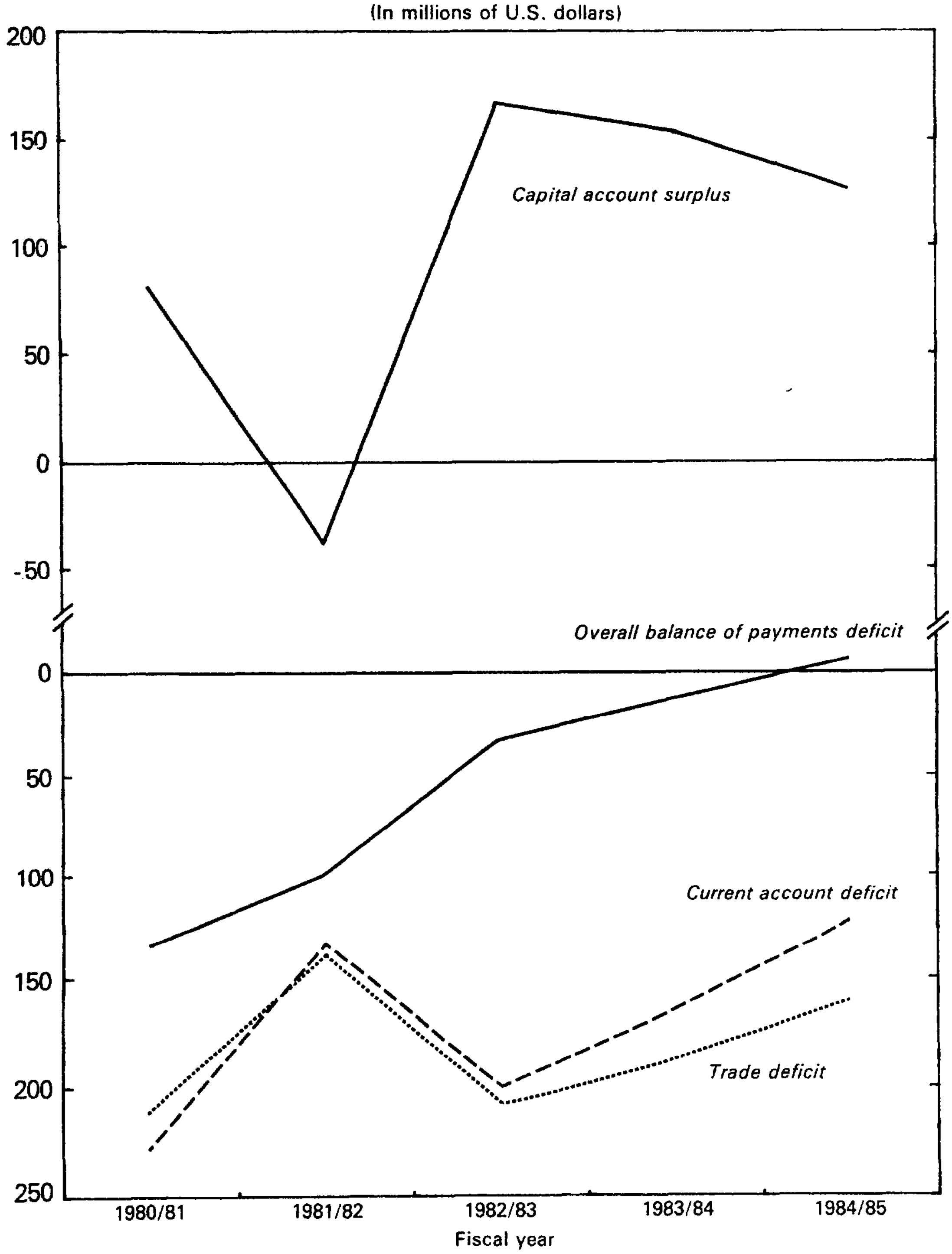
	1981/82 1/	1982 Q3 2/	1982 Q4	1983 Q1	1983 Q2	Total
A. Inflows	435.1	118.8	124.9	100.0	126.9	470.6
1. Window one	...	116.3	117.4	93.0	120.9	447.6
Exports 3/	218.0	(73.1)	(103.1)	(65.0)	(79.1)	(320.3)
Services	15.3	(1.9)	(0.5)	(0.5)	(0.5)	(3.4)
BOU loans	189.9	(41.3)	(13.8)	(27.5)	(41.3)	(123.9)
Official loans/grants	11.9	(--)	(--)	(--)	(--)	(--)
2. Window two	...	2.5	7.5	7.0	6.0	23.0
Exports	...	(0.7)	(3.5)	(3.5)	(3.0)	(10.7)
Services	...	(1.8)	(4.0)	(3.5)	(3.0)	(12.3)
B. Outflows	396.2	95.6	120.2	126.0	127.9	469.7
1. Window one	...	92.1	99.7	94.0	90.9	376.7
Oil 4/	143.0	(16.2)	(38.0)	(24.0)	(26.0)	(104.2)
Official debt service	39.0	(12.6)	(10.3)	(8.3)	(11.0)	(42.2)
BOU debt service	24.4	(10.3)	(7.6)	(13.0)	(10.9)	(41.8)
Arrears/trade credits	20.1	(31.8)	(1.0)	(2.0)	(1.0)	(35.8)
Imports	112.4	(14.5)	(36.3)	(40.7)	(36.0)	(127.5)
Services 5/	57.3	(16.7)	(6.5)	(6.0)	(6.0)	(25.2)
2. Window two	...	3.5	20.5	32.0	37.0	93.0
Imports	...	(1.1)	(10.5)	(23.0)	(25.0)	(59.6)
Services	...	(2.4)	(10.0)	(9.0)	(12.0)	(33.4)
C. Net inflows (A - B)	38.9	23.2	4.7	-26.0	-1.0	0.9
Financed by 1. Official reserves	39.6	25.3	8.7	-26.0	-1.0	7.0
2. Other 6/	-0.7	-2.1	-4.0	--	--	-6.1

Source: Bank of Uganda; and staff projections.

1/ 13-month period, June 1981-June 1982.
2/ All transactions conducted prior to introduction of dual market on August 27, 1982 treated as window one items.
3/ Uncomitted proceeds (total earnings less amounts earmarked to meet debt repayments); hence excludes coffee exported under barter contracts.
4/ Includes credit and arrears payments.
5/ Covers certain trade-related payments.
6/ Change in commercial bank net reserves and, for Q3, 1982, statistical discrepancy.

CHART 1
UGANDA
BALANCE OF PAYMENTS COMPONENTS, 1980/81-1984/85

(In millions of U.S. dollars)



Source: Bank of Uganda; and staff estimates.

high level since a substantial volume of committed funds has not yet been disbursed. These considerations suggest an average annual rate of import growth between 1981/82 and 1984/85 in the region of 14 per cent in nominal terms, or about 7 per cent in real terms (broadly in line with the anticipated growth in real income). The current account deficit should narrow considerably over the medium-term as domestically-generated resources from exports and invisible transactions gradually replace concessional loans as the major source of import financing (Chart 1). Assuming no further rescheduling of debt service payments, apart from that obtained within the framework of the Paris Club, the capital account surplus is projected to decline moderately, despite renewed inflows of private capital associated with the Expropriated Properties Act and other policies aimed at increasing foreign investment in Uganda. As a result of these developments, Uganda's overall balance of payments is expected to move into a small surplus position by 1984/85.

Foreign exchange restrictions exist on travel and all remittances except profit, dividend and interest payments. In addition, arrears remain outstanding on current transactions. These restrictions required Fund approval under Article VIII. Since the last consultation in 1979, Uganda has not introduced any new restrictions on payments or transfers for current international transactions. Existing restrictions were relaxed in August 1982 at the time of the introduction of the dual exchange market. The authorities have agreed to a schedule for the elimination of all outstanding arrears. The establishment of the dual exchange market involved a multiple currency practice, for which temporary approval was granted by the Executive Board in August 1982. Uganda maintains no bilateral payments agreements.

IV. Performance Under Stand-By Arrangement

Uganda's performance under the 1981/82 program was analyzed in detail in EBS/82/125. With the exception of the budget, all the principal objectives of the program were realised and all the performance criteria were observed (Table 10).

On the basis of information for the first three months of the program period, the current program (1982/83) appears to be on track. The deficits in the government budget and in the external current account are now projected to be somewhat smaller than the original program estimates. All performance criteria applicable on September 30, 1982, other than the minimum amount of foreign exchange to be sold by the Bank of Uganda at the second window, were observed. Subsequently, the Executive Board approved a waiver of the performance criterion and modification of the sales requirement from a minimum of US$8 million per week to a cumulative minimum of US$24 million to be sold before end-December 1982. 1/ Actual net domestic credit

1/ EBS/82/196 (10/22/82) and Supplement 1 (11/15/82).

Table 10. Uganda: Indicator of Performance Under the Program,

September 1981 - June 1983

	1981/82 Program	1981/82 Actual	1982/83 Program	1982/83 Current Estimate
	(Annual percentage changes)			
Real GDP	9-10	10	10	10
GDP deflator	40	73	25	25
	(In per cent of GDP)			
Government budget				
Overall deficit	2.6	3.2	2.3	2.0
Domestic bank financing	1.5	2.6	0.4	1.0
	(In millions of U.S. dollars)			
Balance of payments				
Current account deficit	232.0	140.0	214.0	201.0
Overall deficit	142.0	100.0	35.0	34.0
Debt service ratio (In per cent of inputs of goods and services)	47.0	45.5	22.3	27.2

	1981/82								1982/83							
	Sept.		Dec.		Mar.		June		Sept.		Dec.		Mar.		June	
	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog. 1/	Act.	Prog.	Act.	Prog	Act.	Prog	Act.	Prog. 1/	Act.
	(In billions of U Sh)															
Ceiling on net domestic credit	34.8	34.4		40.8	46.9	43.5	51.6	48.2	57.9	52.5	62.6	...	64.2	...	65.5	...
Ceiling on net credit to Government 2/	27.2	25.9		29.3	31.0	29.9	33.7	33.3	36.0	33.6	36.0	...	38.0	...	38.5	...
	(In millions of SDRs)															
Net external borrowing 3/																
1-12 years maturities	70.0	...	70.0	...	70.0	--	80.0	--	120.0	--	120.0	...	120.0	...	150.0	...
1-5 years maturities 4/	30.0	...	30.0	...	30.0	--	30.0	--	50.0	--	50.0	...	50.0	...	60.0	...
Net reduction in arrears 5/	11.0	21.2	...	21.1	1.0	4.3	3.0	-20.2	...	...	...	...	...	...	...	...
	(In millions of U.S. dollars)															
Net reduction in arrears 3/	...	...	...	...	...	...	...	...	5.5 7/	22.8 8/	11.0 7/	...	12.0 9/	...	15.0 9/	...
Sales at second window 3/	...	...	...	...	...	...	...	...	10.0	3.7	24.0	...	53.0	...	88.0	...

Source: Data provided by the Ugandan authorities.

1/ Indicative ceilings.
2/ The ceiling for March 31, 1983 will be reduced (raised) by the excess (shortfall) of the cumulative gross deposits lodged by the private sector under the IDA credit arrangement in the project account of the Treasury over (under) U Sh 4.4 billion during the three quarters ending March 31, 1983, and will be reduced (raised) by 70 per cent of the excess (shortfall) of cumulative profits from the operation of the second window since July 1, 1982 above (below) the projected U Sh 5.2 billion. Similarly, the indicative ceiling for June 30, 1983 will be reduced (raised) by the excess (shortfall) of cumulative gross deposits lodged by the private sector over (under) U Sh 5.7 billion during the year ending June 30, 1983, and will be reduced (raised) by 70 per cent of the excess (shortfall) of the cumulative profits from the operation of the second window since July 1, 1982 above (below) the projected U Sh 8.5 billion.
3/ Cumulative.
4/ Of which no more than SDR 20 million of maturities within the range of one to five years will carry an interest rate equal to or in excess of LIBOR.
5/ Quarterly reduction through cash payments and rescheduling.
6/ Cumulative net reductions in arrears from July 1, 1982.
7/ Of which half through cash payments.
8/ Of which US$ 11.2 million through cash payments.
9/ Through cash payments only.

and net credit to government were substantially below the September 30, 1982 ceilings. A major reason was that net domestic credit for the base date (end-June 1982) had been overestimated by U Sh 3.3 billion and, in addition, there were sharp cutbacks in expenditure and continuing impediments to commercial bank lending as described above. The reduction in arrears in the period July 1 to September 30 1982 amounted to SDR 20 million, of which SDR 10 million was through cash payments. The latter was well in excess of the SDR 5.5 million required. There was no new external borrowing on commercial terms during the third quarter of 1982.

With the exception of the performance criterion relating to the minimum sales of foreign exchange at the second window by the Bank of Uganda, there were no changes in the performance criteria applicable on December 31, 1982.

Quantitative performance criteria for the second half of the program period are summarized in Table 10.

Staff Appraisal and Proposed Decisions

After a decade of prosperity, the economic and financial situation of Uganda deteriorated rapidly in the seventies. The effects of economic mismanagement and expansionary fiscal and monetary policies were aggravated by the devastation of the 1979 liberation war and the ensuing insecurity. By December 1980, when the present Government took office, real GDP was lower than in 1971. There was a sharp reduction in investment, coupled with rampant inflation and a thriving parallel market. Although external restrictions were intensified, the balance of payments situation had deteriorated and external arrears had been accumulated.

Beginning mid-1981, the Government introduced a series of bold measures to improve production incentives, correct price distortions and curb inflation in the context of two consecutive financial programs (1981/82 and 1982/83). The Uganda shilling was allowed to float which led to an initial depreciation of the exchange rate of about 90 per cent. After a period of experimentation, which involved several adjustments in the rate, in August 1982 a dual exchange arrangement was introduced as a temporary measure. The new arrangement appears to have resulted in a more efficient allocation of foreign exchange and to have succeeded in containing parallel market activities. In the initial phase of its operation, sales at the second window fell short of the amount required under the 1982/83 program and the Executive Board approved a waiver for September and a modification for December of the performance criterion for sales of exchange at the second window. Subsequently, measures were introduced in November which improved the operations of the second window, while adjustments in the first window rate have helped to narrow the margin between the two rates. The staff believes that the exchange rate measures taken so far are in the right direction, and welcomes the intention of the authorities to unify the exchange rates during the course of the 1983/84 fiscal year at a level which fully reflects the prevailing scarcity of foreign exchange. In the meantime, the authorities should keep the system under review and progressively shift transactions from Window 1 to Window 2.

Producer pricing policy, so far, has been satisfactory. The increase in minimum producer prices, in conjunction with the exchange rate and other measures, led to a significant increase in agricultural production and a noticeable diversion of supplies back into official channels. Uganda was able to fulfill its coffee quota for the coffee year ended September 1982, which was 45 per cent larger than in 1980/81. Cotton, tea, and tobacco production rose significantly in 1981/82 and is expected to increase further in 1982/83. Industrial production has also increased markedly and the improvement in transportation facilities is expected to facilitate production and marketing. Producer prices for the next crop year will need to be reviewed in the light of movements in the exchange rate, domestic price increases and the reduction in Uganda's 1982/83 coffee quota.

The rate of inflation has been reduced. Prices rose sharply in June 1981 after the initial depreciation, the freeing of prices and other

acompanying measures but increased only moderately thereafter. Budgetary performance has improved, but further improvements would require continuing strengthening of the expenditure control machinery and of tax administration. The balance of payments situation has also improved and is expected to improve further.

Restrictive fiscal and credit policies, particularly during 1982, have helped to curb inflationary pressures arising from the depreciation of the shilling. Interest rates have already been raised substantially during the past year and are now broadly in line with the rate of inflation during the period July 1981 to end-June 1982. Moreover, there have been institutional impediments to commercial bank lending which have discouraged the banks from intensifying their efforts to mobilize savings. The authorities should continue to keep interest rate policy under review. Also, in the event of excessive tightening of the liquidity situation, the Bank of Uganda should be prepared to discount crop finance paper to enable the commercial banks to increase their lending.

The balance of payments situation, which improved in 1981/82, is expected to show considerable further improvement in 1982/83. Although coffee exports are expected to rise by only 7 per cent in 1982/83, total exports are projected to increase by 18 per cent, mainly on account of increases in exports of cotton and tea. However, as imports are expected to rise by nearly 30 per cent, the current account deficit is expected to widen by US$70 million in 1982/83. The capital account is projected to shift from a deficit in 1981/82 to a considerable surplus in 1982/83. Uganda has benefited from rescheduling of debt repayments due in 1982/83. As a result, debt service payments in 1982/83 are expected to decline to the equivalent of 27 per cent of merchandise exports. This ratio is expected to decline to 22 per cent in 1986/87.

Uganda's economic prospects in the medium-term depend largely on the successful implementation of the Recovery Program, the continuation of active exchange rate and pricing policies and prudent monetary and fiscal policies. Investment on the basis of the priorities set forth in the Recovery Program, which has been supported by the World Bank, should lead to a greater diversification of exports and an expansion in industrial capacity, particularly in import substituting industries. The current account deficit is expected to narrow considerably as domestically-generated resources from exports and invisible transactions gradually replace concessional loans as the major source of import financing. As a result, Uganda should attain a small surplus in its balance of payments in the medium term. Specifically, in light of prospective trends for exports and foreign aid inflows, the staff regards the growth rate projected for imports as sustainable and consistent with the continued recovery of the economy.

Improvements in budgetary performance will require strengthening of tax administration and expenditure control. Although the progressive depreciation of the official exchange rate will expand the revenue base, there may be a need for other sources of revenue to replace the

exchange profits tax and the authorities are committed to anticipate and implement such revenue measures as may be required. The expenditure control machinery should be improved and expenditure on wages and salaries of civil servants rationalized; expenditure on security-related items, and transfers to parastatals should be closely monitored with a view to achieving further economies. Moreover, greater emphasis should be placed on monitoring external aid and ensuring that use of such aid is accelerated and directed to the high priority areas indicated in the Recovery Program.

The continuation of the favorable trends described above will depend to a large extent on the success of the authorities in improving their managerial, administrative, and technical efficiency. The international institutions and bilateral donors have so far provided crucial technical assistance in selected areas. The authorities must intensify their efforts to increase these much-needed skills.

Uganda maintains restrictions on payments and transfers for current international transactions, including external arrears. No new restrictions have been introduced since the last consultation but existing restrictions were relaxed in August 1982, when the dual exchange market was introduced. The staff welcomes this liberalization of the exchange control regime as an essential element in the exchange rate reunification process. It recommends approval of the exchange restrictions, including payments arrears, and the multiple currency practice, until end-October 1983, by which date it is the intention of the Ugandan authorities that a new stand-by arrangement for 1983/84 would have been considered by the Executive Board.

The staff considers that the additional economic and financial measures described in the letter of intent and in the attached memorandum (contained in Appendix II) constitute an adequate effort on the part of the Government of Uganda to achieve the objectives of the program. The staff believes that the Government is firmly committed to implementing the measures outlined in the program and will be ready to implement further measures which might be required for the success of the program. The following decisions are proposed for adoption by the Executive Board:

Article IV Consultation

1. The Fund takes this decision relating to Uganda's exchange measures subject to Article VIII, Sections 2(a) and 3, and in concluding the 1982 Article XIV consultation with Uganda, in the light of the 1982 Article IV consultation with Uganda conducted under Decision No. 5392 - (77/63), adopted April 29, 1977 ("Surveillance over Exchange Rate Policies").

2. As described in EBS/83/5 Uganda maintains exchange restrictions on payments and transfers for current international transactions including payments arrears, and a multiple currency practice, all of which are subject to approval under Article VIII, Section 2(a) and 3, respectively. The Fund welcomes the schedule for the elimination of payments arrears presented by the authorities and the intention of the authorities to eliminate the multiple currency practice as soon as possible. In the meantime, the Fund grants approval until October 31, 1983, of the retention by Uganda of the exchange restrictions on payments and transfers for current international transactions and of the multiple currency practice involved in the application of dual exchange arangements by Uganda.

Review Under Stand-By Arrangement

1. Uganda has consulted the Fund in accordance with paragraph 4(b) of the Stand-by Arrangement for Uganda (EBS/82/125, Supplement 1 and EBS/82/196, Supplement 1) and paragraph 2 of the letter of May 13, 1982 attached to the stand-by arrangement, in order to review the progress made in the context of the program and reach understandings with the Fund on suitable performance criteria in light of paragraph 35(g) of the Memorandum attached to the letter of May 13, 1982.

2. The letter of November 6, 1982, from the President and Minister of Finance setting forth the economic and financial policies which Uganda will pursue during 1982/83, together with attached Memorandum for Economic and Financial Policies for 1982/83, shall be annexed to the stand-by arrangement for Uganda and the letter dated May 13, 1982, together with attached Memorandum thereto, shall be read as modified and supplemented by the letter of November 6, 1982.

3. Accordingly, Uganda will not make purchases under the stand-by 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 holdings of that currency resulting from purchases of borrowed resources beyond 12.5 per cent of quota, during any period in which any of the performance criteria set out in paragraph 31(a), (b), (c) and (e) of the Memorandum attached to the letter of November 6, 1982, is not observed, or if at any time the performance criterion set out in paragraph 31(d) of that Memorandum, is not observed. Moreover, the references in paragraph 4(e) of the stand-by arrangement for Uganda to paragraphs 35(e) and to paragraphs 10 through 15 of the Memorandum attached to the letter dated May 13, 1982, shall be changed to references to paragraphs 31(e) and to paragraphs 2 through 5, respectively, of the Memorandum attached to the letter dated November 6, 1982.

Relations with the Fund
(As of November 30, 1982)

IMF data

Date of membership:	September 27, 1963
Quota:	SDR 75 million
Intervention currency and the rate:	U.S. dollar: US$1 - U Sh 99.4
Local currency/SDR equivalent:	U Sh 100.6
Fund holdings of local currency:	SDR 302.40 million (403.20 per cent of quota)
Of which: CFF	SDR 74.38 million (99.17 cent of quota)
Enlarged access under stand-by	SDR 81.54 million (108.72 per cent of quota)
Credit tranches (including SBA)	SDR 75.00 million (100.00 per cent of quota)
SDR position:	SDR 29.4 million
Trust Fund loan disbursement: (second period)	SDR 22.5 million
Direct distribution of pofits from gold sales:	US$6.36 million
Gold distribution: (Four distributions)	34.232.819 fine ounces

Table II. Uganda: IBRD Loans and IDA Credits by Sector

(As of October 31, 1982; in millions of U.S. Dollars)

	Total 1/			Disbursed			Undisbursed		
	Total	IBRD	IDA	Total	IBRD	IDA	Total	IBRD	IDA
Agriculture	10.40	--	10.40	11.07	--	11.07	--	--	--
Education	17.30	--	17.30	18.56	--	18.56	--	--	--
Water supply	8.0	--	8.0	1.2	--	1.2	6.8	--	6.8
Roads	16.60	--	16.60	18.40	--	18.40	--	--	--
Power	8.4	8.4	--	8.4	8.4	8.4	--	--	--
Industry	39.0	--	39.0	--	--	--	39.0	--	39.0
Reconstruction 2/	142.5	--	142.5	49.35	--	49.35	93.15	--	39.0
Technical assistance	8.0	--	8.0	0.2	--	0.2	7.8	--	7.8
Total	250.2	8.4	241.8	107.18	8.4	98.78	146.75	--	146.75

Source: Data provided by the World Bank

1/ Total amounts may differ from the sum of disbursed and undisbursed due to exchange rate adjustments.

2/ Includes one bilateral credit administered by IDA.

Table I. Uganda: Selected Economic and Financial Indicators, 1980-81-82/83

	1980/81	1981/82 1/		1982/83	
	Actual	Program	Estimate	Program	Estimate
	(Annual per cent changes, unless otherwise specified)				
National income and prices					
GDP at constant prices	-8.4	9-10	10	10	10
GDP deflator	96	40	73	25	25
Consumer prices	104	50	76	25	25
External sector (on the basis of SDRs or U.S. dollars)					
Exports, f.o.b.	-30	62	38	24	18
Imports, c.i.f.	-16	33	12	38	29
Non-oil imports, c.i.f.	...	...	14	48	37
Export volume	-11	60	64	26	-5
Import volume	-24	25	-7	20	13
Terms of trade (deterioration -)	-29	-5	-19	-8	16
Nominal effective exchange rate (depreciation -)	-28	...	-86	...	...
Real effective exchange rate (depreciation -)	9	...	-76	...	...
Government Budget					
Revenue (excluding grants)	-28	802 2/	793 2/	80	87
Revenue (including grants)	-15	732 2/	794 2/	64	71
Total expenditure	64	155	228	41	41
Money and Credit					
Domestic credit	62	...	82	33	36
Government	81	...	63	6	16
Private sector	20	...	144	79	81
Money and quasi-money (M2)	50	...	62	23	19
Velocity (GDP relative to M2)	27	...	13	2	13
Interest rate (annual rate, one year savings deposit)	6	...	12	13	13
	(In per cent of GDP) 3/				
Central Government budget deficit	4.3	2.6	3.2	2.3	2.0
Domestic bank financing	3.9	1.5	2.6	0.4	1.0
Foreign financing (net)	0.3	1.0	0.3	1.9	1.0
Current account deficit 4/	1.6	4.0	2.2	3.1	3.0
External debt					
Inclusive of use of Fund credit	2.6	...	16.1	12.0	11.0
Debt service ratio 5/	40.0	47.0	45.5	26.0	27.2
Interest Payments 5/	2.0	...	2.0	1.0	1.2
	(In millions of U.S. dollars)				
Overall balance of payments 6/	-129	-142	-100	-35	-34
External payments arrears (at end of period)	204 7/	160	164	73	101

1/ Converted to 12-month basis.
2/ The revenue outcome for 1981/82 is similar to that envisaged in the original program estimates but because the revenue estimate for 1980/81 (the base) is now considerably lower, the estimated percentage increase between the two periods is higher.
3/ The following ratios should be treated with caution owing to the highly tentative nature of the GDP estimates.
4/ Includes grants. Current account deficit reflects severe constraint on foreign exchange availability.
5/ In per cent of exports of goods and services.
6/ Overall balance reflects severe constraint on foreign exchange availability.
7/ End-May 1981.

November 6, 1982

Mr. Jacques de Larosière
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. de Larosière

In my letter to you dated May 13, 1982 and in the Memorandum attached to it, I described the economic and financial policies which my Government undertook to apply in 1982/83 and specified performance criteria for end-September and end-December. All performance criteria applicable at the end of September have been observed with the exception of the minimum amount of foreign exchange sales by the Bank of Uganda at the second window. Sales of foreign exchange have fallen short of target so far, but measures have been taken to increase them and I am confident that the original target set for the entire program year will be exceeded. I, therefore, request that the performance criterion requiring minimum sales of US$8 million for each four week period be waived and that it be replaced by minimum sales of US$24 million by end-December 1982, US$53 million by end-March 1983 and US$88 million by end-June 1983, respectively.

The exceptionally strong measures taken by the Government in the context of the 1981/82 program and the current 1982/83 program have already resulted in substantial financial and economic improvements. Production of all agricultural exports increased in 1981/82 and Uganda was able to fulfill its enlarged export quota for the coffee year ended September 30. Food production and manufacturing output also increased, contributing to a reduction in the rate of inflation, despite the sharp depreciation of the currency in June 1981. The budgetary situation improved as a result of higher revenues and tighter expenditure controls, while the growth in net domestic credit and broad money was sharply curtailed during the first nine months of 1982. The balance of payments situation also improved on account of greater exports and increased external assistance, including the transformation of debt into grants and the rescheduling of debt by the Paris Club creditors. The recent introduction of the dual exchange system is expected to promote non-traditional exports and improve the allocation of foreign exchange.

Despite these considerable improvements, additional measures are needed to strengthen the program, particularly to ensure a more efficient operation of the dual exchange system, to accelerate disbursements of external aid, and to strengthen budgetary discipline. These measures, together with the performance criteria proposed for end-March 1983 and indicative criteria for end-June 1983, are outlined in the attached memorandum on economic and financial policies.

In conclusion, I would like to thank you for the strong support given to the Government of Uganda by the International Monetary Fund and assure you of the continuing commitment of my Government to the success of the 1982/83 financial program.

Yours sincerely

/s/

L. Kibirango
Governor
Bank of Uganda

/s/

A. Milton Obote
President and Minister
of Finance

Memorandum on Economic and Financial Policies for 1982/83

1. As a result of the measures taken since June 1981, production of all export crops has increased substantially and further increases are expected in 1982/83, most notably cotton production is expected to increase at least five-fold. Industrial production has also increased significantly, in particular that of cement, textiles, sugar, beer and cigarettes. Although disbursements of external assistance have been substantially lower than had been originally anticipated, the reduction in external arrears has exceeded the original target. The security situation has imporved markedly, but the purchasing power of fixed income groups has fallen to critical levels. In spite of the sacrifices borne by significant groups of the population, the Government is determined to pursue its rehabilitation effort and to strengthen its recovery program by implementing a series of measures dealing with the exchange rate system, prices, production and marketing, public finance, money and credit, and the balance of payments.

I. Exchange Arrangements

2. The Government instituted a dual exchange rate system at the end of August 1982 in order to improve resource allocation and to promote non-traditional exports. In one market (the "first window"), the rate remained managed but has been allowed to depreciate to U Sh 100 per U.S. dollar; in the other market (the "second window"), the rate is determined at weekly auctions; this rate has declined progressively from U Sh 300 per U.S. dollar to U Sh 270 per U.S. dollar.

3. At the first window, the Bank of Uganda sells foreign exchange for imports considered necessary for the implementation of the Recovery Program (raw materials, machinery and spare parts), petroleum products and a limited number of essential consumer goods. As regards non-commodity imports, sales of foreign exchange have been limited to Government and Bank of Uganda debt service and arrears payments, and contributions to international organizations. The supply of foreign exchange at the first window has been provided from the proceeds of the four main export crops (coffee, cotton, tea and tobacco) and cash loans. All other transactions have been conducted at the second window.

4. During the course of the first ten weekly auctions conducted so far, the Bank of Uganda has bought approximately US$6 million at the second window, an amount in excess of expectations. However, the Bank has sold only US$11 million during the same ten-week period, well short of the minimum US$8 million target set for each four-week period. The low level of sales reflects a lack of familiarity of the public with the new foreign exchange arrangements.

5. In order to ensure that the available supply of foreign exchange at the second window is fully sold, the Government has taken or is about to take the following measures:

(i) Suspension of the one per cent charge received by the Advisory Board of Trade for issuing import licenses and the five per cent advance import deposit required by the Bank of Uganda for window two imports.

(ii) Selective reductions in rates of import duty.

(iii) Relaxation of restrictions on the availability of credit for importers seeking finance for purchases at the second window.

(iv) Simplification of the administrative procedures for obtaining the necessary trade documentation; in particular, the issuance of import licenses by the Advisory Board of Trade within five working days.

(v) Expansion of the scope of import transactions which can be conducted at the second window, notably by the transfer of motor spare parts and tyres from the first to the second window.

(vi) Suspension of import licenses without foreign exchange required, except by importers with authorized external accounts, with a view to curtailing transactions on the parallel market. The Bank of Uganda will give special permission to companies and individuals who already have foreign currency accounts abroad to open external accounts with commercial banks here.

The Government remains committed to re-unifying the exchange rate system within a reasonable period of time. This will be achieved by a smooth depreciation of the exchange rate at the first window, a continuation of tight credit policies to reduce the rate at the second window, and the progressive transfer of items from the first to the second window.

II. Prices, Tariffs and Wages

6. The depreciation of the Uganda shilling has resulted in an increase in the local currency cost of imported petroleum products. The Uganda Government has, therefore, found it necessary to adjust upwards the pump prices of petroleum products as follows:

Super from U Sh 120 to U Sh 150;
Regular from U Sh 110 to U Sh 140;

Kerosene from U Sh 40 to U Sh 80;
Fuel oil from U Sh 40 to U Sh 50;
Diesel from U Sh 60 to U Sh 90;
Jet fuel from U Sh 50 to U Sh 70;
Lubricants from U Sh 200 to U Sh 300.

In addition, the Government has decided to raise domestic petroleum reserves to the equivalent of four weeks consumption. Simultaneously, following a review of public utility tariffs, tariffs for Uganda Railways will be increased by 100 per cent and fares charged by Uganda Airlines raised by 40 per cent.

7. In an attempt to maintain the purchasing power of fixed income groups, wages and salaries in the public sector will be raised by 20 per cent by the end of April 1983. Recruitment of non-professionals will remain frozen and recruitment of professionals will be made on a very selective basis.

III. Production and Marketing

8. The substantial increases in minimum producer prices introduced between May 1981 and June 1982, and the freeing of most prices in May 1981, have resulted in a significant increase in agricultural and industrial production. In 1981/82 food production rose markedly as a result of favorable weather conditions, the increased availability of inputs and a greater supply of agricultural tools. Uganda achieved self sufficiency in food and suspended the emergency food program which was adopted in 1979. To further encourage food production, farmers are being provided with better seeds under the seed multiplication program and a larger supply of inputs and agricultural implements is being made available. Also to prevent the recurrence of food shortages, the Government has commissioned the EEC to conduct a feasibility study for a national food strategy designed to ensure a supply of food to meet the national requirements for food nutrition at all times.

9. Uganda fulfilled its quota for the coffee year which ended September 1982. The 1981/82 coffee quota was 45 per cent larger than in 1980/81. Coffee exports in 1982/83 are expected to be below the 1981/82 level since the quota for 1982/83 was reduced to 2.2 million bags from 2.7 million bags in the previous year. The Government is taking steps to improve the quality and yield of coffee through the introduction of a new strain of coffee and the application of insecticides.

10. Cotton production and exports are expected to rise sharply in 1983 and sales to the Lint Marketing Board are expected to be between 100,000 to 150,000 bales. In order to improve yields greater emphasis is being placed on improving the quality of seeds distributed to the farmers.

11. Tea production has significantly increased due to the recent price incentives and a small quantity has been exported. Rehabilitation of tea estates is progressing satisfactorily and if continued it will be possible to achieve the targeted production levels of 32 million kilograms of processed tea in 2-3 years. There has been a sharp increase in the production of fire-cured tobacco in response to the recent price increases. The Government intends to increase the supply of inputs such as chemicals for spraying and fertilizer and to repair the curing barns. The second window option and the removal of the ban on exports of non-traditional exports has encouraged export diversification.

12. Industrial production rose sharply in several sectors particularly in textiles, beer, cement, cigarettes, and soap. The increase was mainly due to the decontrolling of prices and the greater availability of imported raw materials and spare parts. Inadequate foreign exchange prevented the full utilization of productive capacity but the IDA and Indian Credits and aid from other donor countries have helped alleviate this problem. The second IDA reconstruction credit of US$70 million which was recently agreed has already been allocated to various economic sectors and the beneficiaries are to be identified shortly.

13. A major objective for decontrolling most administered prices had been to encourage competition. To that end, several complementary measures such as the removal of zoning restrictions and a more liberal licensing policy were introduced. However, competitive forces remain weak and profit margins in some cases remain extremely high. Therefore, the Government intends to introduce additional measures to strengthen competition. The EEC has agreed to undertake a comprehensive study to improve food marketing and distribution. In addition, textile mills will no longer be required to purchase lint from the Lint Marketing Board; they will be able to obtain it directly from the processors. Similarly, large tea producers will be allowed to market their products directly instead of having to sell them to the Uganda Tea Authority.

14. In order to increase access to consumer goods and spare parts, the Government is determined to encourage private importers to participate in the importation of these products through the second window. To this end, the commercial banks will be encouraged to extend credit for imports through the second window. Procedures for importation through the second window will be simplified and unnecessary costs associated with these imports will be removed. To alleviate the problem of the prohibitive costs of transportation, the Government intends to take steps to increase the number of authorized vehicle dealers in the country. Also the Government is considering a training scheme to increase the number of qualified mechanics. In the meantime, the trucks belonging to various marketing boards, which are not fully utilized will be rented out to the private traders at reasonable cost to increase competition in the transportation industry.

IV. Public Finance

15. To ensure that the ceiling on net credit to Government at end-September 1982 was met, the Government pursued a vigorous policy of expenditure restraint and revenue collection. Automatic cash releases for recurrent expenditure were held to an absolute minimum and only the highest priority development expenditure was allowed. While extra-budgetary expenditure continued to be a problem, new measures to limit recourse to extra-budgetary accounts, notably the Treasury Main Clearance Account, were implemented successfully. These policies will be continued over the remainder of the financial year.

16. Despite the shortfall in the tax on exchange profits in the first quarter, tax revenues exceeded their expected level. In large part this reflected generally improved tax administration and, in particular, a drive to collect tax arrears. Some U Sh 2.3 billion of arrears (more than 20 per cent of total collections) primarily on account of custom duties, sales tax and excise duty were collected. With the bulk of these arrears flowing in towards the end of September, the final figure for net credit to Government at end-September was well below the ceilings, despite the fact that 1981/82 cheques cashed during the period were far in excess of expectations.

17. The inflow and utilisation of external aid continued to be a major problem reflecting, on the one hand, disbursement procedures of many multilateral agencies and substantial shortfalls in bilateral aid, and, on the other, implementation difficulties in Uganda. To maximize the utilisation of the available external aid, efforts will be made to further strengthen aid coordination. In addition, a detailed examination of all external aid projected to be disbursed over the remainder of 1982/83 will be undertaken with the objective of ensuring that the availability of any domestic contribution is no barrier to the implementation of externally financed projects. The accounting for counterpart funds generated by the sale of commodity aid will also be strengthened.

18. Consistent with the above measures, the highest priority over the remainder of the financial year will be placed on development expenditure. At the same time, the release of funds for recurrent expenditure will be somewhat relaxed, consistent with the original objectives of the 1982/83 budget. This is essential if Uganda is to maintain the momentum in the productive sectors and is possible now that almost all 1981/82 cheques have been cashed. To ensure that commitments entered into by ministries are consistent with the available funds, a comprehensive reassessement of recurrent expenditure requirements will be undertaken, with the assitance of the IMF budget advisor.

19. As outlined above, a number of measures are being taken to improve the operation of Window 2. However, with lower than expected net sales of foreign exchange in the period to end-December 1982 and because of the further currency depreciation at Window one, exchange profits are estimated to be some U Sh 1.5 billion below the original budget estimate. Various

measures including a number of those designed to improve the operation of Window 2, will be taken to increase revenue from other sources. The most significant is that all the additional coffee proceeds generated by the depreciation of the exchange rate at Window 1 will be passed to the Treasury. This is estimated to increase revenue by about U Sh 3.0 billion. The increase in petroleum products prices is estimated to generate an additional U Sh 1.0 billion and on January 1, 1983 the company tax rate will be raised from 45 per cent to 50 per cent. The reduction in customs duties is expected to have little impact on revenue as the flow of imports through official channels will increase sharply. Overall, tax and non-tax revenue is now estimated to reach U Sh 45.6 billion, some U Sh 4.0 billion higher than the original estimate.

20. Expenditure over the remainder of 1982/83 will be boosted by decisions relating to wages and salaries; the export of maize to Tanzania as part of the repayment of the outstanding debt to that country, and the payment of IMF charges by the Treasury after January 1, 1983. For the year as a whole, however, total expenditure will be restrained to about the same level as originally programed, and the overall deficit is estimated to be some U Sh 2.0 billion lower. Reflecting the expected sharp downturn in foreign loan disbursements, net credit to Government is expected to increase from U Sh 2.0 billion to U Sh 5.0 billion.

21. While there is clear evidence that the various measures implemented over the past 12 months to improve expenditure control have had a significant impact, a number of problems remain. As a result, a comprehensive proposal for the strengthening of the Ministry of Finance, with particular emphasis on the accounting side, has been prepared and will be submitted to the World Bank and UNDP shortly. The terms of reference for the proposed financial study of parastatals have now been agreed and the study is expected to begin in early 1983. This will coincide with the period when requests for the return of property, including a number of parastatals, will be processed following the enactment of the Expropriated Properties Bill.

V. Balance of payments

22. The overriding objective with regard to the balance of payments in 1982/83 is to alleviate the chronic scarcity of foreign exchange which, hitherto, has represented the single most important constraint on the development effort. Policies in this area will proceed on a number of fronts.

23. The Government will seek to promote greater export diversification, particularly in view of the reduction in Uganda's coffee quota for the crop season 1982/83. This will be facilitated by the increase in local currency export prices associated with the opening of the second window

and by the suspension of the ban in September 1982 on the export of a variety of food crops.

24. Efforts will be intensified to mobilize external assistance in the form of grants and concessional loans. The Government has recently established an interministerial Aid Allocation Committee designed to harmonize aid coordination and mobilize activities within the administration. Members of this committee will also meet at regular intervals with representatives of donor countries and institutions located in Uganda.

25. Although Uganda's debt service burden (including Bank of Uganda commitments) is expected to decline to 28 per cent of merchandise exports in 1982/83, continued effort is being directed to securing a rescheduling of external obligations. In this connection, the Government will seek, towards the end of the year, a rescheduling of debt service payments to Paris Club creditors falling due in 1982/83. It has recently successfully rescheduled some US$12 million in arrears not covered by the provisions of the Paris Club agreement and is about to conclude an agreement to refinance an additional US$31 million in overdue payments. For the program period as a whole, the reduction in arrears through rescheduling and cost payments is projected at US$63 million. In order to attract foreign private capital for Uganda, the Government is presently reviewing the Foreign Investments Act.

26. In response to these policies, the Government is confident that the original program targets with respect to the overall balance of payments and current account will be achieved.

VI. Money and credit

27. Total net domestic credit in the third quarter of 1982 has been somewhat lower than originally programmed, mainly on account of a substantial shortfall in the demand for credit by the private sector. Disbursements of external assistance have been slower than anticipated, while other factors such as inadequate collateral and lack of updated audited accounts have impeded the expansion of domestic credit to the private sector. In an effort to encourage an expansion in credit to the private sector, notably for transactions conducted through Window two, the Government has eliminated the sectoral limits on credit, provided that no less than half of total new credit is extended to crop credit, agriculture and industry. In addition, the lending rates on trade and commerce and unsecured loans which are currently 16 per cent and 17 per cent, respectively, will be allowed to float up to a ceiling of 20 per cent.

28. It is anticipated that the demand for credit will accelerate during the remainder of the program as the Second IDA Reconstruction Credit gets underway and as demand for imports increases with the revival of economic activity. In order to meet the financing requirements of the coffee crop and the large cotton crop expected in 1982/83, a consortium of commercial

banks is being arranged. The program allows for a large increase in credit during the last three quarters of the program period to satisfy this projected increase in the demand for credit.

29. Despite the need to finance a large value of coffee purchases, the commercial banks have remained relatively liquid. Some banks with branches in the rural areas have succeeded in mobilizing additional time and savings deposits. However, their liquidity position is expected to tighten during the latter part of the program period. In the event of an excessive tightening of liquidity, the Bank of Uganda will rediscount crop finance paper from the commercial banks.

30. Various Government payments to be made in the period January-March 1983 will necessitate greater access to bank financing by Government in this period than in the following quarter. In particular, there will be large payments on account of increased capitalization of the Uganda Development Bank and the Uganda Commercial Bank as a condition for the disbursement of the second tranche of the second IDA reconstruction credit, debt payments to Tanzania, and substantial IMF charges. In order to encourage greater non-bank financing, the rates on treasury bills have been increased by an average of 1.5 points. However, net credit to Government is expected to increase by U Sh 2 billion in the first quarter of 1983 and U Sh 0.5 billion in the second quarter.

VII. Performance criteria

31. The execution of the program will be subject to the following performance criteria:

(a) Total net domestic credit will not exceed U Sh 64.2 billion by March 31, 1983. The indicative ceiling for June 30, 1983 is U Sh 65.5 billion.

(b) Net credit to the Government will not exceed U Sh 38.0 billion by March 31, 1983. The indicative ceiling for June 30, 1983 is U Sh 38.5 billion. The ceiling for March 31, 1983 will be reduced (raised) by the excess (shortfall) of the cumulative gross deposits lodged by the private sector under the IDA credit arrangement in the project account of the Treasury over (under) U Sh 4.4 billion during the three quarters ending March 31, 1983, and will be reduced (raised) by 70 per cent of the excess (shortfall) of the cumulative profits from the operation of the second window since July 1, 1982 above (below) the projected U Sh 5.2 billion. Similarly, the indicative ceiling for June 30, 1983 will be reduced (raised) by the excess (shortfall) of cumulative gross deposits lodged by the private sector over (under) U Sh 5.7 billion during the year ending June 30, 1983, and will be reduced (raised) by 70 per cent of the excess (shortfall) of cumulative profits from the operation of the second window above (below) the projected U Sh 8.5 billion.

(c) The Bank of Uganda will sell at the second window at least a cumulative amount of US$ 53 million by March 31, 1983 and US$ 88 million by June 30, 1983. From July 1, 1982, only the cumulative sales by end of December 1982 and end of March 1983 will be treated as a performance criterion.

(d) From July 1, 1982, through March 31, 1983, the contraction of new public and publicly-guaranteed external debt will not exceed SDR 120 million for maturities of one to 12 years and SDR 50 million for maturities of one to five years; no more than SDR 20 million of maturities within the range of one to five years will carry an interest rate equal to or in excess of LIBOR. The targets for the entire program year will be SDR 150 million, SDR 60 million, and SDR 20 million, respectively. These limits will not apply to concessional loans or loans contracted to refinance existing debts.

(e) The level of net external arrears will be reduced through cash payments by at least US$12 million between June 30, 1982 and March 31, 1983. As an indicative target, the level of net external arrears will be reduced by no less than US$15 million through cash payments by June 30, 1983.

(f) During the program period, the Government does not intend to introduce any new multiple currency practice. 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.