DOCUMENT OF INTERNATIONAL MONETARY FUND
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FOR AGENDA

EBS/83/180
Correction 1

CONFIDENTIAL

August 31, 1983

To: Members of the Executive Board

From: The Acting Secretary

Subject: Uganda - Request for Stand-By Arrangement

The following corrections have been made in EBS/83/180 (8/23/83):

Secretary's note of transmittal, first para., line 2: for "SDR 112.5 million" read "SDR 95 million"

Page 1, footnote 1: Add as last sentence "Mr. Mtei, Alternate Executive Director for Uganda, attended some of the meetings."

Page 2, 1st full para., line 6: for "the Fund Board" read "the Fund"

Page 9: Table 3 revised

Page 11, 1st full para., line 7: for "80 percent" read "58 percent"

Page 21, Table 8, last column, line 1: for "-145" read "-151"

Page 27, 2nd full para., line 9: for "57 percent" read "52 percent"

Page 30, decision on Exchange Measures, para. 2, line 1: for "February 15, 1983" read "February 15, 1984"
line 5: for "restrictions including" read "restrictions resulting from"

Page 45, para. (d), subpara. (i): for "paragraph 5(111)" read "paragraph 5(iii)"
subpara. (ii): for "in (a) above" read "in (c) above"

- over -

Page 51, Table IV: Add line for June 1983, which should read: "57, 43, 145.0, 300.0, 211.7, 161.1, 333.4, 235.2, 102.0, 211.0, 148.8"

Add line for July 1983, which should read: "49, 55, 160.0, 310.0, 243.0, 176.1, 341.2, 267.4, 110.0, 213.1, 167.0"

Add as footnote 1: "1/ The import weights used are: U.S. 22.93; U.K. 26.09; Japan 9.02; France 14.00; Germany 8.55; Italy 5.24; the Netherlands 6.04; and Spain 8.13 percent"

Add as footnote 2: "2/ The rate applies to the last week of August."

Corrected pages are attached.

Att: (9)

DOCUMENT OF INTERNATIONAL MONETARY FUND
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EBS/83/180
Corrected: 8/29/83

CONFIDENTIAL

August 23, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Uganda - Request for Stand-By Arrangement

Attached for consideration by the Executive Directors is a paper on a request for a stand-by arrangement equivalent to SDR 95 million. Draft decisions appear on page 30.

It is proposed to bring this subject to the agenda for discussion on Friday, September 16, 1983.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Goreux (ext. 73801) or Mr. Callender (ext. 73397).

Att: (1)

EBS/83/180
Corrected: 8/29/83

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

UGANDA

Request for Stand-By Arrangement

Prepared by the African Department and
the Exchange and Trade Relations Department

(In consultation with the Fiscal Affairs, Legal,
and Treasurer's Departments)

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

August 22, 1983

I. Introduction

On August 15, 1982 the Executive Board approved a 12-month stand-by arrangement for Uganda (EBS/82/125) in an amount of SDR 112.5 million (equivalent to 150 percent of quota). The arrangement was modified in November 1982 (EBS/82/196 and Supplement 1 EBS/82/196). The staff report on the mid-term review of the 1982/83 stand-by arrangement and on the 1983 Article IV consultation was discussed by the Executive Board on February 22, 1983 (EBS/83/5). The Government of Uganda satisfied all the performance criteria established under the 1982/83 program and made the final purchase under the arrangement in May 1983.

In the attached letter and annexed memorandum of economic and financial policies (Attachment I), dated June 24, 1983, the Government of Uganda has requested a one-year stand-by arrangement in support of a financial program covering the fiscal year July 1, 1983 to June 30, 1984. 1/

In his letter to the Managing Director, the President asked that the arrangement be supported by Fund assistance equivalent to 150 percent of quota, instead of 126.7 percent as proposed by the mission. While recognizing Uganda's good performance under the two previous programs, the staff considers that it would be prudent to limit assistance in support of the proposed program to SDR 95 million (equivalent to 126.7

1/ Staff missions visited Kampala during May 3-18 and June 20-25, 1983 for discussions that provided the basis of this paper. The staff members participating in the two missions were Messrs. Goreux (Head-AFR), Basu (AFR), Callender (AFR), Ebrahim-zadeh (AFR), Holmes (FAD), Kalter (ETR), and Ms. Nivasabutr (secretary-TRE). Mr. Mtei, Alternate Executive Director for Uganda, attended some of the meetings.

percent of present quota) which would be entirely provided from borrowed resources. The latter amount would be sufficient to cover the projected overall BOP deficit in 1983/84 while allowing for the reduction of external arrears and some increase in the level of reserves which is abnormally low. The target is to halve the overall BOP deficit in 1983/84 and to achieve a surplus by 1985/86 in order to enable Uganda to meet its rapidly increasing payments to the Fund which are expected to average SDR 100 million per year during the period 1984/85 through 1986/87.

The proposed stand-by arrangement is contained in Attachment II. It provides for a first purchase amounting to SDR 31.5 million to be made upon Executive Board approval. The second purchase (SDR 12.5 million) would be made upon fulfillment of performance criteria for end-September 1983, the third (SDR 21 million) upon completion of a mid-term review by the Fund and satisfaction of December 1983 performance criteria, the fourth (SDR 15 million) upon fulfillment of March 1984 performance criteria; the final purchase (SDR 15 million) is subject to the completion of the second review on exchange rate policies with the Fund (Table 1).

The Fund's holdings of Ugandan currency, excluding those resulting from purchases under the compensatory and oil facilities, amounted to SDR 303.41 million (404.55 percent of quota) at end-June 1983. If the purchases under the proposed stand-by arrangement were fully utilized, the Fund holdings of Ugandan currency (excluding the special facilities) would increase to SDR 392.46 million or 523.28 percent of the present quota and 392.85 percent of the proposed quota by end-September 1984. A waiver of the limitation in Article V, Section 3 (b) (iii) is required for this arrangement.

Uganda has been receiving technical assistance from the Fund in several areas: at present, a member of the FAD panel of fiscal experts (Mr. Thompson) is assigned as Budget Advisor to the Ministry of Finance and four CBD experts are attached to the Bank of Uganda: Director of Foreign Exchange Department (Mr. Abdul Rahman), Director of Research (Mr. Vollan), Chief Accountant (Mr. Lindsay), Head of the External Debt Management Office (Mr. Bourke). In addition, a Bank Supervision Advisor is expected to be assigned to the Bank shortly.

The World Bank, which resumed its operations in Uganda in early 1981 and appointed a resident representative in September 1982, has continued to expand its activities. Total commitment by the World Bank rose from US$109 million in 1981/82 to US$124 million in 1982/83, consisting of credits for agriculture (US$70 million), education (US$32 million), and telecommunication (US$22 million); of the total amount committed, about US$85 million have already been disbursed. Studies have been initiated for a third IDA Reconstruction credit which may become

Table 3. Uganda: Main Elements of the Financial Programs, 1981/82-1983/84

	1981/82 Actual	1982/83 Actual	1983/84 Measures and Targets
1. Exchange system	Depreciation of the currency from U Sh 8.0 per US$ to U Sh 78 per US$ in June 1981 and to U Sh 96 per US$ in June 1982.	Dual exchange system became operational August 1982. Rate at Window 1 depreciated from U Sh 99.25 per US$ at end-August 1982 to U Sh 150 per US$ at end-June 1983. Rate at Window 2 depreciated from U Sh 300 per US$ at end-August 1982 to U Sh 300 at end-June 1983.	Exchange rate in Window 1 to depreciate faster. Minimum weekly sales in Window 2 to increase from US$2 million to US$3 million. All non-oil cash imports shifted from Window 1 to Window 2. All major exports except for coffee and cotton shifted to Window 2.
2. Supply side Policies	Fivefold increase in producer prices of main export crops; elevenfold increase in prices of petroleum products; decontrol of most other prices.	Producer price increases for the main export crops ranged from 33 percent to 100 percent; increases in prices of petroleum products ranged between 75 percent and 128 percent.	Increase in producer prices of major export crops which occurred in May and July 1983 ranged between 50 percent and 166 percent; prices of all petroleum products other than lubricants raised by U Sh 20 per liter in June 1983.
3. Public Finance	Specific tax rates converted to an ad valorem basis; rates of sales tax on imports and domestic production equalized; wage and salary increases for civil servants restricted to an average of 25 percent.	Zero rating of PAYE on civil servants salaries introduced in July 1982; restraints on automatic cash increases for recurrent expenditure introduced; other measures to limit recourse to extra-budgetary accounts implemented; revenue collection administration improved; increase in tariffs on some public utilities implemented in November 1982.	Wages of civil servants increased by 50 percent in July 1983; tariff structures of major public utilities to be adjusted by November 1983: study of selected parastatals to begin September 1983.
4. Money and credit	Increase in cash reserve ratio from 10-15 percent; increase in deposit rates and most categories of lending rates by one percentage point in June 1982.	Lending rates for trade and commerce and unsecured loans allowed to float up to a maximum of 20 percent from November 1982; rates on Treasury bills increased by an average of 2.5 percentage points in November 1982.	Interest rates raised by 2 percentage points.
5. External borrowing	Although new borrowing limits of SDR 30 million and SDR 80 million were allowed for maturities of 1 to 5 years and 1 to 12 years, no new borrowing was undertaken.	New borrowing limits of SDR 50 million and SDR 120 million from July 1, 1982 to March 31, 1983 were only partly utilized.	New external borrowing for the quarter ending December 1983 is limited to short-term loans of no more than US$30 million to be contracted by the Bank of Uganda; new external borrowing for the quarter ended December 1983 will be limited to US$20 million in the maturity range of 6-12 years and no additional borrowing in the maturity range of 0-6 years.

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Corrected: 8/29/83

Table 4. Uganda: Indicators of Performance Under the Program, September 1981-June 1984

	1981/82		1982/83		1983/84
	Program 1/	Actual	Program 1/	Actual	Program
		(Annual percentage changes)			
Real GDP	9-10	10	10	7-10	5-7
CPI (annual average)	50	22	25-30	25-30	20-25
		(In percent of GDP)			
Government budget					
Overall deficit	0.9	2.2	1.4	1.6	1.5
Domestic banking financing	1.1	2.1	0.7	1.4	0.3
		(In millions of U.S. dollars)			
Balance of payments					
Current account deficit	232.0	131.0	201.0	136.0	150.0
Overall deficit	142.0	187.0	82.0	71.0	34.0
Debt service ratio (in per cent of exports of goods and services)	47.0	45.5	26.0	30.8	34.0
		(In billions of U Sh)			
Ceiling on net domestic credit					
September	34.8	34.4	57.9	49.3	70.0 2/
December	...	40.7	62.6	55.7	76.8 2/
March	46.9	43.6	64.2	61.5	81.1 3/
June	51.6	48.5	65.6 3/	70.6	84.1 3/
Ceiling on net credit to Government					
September	27.2	25.9	36.0	32.0	41.1 2/
December	...	29.2	36.0	34.2	41.6 2/
March	31.0	30.2	38.0	37.2	42.1 3/
June	33.7	33.6	38.5 3/	45.3	42.6 3/
		(In million of U.S. dollars)			
Net external borrowing					
Of which:					
0-12 years maturities					
September	70.0	--	120.0	--	30.0
December	70.0	--	120.0	--	40.0
March	70.0	--	120.0	30.0	...
June	80.0	--	150.0	50.0	...
0-6 years maturities 4/					
September	34.4	--	54.0	--	30.0 5/
December	34.9	--	54.7	--	20.0 5/
March	33.7	--	54.3	20.0	...
June	33.1	--	65.0	40.0	...
Net cumulative reduction in arrears					
September	12.6 6/	24.2	5.5 7/	22.8 8/	...
December	... 6/	24.7	11.0 7/	86.6 9/	10.0 10/
March	1.1 6/	4.8	12.0 10/	97.0 11/	...
June	3.3 6/	22.2	15.0 10/	...	20.0 10/
Cumulative sales at second window					
September	...	...	10.0	6.1	39.0
December	...	...	24.0	27.3	78.0
March	...	...	53.0	60.5	117.0 3/
June	...	...	99.0	100.5	156.0 3/

1/ Revised Program targets.
2/ The ceiling for September 30, 1983 and December 31, 1983 will be reduced (raised) by the excess (shortfall) of the cumulative profits from the operations of the second window from July 1, 1983 above (below) the projected U Sh 3.6 billion and U Sh 5.3 billion, respectively.
3/ Indicative ceilings.
4/ Of which no more than SDR 20 million of maturities within the range of 0-5 years contracted in 1981/82 and 1982/83 will carry an interest rate equal to or in excess of LIBOR.
5/ Only through cash borrowing by the Bank of Uganda.
6/ Quarterly reductions through cash payments and rescheduling.
7/ Of which half through cash payments and rescheduling
8/ Of which US$11.2 million through cash payments.
9/ Of which US$16.9 through cash payments.
10/ All through cash payments.
11/ Of which US$27.3 million through cash payments.

than in the previous seventeen. The second window rate appreciated since the introduction of the foreign exchange auction at the end of August 1982 until February 1983 but depreciated thereafter, by July 1983, it had almost returned to its initial level. When the rates at the two windows are weighted according to the relative shares of the transactions conducted at each window 1/, it becomes clear that the introduction of the dual exchange system resulted in a sharp depreciation of the Uganda shilling.

In real terms (Chart 4b), the picture is somewhat different because the rate of inflation was considerably higher in Uganda than in its trading partners. At Window I, the effective rate remained virtually unchanged until September 1982 and depreciated only slightly thereafter. At Window II, it appreciated strongly until January 1983 but remained almost unchanged thereafter. The large depreciation of the Uganda shilling during the last 10 months--about 58 percent on an annual basis--is therefore essentially due to the introduction of the second window and to the progressive shift of the transactions from the first to the second window.

In order to insure a progressive merging of the two windows and the reunification of the dual exchange rate system in accordance with an agreed timetable, the authorities intend to accelerate the rate of depreciation at the first window, but the extent of this depreciation will depend on the evolution of the second window rate. Because the latter is closely linked to that of the cost of living, the 1983/84 program has been designed to contain inflation by raising the availability of foreign exchange at the second window and restricting the supply of Uganda shillings through a tightening of domestic credit expansion.

In addition, a series of technical improvements have been introduced in the operations of the weekly auctions. They include: (a) measures requiring holders of import licenses to obtain their foreign exchange through regular channels; (b) steps to ensure that once foreign exchange is provided, the related importation of goods is verified with minimum delay; (c) provisions to strengthen customs surveillance; (d) measures to reduce the demand for and misuse of travel allowances; and (e) provisions requiring commercial banks to submit regular weekly returns on all foreign exchange receipts. In addition, the demand for foreign exchange by the Government will be limited by enforcing a tight control over budgetary expenditure and restricting the Government's purchase of foreign exchange to 30 percent of the total amount sold in weekly auctions. The Government will not bid but will pay for the foreign exchange at the rate prevailing at the second window.

1/ The shares have been calculated from the quarterly foreign exchange ouflows in Tables 9 and 10 excluding official debt payments by the Treasury and the Bank of Uganda.

In order to mop up excess liquidity, the authorities have decided to require full payment in local currency for all bids at the weekly foreign exchange auctions and for imports of raw materials and spare parts worth at least US$40 million under the second IDA Reconstruction Credit, and to greatly reduce the expansion of credit. On the other hand, the authorities have taken measures to insure the supply of foreign exchange at the disposal of the Bank of Uganda, by providing greater price incentives for exports, eliminating leakages in coffee export proceeds through the intervention of the Société Générale de Surveillance, and restricting commercial borrowing from abroad to cash loans contracted by the Bank of Uganda during the third quarter of 1983.

2. Production and price policies

To permit the export sector to continue to contribute importantly to external adjustment and overall economic growth, the 1983/84 financial program includes substantial increases in the minimum producer prices of the major export crops. These increases were implemented in two steps in May and July of this year. In relation to their April levels, the producer prices were raised by 50 percent for cotton and tobacco, 60 percent for coffee, 150 percent for tea, and 166 percent for cocoa. In deciding upon the magnitude of these increases, due consideration was given to compensating producers both for past increases in their production costs and for the effects of the rising cost of living on their net earnings. In the case of coffee, which accounts for the bulk of Uganda's foreign exchange earnings, the authorities are confident that the increase in the producer price is sufficient to induce farmers to produce enough coffee to enable Uganda to fulfill its export quota (138,000 tons) for the crop year ending in September 1983. Moreover, steps have been taken to prevent the recurrence of recent problems with the transportation of coffee from Kampala to Mombasa (the port of shipment). In the case of tea, tobacco, and cocoa, which will be exported at the second window rate, prices earned by producers could exceed the minimum levels, which will be revised twice a year. The minimum producer price will not apply to tea and tobacco estates, the larger producing units, which are allowed to export directly. In view of the increased price incentives to the export sector, outputs of the major export crops are projected to rise substantially in 1983/84: by 5 percent for coffee, 50 percent for cotton, 90 percent for tea, 82 percent for tobacco, and 50 percent for cocoa.

Apart from producer price policies, the Government will be pressing ahead with the execution of the ongoing Recovery Program (1982/83-1983/84), which is expected to be fully implemented by about the end of 1984. During fiscal year 1982/83 substantial amounts of foreign aid commitments were mobilized for Uganda's Recovery Program for several key projects in the agricultural and industrial sectors. The authorities

Table 8. Uganda: Balance of Payments, 1981/82-1983/84 1/

(In millions of U.S. dollars)

	1981/82	1982/83 Revised Proj. 2/	1982/83 Est.	1983/84 Program Proj.
Trade balance	-136	-207	-110	-151
Exports, f.o.b. 3/	294	348	325	371
Imports, c.i.f.	-430	-555	-435	-522
Services (net)	-75	-98	-83	-78
Unrequited transfers	80	104	57	73
Current account	-131	-201	-136	-156
Debt cencellation 4/	69	--	--	--
Capital account	-125	119	65	122
Official inflows	168	260	251	213
Of which:				
Rescheduling of amortization	(32)	(40)	(40)	(15)
Rescheduling of arrears	(63)	(48)	(48)	(--)
Official outflows	-264	-137	-142	-89
Principal payments 3/	(-100)	(-49)	(-54)	(-74)
Principal rescheduled	(-32)	(-40)	(-40)	(-15)
Arrears rescheduled	(-63)	(-48)	(-48)	(--)
Principal and arrears canceled 4/	(-69)	(--)	(--)	(--)
Private (net) 5/	-29	-4	-44	-2
Overall balance	-187	-82	-71	-34
Financing	187	82	71	34
External arrears 6/	47	-15	-31	-20
Monetary authorities 6/	140	97	102	54
Change in gross reserves	(63)	(-7)	(--)	(-15) 7/
IMF (net)	(73)	(118)	(118)	(86) 7/
Others (net)	(4)	(-14)	(-16)	(-17) 7/

Sources: Bank of Uganda; and Fund staff estimates.

1/ 12-month petiod, July-June.
2/ EBS/83/5, January 10, 1983.
3/ Includes US$3 million of maize exports (and principal payments) in 1982/83 and US$17 million in 1983/84 to Tanzania.
4/ Cancellation of US$24 million in arrears payments and US$45 million in amortization payments.
5/ Includes trade credits and errors and omissions.
6/ Minus sign denotes decrease in net liabilities.
7/ Since the last purchase of SDR 15 million will be made in early July 1984, the change in gross reserves and net IMF purchases will only be realized at that time.

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

(In millions of U.S. dollars)

		1982		1983		
		Q3	Q4	Q1	Q2	Total
A.	Inflows	116.8	118.9	95.0	123.3	454.0
	1. Window one	115.2	110.2	91.6	119.7	436.7
	Exports	(73.3)	(96.1)	(64.1)	(78.6)	(312.1)
	Services	(1.0)	(0.5)	(0.2)	(0.2)	(1.9)
	BOU loans	(40.9)	(13.6)	(27.3)	(40.9)	(122.7)
	Official loans/ grants	(--)	(--)	(--)	(--)	(--)
	2. Window two	1.6	8.7	3.4	3.6	17.3
	Exports	(0.3)	(0.4)	(0.6)	(0.6)	(1.9)
	Services	(1.3)	(8.3)	(2.8)	(3.0)	(15.4)
B.	Outflows	88.9	115.1	120.9	125.2	450.1
	1. Window one	82.8	93.9	87.7	85.2	349.6
	Oil	(19.3)	(30.0)	(33.5)	(33.0)	(115.8)
	Cost directly related to export	(4.5)	(5.2)	(3.3)	(4.0)	(17.0)
	BOU debt service	(10.3)	(7.6)	(13.0)	(10.9)	(41.8)
	Official debt service	(11.7)	(16.5)	(16.1)	(21.2)	(65.5)
	Arrears/trade credits	(27.7)	(16.2)	(12.3)	(10.5)	(66.7)
	Imports	(4.4)	(15.8)	(7.2)	(4.8)	(32.2)
	Services	(4.9)	(2.6)	(2.3)	(0.8)	(10.6)
	2. Window two	6.1	21.2	32.2	40.0	100.5
	Imports	(3.0)	(9.8)	(22.0)	(22.0)	(56.8)
	Services	(3.1)	(11.4)	(11.2)	(18.0)	(43.7)
C.	Net inflows (A-B)	27.9	3.8	-25.9	-1.9	3.9
	Financed by					
	1. Official resources	24.9	3.8	-26.8	-1.9	--
	2. Other	3.0	--	0.9	--	3.9

Sources: Bank of Uganda: and Fund staff estimates.

volume of exports has increased by 60 percent in two years. A great variety of goods has become available on the market, in sharp contrast with the situation prevailing two years earlier. Budgetary discipline has been strengthened and the share of government expenditures covered by domestic bank financing has fallen sharply. The external debt situation, which appeared almost intractable two years ago, has been clarified and the level of external arrears has been considerably reduced.

The catalytic element in the improvements recorded in the past two years has been the adjustment of the exchange rate and the freeing of most domestic prices. When the authorities decided to depreciate the currency tenfold in June 1981, they initially intended to let the shilling float freely. However, payments of external arrears were greater than expected and foreign exchange remained in scarce supply. It had to be allocated by a special committee and demand by the private sector remained largely unsatisfied in 1981/82. For solving these problems, the authorities instituted a dual exchange system at the end of August 1982. On one market (first window), foreign exchange was allocated for priority purposes at a rate which continued to be managed; on the other (second window), it was auctioned at a rate which reflected the equilibrum between demand and supply.

On balance, the operation of the dual exchange system has been beneficial. Problems of foreign exchange allocation at the first window have been greatly eased, while the parallel market has been sharply curtailed and most trade transactions have been rechannelled through the banking system. As traders and producers became more familarized with the auction system, additional items were shifted from the first to the second window and the volume of weekly transactions increased progressively from about US$1 million in the first three months to US$3 million in the last three months. The 52 percent effective real depreciation of the Uganda shilling in the last twelve months reflects essentially the opening of the second window and the progressive shift of transactions from the first to the second window.

The bold policy measures implemented in the last two yers have been supported by an increase in the level of external assistance. In addition to Fund purchases, Uganda benefitted from the release of the bulk of the first IDA reconstruction credit, which has been followed by a second reconstruction credit. Uganda also benefitted from two debt reschedulings in the context of the Paris Club and official loans were transformed into grants by three creditor countries. But the situation will soon be modified by a reversal in financial flows between Uganda and the Fund.

Uganda's net use of Fund resources (excluding special facilities) would be equivalent to 290 percent of new quota by September 1984 if all purchases provided for under the proposed arrangement were made on schedule. Assuming further purchases offset Uganda's repurchases obligations in the two following fiscal years, Uganda's overall balance of payment should reach equilibrium in 1984/85 and show surpluses thereafter. With modest increases in net capital inflows, the trade deficit should be reduced by about $12 million per year from 1983/84, which would require increasing the value of exports by 15 percent a year while containing import growth to 10 percent a year.

The financial program for 1983/84 places the emphasis on promoting exports and improving the allocation of foreign exchange. In order to provide adequate price incentives for exports, all exports other than coffee and cotton have been transferred from the first to the second window, where the exchange rate is more depreciated, and the minimum producer price of coffee has been raised to a level which should insure the fulfillment of Uganda's export quota. Cash imports of all commodities other than petroleum have also been shifted from the first to the second window. Prices of petroleum products have been raised to a level sufficient to avoid any subsidy of smuggling to neighboring countries; valued at the second window rate, the consumer price of gasoline would be equivalent to US$2.3 a gallon. Imports of raw materials and spare parts under special rehabilitation programs such as IDA II reconstruction credit remain indirectly subsidized since they are still valued at the first window rate. But the major part of these imports has been allocated to the private sector and will be paid on delivery, instead of being financed through government loans as was the case under the first IDA Reconstruction Credit. The authorities are committed to progressively reduce the disparities between the rates prevailing at the two windows and understandigns have been reached on a timetable for the reunification of the exchange system at an appropriate rate.

Variations in the exchange rate at the weekly auctions are very sensitive to changes in the money supply and, therefore, to fiscal and credit policies. In the first eight months of fiscal year 1982/83, these policies were implemented very tightly and the second window rate appreciated while inflation was contained within a 20 percent annual rate. But, in the last three months of the fiscal year, fiscal policies were somewhat relaxed, the second window rate depreciated and the consumer price index increased substantially. The authorities intend to contain the rate of inflation by tightening fiscal policies and reducing the expansion of net domestic credit to 19 percent in 1983/84 from 46 percnt in the preceding year. Net credit to government, which had exceeded the indicative June ceiling by U Sh 5 billion, is to fall by U Sh 4 billion between end-June and end-September and will be allowed to increase by only U Sh 1.5 billion during the balance of the program period. Of the U Sh 16 billion expansion allowed for net credit to the private sector, more than half will be used to finance imports for spare parts and raw materials under IDA Reconstruction II and will be deposited to the project account fo the Treasury; about one quarter will be accounted for by the increase in the domestic prices of export crops, and the remainder for the financing of larger cash-imports under the second window.

In spite of the very tight budget, wages have been raised by 50 percent in July. The staff considers that such an increase was necessary because wages in the public administration had fallen to abnormally low levels, ranging from the equivalent of $4 to $40 a month at the second window exchange rate. Although the wage bill accounted for only one seventh of government recurrent expenditures in 1982/83, the increase in the wage bill will require savings on other items; strong efforts will be made to contain non-essential foreign exchange outlays and outlays on defense. On the revenue side, the major increase will result from the impact of the depreciation of the first window rate on receipts from coffee exports.

The financial measures are to be complemented by a reorganization of parastatals. Following the bill on the recovery of expropriated properties, an audit firm has been selected to assess the viability of the main parastatals. The study, financed under a World Bank technical assistance program, is to start in September. Efforts are being made to improve management in public administration, and the Fund technical assistance program has been strengthened.

Progress in the context of the 1983/84 program will be reviewed on two occasions. During the course of the first review, understandings will be reached on performance criteria for the second half of the program year and on additional measures which may be required. The second review, at the end of the program year, will deal with exchange rate arrangements.

The staff considers that the proposed financial program is well balanced and consistent with the objectives set by the authorities for 1983/84 and the year beyond. The authorities are conscious that these objectives will be difficult to achieve, but they are committed to do so.

The staff understands the reasons for which the authorities have requested Fund assistance equivalent to 150 percent of quota. However, the staff believes that adjustment efforts will need to be pursued for several years before Uganda can reach a viable BOP position and that these efforts will neeed to be supported by Fund assistance beyond 1983/84. Consequently, the staff considers that financial support to the proposed financial program for 1983/84 should be limited to SDR 95 million, equivalent to 126.7 percent of present quota. The staff recommends approval on a temporary basis of the multiple currency practice involved in the dual exchange market arrangement and exchange restrictions from external payment arrears. Accordingly, the following decisions are proposed for adoption by the Executive Board:

I. Stand-by Arrangement

1. The Government of Uganda has requested a stand-by arrangement for the period from 1983, to 1984.

2. The Fund approves the stand-by arrangement attached to EBS/83/ for an amount equivalent to SDR 95 million.

3. The Fund waives the limitation in Article V, Section 3(b)(iii).

II. Exchange Measures

1. The Fund welcomes the intention of Uganda to eliminate external payments arrears and to unify the dual exchange arrangements.

2. The Fund grants approval until February 15, 1984 or the next Article IV consultation with Uganda, whichever is the earlier, for the retention and modification by Uganda of the multiple currency practice involved in the dual exchange market arrangement as described in EBS/83/ , and for the retention of exchange restrictions resulting from external payments arrears as described in EBS/83/5 and EBS/83/ .

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

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

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

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

is not observed; or

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

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

(d) if Uganda

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

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

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

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

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

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

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

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

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

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

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

Table IV. Uganda: Exchange Rates at WI, WII, WI-II, June 1981-July 1983

	Weights		U Sh per US$			Import weighted nominal effective exchange rate June 1981=100			Import weighted real effective exchange rate June 1981=100		
	WI	WII	WI	WII	WI-II 1/	WI	WII	WI-II 1/	WI	WII	WI-II 1/
Jun 1981	100	0	77.0		77.0	100.0		100.0	100.0		100.0
Jul 1981	100	0	79.8		79.8	100.9		100.9	98.8		98.8
Aug 1981	100	0	81.4		81.4	101.0		101.0	101.2		101.2
Sep 1981	100	0	80.6		80.6	102.4		102.3	104.9		104.9
Oct 1981	100	0	79.3		79.3	101.8		101.7	105.4		105.4
Nov 1981	100	0	80.2		80.2	104.3		104.3	107.9		107.9
Dec 1981	100	0	85.1		85.1	110.3		110.3	115.1		115.1
Jan 1982	100	0	85.5		85.5	109.4		109.4	107.6		107.6
Feb 1982	100	0	86.2		86.2	108.0		107.9	102.6		102.6
Mar 1982	100	0	85.7		85.7	105.8		105.8	96.5		96.5
Apr 1982	100	0	85.9		85.9	104.7		104.6	91.5		91.5
May 1982	100	0	90.4		90.4	112.8		112.7	102.2		102.2
Jun 1982	100	0	96.7		96.7	116.0		115.9	102.8		102.8
Jul 1982	100	0	100.0		100.0	118.3		118.2	105.4		105.4
Aug 1982	92	8	99.3	300.0 2/	115.4	116.7	353.0 2/	135.7	101.4	307.7 2/	107.9
Sep 1982	77	23	100.0	300.0	146.0	116.7	350.1	170.4	101.1	303.5	147.7
Oct 1982	77	23	100.0	280.0	141.9	115.5	323.4	163.9	98.3	275.3	139.5
Nov 1982	77	23	100.2	255.0	136.3	114.1	290.6	155.3	94.2	239.7	128.1
Dec 1982	77	23	104.3	240.0	135.7	121.1	278.6	157.5	99.4	288.9	129.4
Jan 1983	64	36	110.0	235.0	155.3	127.9	273.2	180.5	100.2	214.0	141.4
Feb 1983	64	36	115.0	230.0	156.6	131.8	263.6	179.5	105.1	210.2	143.1
Mar 1983	64	36	117.8	236.0	160.6	133.5	267.4	182.0	104.9	210.2	143.0
Apr 1983	57	43	124.5	260.0	182.8	140.7	293.9	206.6	108.7	227.1	159.6
May 1983	57	43	135.0	270.0	193.0	152.7	305.5	218.4	113.7	227.4	162.6
Jun 1983	57	43	145.0	300.0	211.7	161.1	333.4	235.2	102.0	211.0	148.8
Jul 1983	45	55	160.0	310.0	243.0	176.1	341.2	267.4	110.0	213.1	167.0

1/ The import weights used are: U.S. 22.93; U.K. 26.09; Japan 9.02; France 14.00; Germany 8.55; Italy 5.24; the Netherlands 6.04; and Spain 8.13 percent.
2/ The rate applies to the last week of August.

Table V. Uganda: Selected Economic and Financial Indicators, 1980/81-83/84

	1980/81	1981/82 1/		1982/83		1983/84
	Actual	Program	Estimate	Program	Estimate	Program
		(Annual per cent changes, unless otherwise specified)				
National income and prices						
GDP at constant prices	-8.4	9-10	10	10	10	5-7
Consumer prices (annual average)	104	22	76	25	25-30	20-25
External sector (on the basis of SDRs or U.S. dollars)						
Exports, f.o.b.	-30	62	38	24	11	15
Imports, c.i.f.	-16	33	12	38	1	20
Non-oil imports, c.i.f.	...	...	14	48	-7	32
Export volume	-11	60	64	26	-5	10
Import volume	-24	25	-7	20	13	16
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	100	57.0
Revenue (including grants)	-15	732 2/	794 2/	64	83	65.0
Total expenditure	64	155	228	41	48	61.0
Money and Credit						
Domestic credit	62	...	82	33	35.2	25.7
Government	81	...	63	6	14	6.5
Private sector	20	...	144	79	81	53.0
Money and quasi-money (M2)	50	...	62	23	29	11.0
Velocity (GDP relative to M2)	27	...	13	2	13	19.0
Interest rate (annual rate, one year savings deposit)	6	...	12	13	13	15.0
		(In per cent of GDP) 3/				
Central Government budget deficit	4.3	0.9	2.2	1.4	1.6	1.5
Domestic bank financing	3.9	1.1	2.1	0.7	1.4	0.3
Foreign financing (net)	0.3	-0.2	0.1	0.7	0.2	1.2
Current account deficit 4/	1.6	2.6	1.6	2.5	1.6	2.6
External debt						
Exclusive of use of Fund credit	2.6	...	16.1	12.0	12.0	17.0
Debt service ratio 5/	40.0	47.0	45.5	26.0	30.8	34.0
Interest Payments 5/	2.0	...	2.0	1.0	1.2	1.4
		(In millions of U.S. dollars)				
Overall balance of payments 6/	-129	-142	-100	-82	-71	-34
External payments arrears (at end of period)	204 7/	160	164	73	60	30

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 and including debt services to IMF.
6/ Overall balance reflects severe constraint on foreign exchange availability.
7/ End-May 1981.