

# INTERNATIONAL MONETARY FUND

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The International Monetary Fund has approved a stand-by arrangement for the Government of Uganda, authorizing purchases up to the equivalent of SDR 112.5 million over the next 12 months in support of the Government's economic and financial stabilization program. The purchases will be financed in part from the Fund's ordinary resources (SDR 14.9 million) and in part from resources borrowed by the Fund (SDR 97.6 million). Uganda's quota in the Fund is SDR 75 million, and its outstanding financial obligations to the Fund resulting from previous operations and transactions currently total the equivalent of SDR 194 million.

After having been one of the more prosperous countries of Sub-Saharan Africa in the 1960s, the Ugandan economy deteriorated to one of the poorest in the region by 1980. The modern sector virtually collapsed in the wake of war and domestic unrest. From 1972 to 1980 rising government deficits were financed by bank credit, which led to spiraling inflation. With the exchange rate and other administered prices remaining virtually unchanged, an increasing number of transactions shifted to the parallel market. The new Government managed to halt the decline in the economy in 1981/82. An adjustment program launched in 1981 and supported by a stand-by arrangement with the Fund sought to remedy the situation by enhancing incentives for reallocating resources from speculative to productive activities, especially in the export sector. For this purpose, the Ugandan shilling was depreciated almost tenfold. Producer prices for export crops were raised fivefold. The price of gasoline was raised elevenfold and the prices of most other commodities were freed. Simultaneously, a series of fiscal and monetary measures were taken to contain domestic inflation. These included converting all specific tax rates to a value-added basis; equalizing the rates of sales tax on imports and domestic production; ensuring prompt payment of coffee export duties to the Treasury; raising the cash reserve ratio of the banks from 10 to 15 per cent and nearly doubling interest rates.

The present stand-by arrangement is in support of an economic and financial program for 1982/83 which has been formulated in the context of a two-year recovery program which was presented to a consultative group meeting last May. The objectives of the program are to consolidate the gains made in the previous year, alleviate the continued shortage of foreign exchange, pursue the rehabilitation of the economy in line

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with the priorities defined in the recovery program. The program aims at maintaining a 10 per cent annual rate of growth in real gross domestic product (GDP), raising the volume of imports by 20 per cent, increasing export receipts by at least 25 per cent in dollar terms, and reducing the rate of inflation to about 25 per cent annually.

The objectives of the program will be achieved through measures which include a strengthening of price incentives for exporters, increases in retail prices of petroleum products, and the establishment of a dual exchange arrangement. Under this arrangement, one market will provide financing for essential imports and official debt service commitments at the existing managed exchange rate while, in the second market, foreign exchange for all other international transactions will be sold through weekly auctions at a more depreciated rate. In addition, strong emphasis is being placed on a significantly higher degree of expenditure control than was achieved in 1981/82. The budget deficit which fell from over 76 per cent of government expenditure in 1980/81 to 39 per cent in 1981/82, is expected to decline further to about 25 per cent in 1982/83.