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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 91/56

3:00 p.m., April 17, 1991

R. D. Erb, Acting Chairman

Executive Directors	Alternate Executive Directors
	A. A. Al-Tuwaijri
	S. Gurumurthi, Temporary
	G. C. Noonan
	Zhang Z.
	S. B. Creane, Temporary
	J.-P. Schoder, Temporary
E. A. Evans	G. H. Spencer
	C. Schioppa, Temporary
	T. S. Allouba, Temporary
	I. Fridriksson
B. Goos	B. Esdar
J. E. Ismael	
	P. L. Rubianes, Temporary
	H. Dognin, Temporary
	M. A. Ghavam, Temporary
L. B. Monyake	L. J. Mwananshiku
D. Peretz	P. Wright
G. A. Posthumus	
	J. K. Orleans-Lindsay, Temporary
A. Torres	
A. Végh	
	K. Ichikawa, Temporary

L. Van Houtven, Secretary and Counsellor
K. S. Friedman, Assistant

Also Present

IBRD: O. Meesook, Africa Regional Office. African Department: E. L. Bornemann, Deputy Director; G. E. Gondwe, Deputy Director; A. I. Abdi, N. Abu-zobaa, J. K. Bungay, K. B. Dillon, G. Kalinga, I. C. Lienert, R. H. Nord, M. Nowak, A.-D. Riess, E. M. Taha, R. C. Williams. Exchange and Trade Relations Department: J. T. Boorman, Director; T. Leddy, Deputy Director; E. Brau, Deputy Director; J. Berg, B. de Schaetzen, M. E. Edo, G. R. Kincaid, R. M. Schramm. Fiscal Affairs Department: Y. Ikeda, W. R. Mahler, K. M. Miranda. Legal Department: H. Elizalde. Secretary's Department: A. Tahari. Treasurer's Department: G. Laske, Treasurer; M. P. Blackwell, J. C. Corr, C. A. Hatch, G. Wittich. Advisors to Executive Directors: J. O. Aderibigbe, C. D. Cuong, A. Napky, D. Powell, A. M. Tanase. Assistants to Executive Directors: T. Berrihun, G. Bindley-Taylor, C. Björklund, B. Bossone, B. A. Christiansen, M. Da Costa, T. P. Enger, N. A. Espenilla, S. K. Fayyad, M. E. F. Jones, P. K. Kafle, W. Laux, R. Meron, M. J. Mojarrad, G. Montiel, J. A. K. Munthali, D. Sparkes, S. von Stenglin.

1. ZAMBIA - 1991 ARTICLE IV CONSULTATION; ACCUMULATION OF RIGHTS; AND OVERDUE FINANCIAL OBLIGATIONS - REVIEW FOLLOWING DECLARATION OF INELIGIBILITY

The Executive Directors considered the staff report for the 1991 Article IV consultation with Zambia and Zambia's request for a rights accumulation program for 1991-94 (EBS/91/59, 4/3/91), together with a memorandum on economic and financial policies (EBS/91/52, 3/25/91), and a staff paper on the further review of Zambia's overdue financial obligations following the declaration of Zambia's ineligibility to use the Fund's general resources effective September 30, 1987 (EBS/91/63, 4/9/91). They also had before them an economic and financial policy framework paper on Zambia for 1991-93 (EBD/91/33, 2/1/91).

The staff representative from the African Department commented that the projected real depreciation of the exchange rate to which Mr. Goos had referred applied to the window one rate, and that reflected not the policy for the window two rate, but rather the more rapid movement of the window one rate. The program did not include a targeted real depreciation; there was no target for the real or nominal rate. The program did include a market test, and the authorities were to conduct exchange rate policy to meet the balance of payments and reserve objectives as performance criteria, but also in keeping with side understandings that had been spelled out. Those side understandings were not in terms of a real effective exchange rate or any particular numbers; they were based on certain market indicators that were considered to be exchange rate sensitive and which would provide the best early warning system on market trends, including demand and supply. Hence, the test for the exchange rate system was market determined, although the rate itself was managed. Of course, one of the key indicators in that connection was the demand for imports under the open general license system.

Those comments were also applicable to the question of what would happen after the unification of the exchange markets, the staff representative continued. The unified rate was likely to be market clearing, and the test of the conduct of exchange rate policy would again be market based; the policy should be aimed at achieving the balance of payments objectives under the program. The sentence to which some speakers had referred--"The staff also welcomes the authorities' intention, once the open general license (OGL) phase has been completed, to view the emergence of market pressures that require a rate of depreciation significantly above the targeted rate of inflation as a signal that they need to review, and most likely tighten, the stance of monetary and fiscal policy"--had two layers of meaning, both of which were important. First, the staff viewed the demand for and supply of foreign exchange as a useful early warning indicator. Inflation data in Zambia became available only with a significant lag--sometimes as long as three to four months--and the staff believed that developments in the exchange markets were likely to provide a faster signal of what was happening in the area of inflation; thus, the exchange market data could signal a need to tighten monetary policy, and that signal could be heeded quickly, rather than wait three or four months for the inflation data to become available.

The second layer of meaning of the sentence in question was that if the market-determined exchange rate were to signal a need to start moving the exchange rate faster than the rapidly decelerating inflation targeted, then monetary and fiscal policies, too, should be tightened, the staff representative said. Accordingly, the sentence in question was meant to provide the kind of constraint that Mr. Goos favored.

As to the influence of the exchange rate on prices, some anecdotal evidence might be useful, the staff representative commented. When Zambia had undertaken its first large devaluation under the program, in mid-1989, the authorities' first announcement had incorrectly put the adjustment at 60 percent instead of 50 percent. Actors in the economy had immediately raised prices by 60 percent and, of course, they did not proceed to reduce them when the Government subsequently corrected its initial announcement. Therefore, there was clearly a substantial announcement effect of exchange rate adjustments on prices. In theory, a tightening of monetary policy would reverse that process. There were problems with that mechanism in an economy dominated by parastatal monopolies.

The dynamics of inflation in Zambia had been of great concern to the staff, particularly as prices had not responded as closely to monetary policy as the staff had expected and hoped, the staff representative commented. The economy had been characterized by extensive controls and parastatal monopolies, and the staff continued to feel that it could not gauge the performance of the parastatals, either to privatize them or reform them, until there was market pricing in the economy. Therefore, the early phase of the program had focused on liberalization and market pricing. But the staff had then faced a situation in which the economy had freer prices but was still dominated by monopolistic parastatals. In that situation, there had been a strong tendency for the unions to put pressures on the parastatals--as the unions recognized that the parastatals could push price increases through--so that any crunch that might come would hit other parts of the economy, as had started to happen in the agricultural sector in 1990. There was in effect a sequencing question, the answer to which was not easy to find.

As to the export retention rate, the staff expected that, even after unification of the exchange markets, that rate would continue to diverge from the unified rate, at least for the remainder of the current program, the staff representative remarked. In the coming period, the staff would be encouraging the authorities to further liberalize the exchange system, but for the moment the export retention rate could be used for purposes other than imports. If it were used for imports alone, the rates could be expected to converge with an open import system; in fact, however, it could also be used for services, royalties, certain profit remittances, and other transactions that were still controlled. Thus, there was a reason for the rates to diverge until the resources were available to liberalize areas such as profit remittances. Meanwhile, exporters did have an additional incentive through the benefit of the export retention rate.

The staff did not have detailed information on the settlement of the strike in the oil industry, the staff representative commented. The fact that the strike had been settled was of course very welcome; the strike had been a cause for serious concern, partly because of its strong effect on the copper industry, including a cut by nearly half in the normal volume of copper shipments in March 1991. It was the staff's understanding that the settlement provided for a 50 percent wage increase, but the staff did not know the date of the previous increase or whether the associated allowances were taxable.

There had been contacts between the authorities and the commercial bank Steering Committee, and there seemed to be some movement toward reaching an agreement, the staff representative commented. However, apparently the banks themselves were in no hurry to reach an agreement, as they were unlikely to receive any money out of an agreement.

The staff certainly agreed with Mr. Schoder that, when the fiscal position improved, the authorities should reduce tax rates, the staff representative said. At the start of the current adjustment effort, in 1989, the initial fiscal program goals had included a substantial cut in personal income tax rates that was to be offset by a broadening of the tax base, including taxation of fringe benefits. While agreement on the rate cut had been in place, the taxation of fringe benefits had not. The lesson that the staff had learned from recent experience was that new revenue-enhancing measures should be avoided until the tax cut measures were implemented.

A question had been raised about the strategy that the authorities should apply during the projection period of negative resource gaps, the staff representative recalled. The current medium-term scenarios did not include any use of the forecast surpluses, as stipulating such plans at the present stage would probably have understated how difficult the situation looked down the road. The question was whether donors would be willing to maintain the level of assistance during that period to sustain a large buildup of reserves or payments of debt.

The staff had sufficient data for the copper contingency, the staff representative remarked, because the staff did not rely on actual reported earnings, but rather on physical volumes and world prices. Therefore, the copper contingency mechanism was not based on revenues actually surrendered, but rather on data on physical volume.

As to the pace of privatization and the implementation of a new investment code, the multilateral institutions--primarily the World Bank--were trying basically to keep the authorities from moving too hastily, the staff representative commented. The authorities wished to move very fast, and there was some concern that they might move ahead with measures that had not been carefully and fully thought out in advance. Earlier, the staff had advised the authorities to reconsider the Investment Code, which was now expected to be announced shortly. Similarly, the Zambian Government was eager to move quickly to privatize public enterprises, but the World Bank staff had been concerned that the preparations for that move were inadequate and could lead to poorly conducted operations that might undermine the support for the broader privatization effort over the longer term.

The growth rate of GDP was one of the most difficult variables to forecast in the context of adjustment programs, the staff representative remarked. The staff considered that the marketed agricultural output would be about 40 percent higher in 1991 than in 1990, owing to better weather conditions rather than to the effects of the adjustment program. As to the relationship between the credit squeeze under the program and future GDP growth, the program did provide for a 15 percent real increase in credit to the nongovernment sector, provided the fiscal objectives were met; that increase should provide, at least from the credit side, room in which the growth forecasted could happen.

The staff fully agreed that controlling new expenditure commitments was important, the staff representative said, and that was in fact the key thrust of the new budgetary control procedures. The current budgetary process gave commitment authorizations for the full year; as a result, departments would over-commit and spend in the first half of the year and seek additional commitments for the rest of the year. Therefore, the staff was encouraging the authorities to spread the commitments out over the whole year.

Zambia already had a fairly competitive and strong banking system, which consisted of 12 banks, most of which were private, the staff representative explained. In that context, the situation in Zambia was very different from that in many other African countries. A few of the smaller banks in Zambia were somewhat weak, but two of the three leading actors in the system were major British banks. The banking system was one of the few parts of the Zambian economy that was dominated by the private sector rather than the public sector.

A number of Directors had raised the question of a possible legislative prohibition on lending by the Bank of Zambia, the staff representative recalled. While that idea was tempting, it missed the source of the problem, which was political. The Bank of Zambia did not wish to lend, thereby shifting the fiscal responsibility away from the Government. The real issue was the need to create the conditions for the banks to move in and undertake the financing, particularly in the agricultural sector; that would involve moving the cooperatives out of the financing, so that the financing could be undertaken by the private sector.

There was to be a significant reduction in tariff dispersion in 1991, the staff representative commented. The reduction was to take place over two years, rather than just one, as a part of the World Bank's operation to be supported by a three-year phasing in of the fairly planned strong movements in tariffs.

The consensus was that agriculture was the main area for longer-term growth in Zambia, the staff representative noted. Marketed produce was considered to have a strong growth potential, particularly if the current heavy subsidization of maize was reduced.

As to the need to firm up financing for the second quarter of 1991, there had been follow-up discussions with a number of governments about possibly accelerating their balance of payments assistance in order to make disbursements in the second quarter, the staff representative from the African Department remarked. Good progress had been made in some of those discussions, but the financing still had to be finalized. Over the coming few days, the staff would be approaching some Executive Directors to see whether they could assist in finalizing those discussions, so that the provision of more of the balance of payments assistance could be advanced to the second quarter. That objective was very important, because large amounts of payments to the Fund would fall due in May 1991, when the adverse consequences--on a cash basis--of the decline in copper exports as a result of the oil refinery strike would be felt. Hence, there was an urgent need to mobilize balance of payments assistance for the second quarter.

The Deputy Director of the Exchange and Trade Relations Department recalled that a number of Directors had commented on the prospects for medium-term viability in Zambia. The case of Zambia was obviously very difficult, as the authorities faced, inter alia, a substantial contraction of the country's major export industry. The staff report had been frank in that regard, but two points were worth stressing at the present stage. First, the staff believed that the program was a credible start. The staff had not approached that program from a different point of view because it was a rights program and not an arrangement immediately involving Fund financing. Second, the adjustment effort would undoubtedly have to be sustained and intensified in the coming years, before it could be followed by a successor arrangement. Even on the assumption--which was not built into the projections--that the program would be strengthened, Zambia would clearly require quite exceptional support by the international community. The beginnings of the support were already in place, and there were discussions in the Paris Club and other circles that might have an important bearing on future financing. The staff was very hopeful that there eventually would be a firmer basis for projecting a better medium-term outlook, but Zambia was a difficult case and would require substantial and sustained support.

One speaker had asked why there was no rights accumulation upon approval of the program under discussion, the Deputy Director remarked.

Accumulation of rights at the current stage would be consistent with the typical approach if the Board were approving an arrangement involving Fund financing; that approach was certainly anticipated under the rights approach, and even front-loaded rights accumulation was possible. The question in the current case of Zambia was one of performance: there had been substantial slippage in the second half of 1990, and the staff had in that light thought it prudent to proceed with approval of the program but to leave the first rights accumulation subject to the meeting of performance criteria.

Another speaker had asked the staff whether it had contemplated a possible shortening of the rights accumulation period to less than three years in the event of a reduction in Zambia's arrears to the Fund, particularly in view of the possible application of the contingency mechanism, the Deputy Director remarked. The staff had not considered that option. The staff had focused on establishing a sound and credible record of policy performance for Zambia before moving the country to an actual Fund-supported program. If by chance there were to be a substantial reduction in arrears during the course of the rights program, a shortening of the period could be considered; it was certainly not precluded.

A question had been raised about the consistency of any possible arrears reduction during the rights period with the World Bank staff's view on handling arrears cases, the Deputy Director recalled. In the case of Zambia, the Fund staff had not attempted to program explicit arrears reduction into the program for the first year; as a practical matter, given the financing constraints and the extremely large financing needs, that option had not seemed practical. The staff had developed the proposed contingency arrangement so that if copper prices were to move in a positive direction, there would be some reduction in Zambia's arrears to the Fund. In coming years, if developments permitted, the staff would certainly again seek to bring about a reduction in the arrears to the Fund. The Bank staff was aware of the Fund staff's intentions in that regard.

Mr. Goos said that he still felt somewhat uneasy about Zambia's medium-term viability. The staff paper frankly stated that, owing to the exceptional financing need, continued successive Fund arrangements would be required; the medium-term projections gave the impression that continuous Fund-supported programs would be needed into the next decade. That outlook was difficult to reconcile with the current guidelines on conditionality; the Fund should not introduce new or special conditionality principles specifically for rights accumulation program countries.

At the same time, Mr. Goos continued, he wondered how the staff and management reacted to his proposal that they should, in their further contacts with donors and other creditors, draw attention to the dismal medium-term outlook, and particularly the risk that if the entire stock of arrears was refinanced by rights accumulated in three years' time, there would be a substantial risk that Zambia would fall into arrears very soon. In other words, the Fund should continue to strive for additional contributions through which Zambia could reduce the stock of arrears. That effort would admittedly be difficult, but it should be maintained.

Mr. Mwananshiku said that he welcomed the patience and persistence that staff and management had shown in dealing with Zambia, sometimes in circumstances that had not been easy. He appreciated the donor community's continuing support and encouragement for Zambia's efforts to transform its economy as the role of the mining sector gradually diminished.

He wished to underline Zambia's commitment to the program, Mr. Mwananshiku continued. Mistakes had been made in the past, mainly as a result of changes in policy. At present, much of the decision making affecting the program had been left to government officials, particularly the Monitoring Committee. The mistakes that had occurred in the recent past were the result principally of weaknesses in administration rather than in policy. The staff had explained why the administration was weak, particularly in the Ministry of Finance. The solution in that connection in the short term was technical assistance, which was being offered. In the medium to long term, conditions of government service must be improved to facilitate staff retention in key areas of the administration.

The authorities were aware of the importance of fiscal policy in the program, Mr. Mwananshiku commented, and both the Fund and the World Bank were concentrating their technical assistance on that area. For their part, the authorities were trying to improve procedures for expenditure authorization, monitoring, and reporting.

Zambia's balance of payments prospects were not bright, as many Directors had pointed out, Mr. Mwananshiku commented. While efforts were being made to encourage nontraditional exports, the role of the donor community remained important. As Directors had noted, the process of transforming the economy would take time. At present, the comments made by Mr. Peretz on the special charges should be borne in mind. He fully agreed with those comments, as they were consistent with Zambia's weak balance of payments position.

The duty on materials for mealie meal bags had been noted by Mr. Goos, Mr. Mwananshiku recalled. The problem in that connection was with the final price of mealie meal. Efforts to raise the price of mealie meal on two recent occasions had led to civil strife and even bloodshed, as mealie meal was the staple food in Zambia. However, efforts were underway to replace imported materials with local ones and thus avoid the problem.

In concluding, he wished to stress that Zambia was aware of its responsibility to ensure that the program was implemented, even though the program was tight, Mr. Mwananshiku said. The flexible approach being considered by the Board offered the authorities a great challenge and opportunity.

The Acting Chairman then made the following summing up:

Directors noted the considerable progress that has been made under a program of policies that Zambia has implemented since mid-1989 to transform the economy from one that is based on administrative controls and government involvement into one that is based more on market forces and private sector activity. Directors also noted the success that has been made in the areas of price deregulation and reform of the exchange and trade system, and the wider scope that is now allowed for private sector activity, including in agricultural marketing. Although performance with regard to financial policies and inflation was poor in 1990 relative to program targets--and this was a source of disappointment to Directors--these results at the same time represented an improvement over 1989.

Directors welcomed the Government's determination to bring the reform effort back on track with the adoption of a rights accumulation program for 1991. The program will be implemented under very difficult conditions both at home and abroad. Directors considered that success in stabilizing the economy and fighting inflation would hinge critically on achieving a further significant reduction in the budget deficit. They regarded it as essential that the new budgetary control procedures be implemented firmly and that the Budget Office be given the necessary backing. Civil service pay and benefits would need to be contained and civil service reform initiated promptly. Actions would also need to be taken to ensure that the copper company meets its obligations to the Government and the Bank of Zambia--the company tax, the mineral resource levy, and the kwacha counterpart payments on external debt service--fully and on time. Directors thus expressed strong concern regarding the implications of the recent decision to postpone the taxation of housing allowances, and they noted that Zambia has no choice but to expand the tax base if essential spending is to be maintained in the face of a longer-term decline in copper revenues. Disappointment was also expressed about delays with respect to payments by the copper company to the Government.

Directors underscored the importance of strict adherence to the fiscal targets if the program's monetary and inflation objectives are to be met. At the same time, they expressed concern that the Bank of Zambia had been fueling monetary expansion by lending directly to the parastatal and agricultural sectors, and Directors stressed that such lending would have to cease if the stabilization program was not to be undermined. Directors urged the Government to achieve positive real interest rates at an early stage and noted that further action to raise nominal rates would be desirable rather than waiting for a decline in inflation.

Directors expressed satisfaction with the progress made in reforming the exchange and trade system. Directors encouraged the authorities to make further rapid progress in these areas. Directors endorsed the objective of merging the first- and second-window exchange rates at a market-clearing level by no later than the end of 1991. They also welcomed the incorporation into the program of a contingency mechanism that was designed to help provide Zambia with a cushion against adverse external shocks. It was also stressed that achievement of exchange rate stability over time would depend primarily on restrained monetary and budget policies.

Directors urged the Government to move rapidly and decisively to strengthen investor confidence and increase private sector participation in the economy. In this context, they expressed approval of the Government's commitment to privatization and to the review and restructuring of those parastatals that remained in public hands.

Directors commended the substantial efforts made by all parties in the first quarter of 1991 to mobilize financial resources to reduce arrears to the Fund to the targeted level and to clear arrears to the World Bank. However, the 1991 financing plan includes pledges that will need to be firmed up quickly, and donors' efforts to disburse assistance in a timely and usable manner will, if anything, have to be redoubled if the financing needs for the remainder of the year are to be met. In this regard, balance of payments support in the second quarter is particularly urgent. Directors welcomed the Government's intention to make advance acquisitions of SDRs to facilitate settlement of amounts falling due, including those payments that are necessary to reduce arrears to their level of July 1, 1990 by the end of December 1991; such timely payments to the Fund were essential to accumulate rights under the program and thus needed to be accorded the highest priority.

Zambia's medium-term outlook is very difficult because of the sharp drop expected in copper prices and the prospect of a decline in copper production and exports. Directors noted that, if progress in moving toward a more viable external position is to be achieved, additional efforts will be required to expand nontraditional exports and reduce import dependence. The view was also put forward that the projected slow progress toward external viability and the doubts with regard to Zambia's repayment capacity argued for stronger and faster macroeconomic adjustment and structural reform. All agreed that the program left absolutely no margin for slippage and Zambia would have to prove that it would stick tenaciously to its policy undertakings and payments performance to the Fund in order to reassure donors and creditors who would need to provide continuous generous support, including in the future comprehensive debt relief on the most concessional terms possible.

It is expected that the next Article IV consultation with Zambia will be held on the standard 12-month cycle.

The Executive Board then approved the following decisions:

1991 Article IV Consultation

1. The Fund takes this decision relating to Zambia's exchange measures subject to Article VIII, Sections 2(a) and 3, and in concluding the 1991 Article XIV consultation with Zambia, in the light of the 1991 Article IV consultation with Zambia conducted under Decision No. 5392-(77/63), adopted April 29, 1977, as amended (Surveillance over Exchange Rate Policies).

2. As described in EBS/91/59, Zambia continues to maintain restrictions on the making of payments and transfers for current international transactions in accordance with Article XIV, except that the following exchange measures maintained by Zambia are subject to Fund approval under Article VIII: multiple currency practices arising from the operation of the dual exchange market and from the sale of retained export proceeds; limitations on the availability of foreign exchange for certain current transactions, including limitations on personal remittances and the nonavailability of foreign exchange for tourism; and the limitation on the availability of foreign exchange for the servicing of external debt evidenced by payments arrears. The Fund approves the retention of the multiple currency practice arising from the operation of the dual exchange market until December 31, 1991. The Fund encourages the authorities to remove as soon as possible the other exchange restrictions and the other multiple currency practice.

Decision No. 9709-(91/56), adopted
April 17, 1991

Accumulation of Rights

The Fund approves the accumulation of rights for Zambia as set forth in EBS/91/59.

Decision No. 9710-(91/56), adopted
April 17, 1991

Overdue Financial Obligations - Review Following Declaration of Ineligibility

1. The Fund has reviewed further the matter of Zambia's overdue financial obligations to the Fund in the light of the facts and developments described in EBS/91/63 (4/9/91).

2. The Fund welcomes the continued active cooperation of the Zambian authorities with respect to the adoption and implementation of the comprehensive set of structural reform and adjustment policies contained in the policy framework paper (EBD/91/33, 2/1/91). The Fund also welcomes the authorities' intention to pursue a rights accumulation program during the period through April 1994. The Fund calls on external donors and creditors to augment flows of grants and concessional lending in support of Zambia's adjustment efforts on a timely basis. The Fund intends to continue to collaborate actively with Zambia under the intensified collaborative approach.

3. The Fund regrets the continued existence of Zambia's arrears to the Fund, which places a financial burden upon other members and reduces Fund resources needed to help others. The Fund stresses that full and prompt settlement of these arrears should be given the highest priority. In this regard, the Fund welcomes the substantial payments that were made by Zambia during February and March 1991. The Fund notes Zambia's intention, under the rights accumulation program, to make payments equivalent to obligations falling due to the Fund in the remainder of 1991 and to reduce arrears to the Fund to or below their level of July 1, 1990 by December 31, 1991.

4. The Fund will review the matter of Zambia's overdue financial obligations to the Fund again at the time of the first review of Zambia's rights accumulation program for 1991 or within six months of the date of this decision, whichever is earlier, in the light of actions taken by Zambia in the meantime regarding payments to the Fund and implementation of the rights accumulation program.

Decision No. 9111-(91/56), adopted
April 17, 1991

2. UGANDA - 1991 ARTICLE IV CONSULTATION AND STRUCTURAL ADJUSTMENT FACILITY - REVIEW UNDER SECOND ANNUAL ARRANGEMENT

The Executive Board considered the staff report for the 1991 Article IV consultation with Uganda and the midterm review under the second annual arrangement under the enhanced structural adjustment arrangement approved on

April 17, 1989 (EBS/91/57, 4/1/91; and Cor. 1, 4/16/91). They also had before them a background paper and statistical appendix (SM/91/72, 4/15/91).

Mr. Monyake made the following statement:

At the outset, I would like to place on record the warm appreciation of my Ugandan authorities for the support given by the Fund at the recent Consultative Group meeting for Uganda in Paris. They were encouraged by the donor community's positive response to their aid request and by the delegates' deep appreciation of the considerable progress that Uganda has made both in terms of consolidating stabilization and initiating structural reforms.

My authorities are in broad agreement with the basic thrust of the staff appraisal. Therefore, I would only focus on some aspects that require attention.

Uganda was continuing its stabilization efforts through the pursuit of austerity measures and contending with declining earnings from coffee exports, as a result of the collapse of the International Coffee Agreement, when in the first half of fiscal year 1990/91 another disastrous external shock, the Gulf crisis, drove the import price of oil up by some 50 percent. The Government was once again compelled to react to a further loss in its terms of trade by immediately increasing the domestic price of oil by the full amount of the increase in the international price and further devaluing the nominal exchange rate of the shilling.

The high fuel prices, coupled with the bad weather conditions and some difficulties in the marketing system, caused the growth momentum to slow down in 1990. According to preliminary estimates, GDP grew by 3.1 percent, after a remarkable growth averaging over 6 percent between 1987 and 1989. The effects of these unfortunate developments were reflected in the outcomes of some performance criteria for end-December 1990 which deviated from the program targets.

In spite of these deviations, which in most cases were only marginal, the program was kept broadly on track and, as the staff appraisal indicated, the macroeconomic objectives were largely realized. Inflation was brought down further to an annual rate of 22 percent by the end of February 1991 from 29 percent at end-June 1990. The inflationary pressure could have been reduced even further were it not for the pass-through of the oil increases to domestic consumers and weather-related constraints. By end-March 1991, the foreign exchange premium had been reduced to 22 percent, from 87 percent in June 1988.

Developments in the external sector continue to cause concern to my authorities. While purchases of coffee for export are expected to be lower than planned, the oil import bill and external debt-service payments, among others, are anticipated to be higher than programmed, causing increased balance of payments pressures.

In order to address the difficult external sector position and to correct the imbalances caused by unforeseen monetary expansion, a revised program for the second half of 1990/91 has been prepared. My authorities are firmly committed to the program and, with appropriate donor support, intend to carefully monitor developments and to take the actions necessary to stay within the revised program targets.

On the fiscal front, revenue yield is expected to improve through the reform of tax and tariff structures and the strengthening of tax administration. In order to enhance the efficiency of tax collection, an independent tax authority operating outside the civil service will be set up soon. On the expenditure side, priorities will be reordered, placing emphasis on key economic and social sectors. This reorientation of expenditures, apart from its beneficial impact in terms of alleviation of poverty, will also help in improving the balance of payments situation. Besides, the Government has decided to effect a 30 percent cut across the board in nonwage and noninterest recurrent expenditure, except in health, education, and agriculture, where cuts are expected to be lower.

In the monetary area, the policy of maintaining positive real interest rates will be maintained in order to improve domestic resource mobilization and economic activity. A program is under way to reform the financial sector by strengthening management, restructuring the banks, and enhancing the supervisory power of the Bank of Uganda. In this regard, the Government has set up a team headed by the Bank of Uganda to coordinate policy and come up with a strategy and measures to reform the financial system. In order to restrain liquidity growth, indirect monetary policy instruments, including a system of open-market operations, are being contemplated. Accordingly, a program to popularize the treasury bills across the country is to begin soon. Moreover, the accounts of the Bank of Uganda are being brought up to date, with that for 1989/90 being submitted now to the external auditors. This is an important step forward, as the delay in bringing the accounts up to date has been the major obstacle for the authorities to address appropriately factors underlying the expansion in the unclassified assets of the banking system and thereby contain undue monetary expansion.

Let me now turn to the parastatal reform agenda of the authorities. In early March, the Government reviewed the whole question of the public enterprise sector and divestiture, following a World Bank sponsored study, and adopted a framework to carry out the process of divestiture. A coordinator for public enterprise reform and divestiture, at the rank of permanent secretary, is soon to be appointed. Moreover, in its effort to restore investor confidence, the Government has decided to remove the uncertainties about property rights created by the expropriation of properties in early 1970s, and the legal framework to ensure their smooth disposal is now being reviewed.

In the external sector, a favorable policy environment has been created, especially for export diversification, with the establishment of a 100 percent foreign exchange retention scheme for all noncoffee export proceeds, the dismantling of export monopolies, the introduction of foreign exchange bureaus, and the simplification of the export licensing system. Progress is also to be made toward unifying the exchange rate by the end of 1991, through the pursuit of appropriate supportive fiscal and monetary policies. In order to establish a reliable external debt profile, a consulting firm has also been appointed to complete the verification exercise by end-May 1991.

My authorities have no difficulty in accepting the medium-term projections. However, we understand that the official position is more optimistic than that of the staff, in view of policies implemented to date and the more pragmatic and tougher measures anticipated for the remainder of the current fiscal year and beyond. The authorities believe, in particular, that both coffee and noncoffee exports should do better in response to the liberalization drive in the exchange and trade system. As regards the fiscal area, the resource mobilization measures, such as those to maintain positive real interest rates, and the anticipated reform in the financial sector are expected to produce a better outturn.

My authorities believe that the package of reforms for the second half of the current fiscal year and beyond constitutes a strong and credible program. But such an important and demanding agenda cannot succeed without sufficient donor support, including from the Fund. The external shocks affecting both Uganda's primary export, coffee, and, in the wake of the Gulf crisis, one of its most vital imports, oil, have created the need, now more than ever, for unwavering Fund support. While the rephasing requested is fully appropriate under the present circumstances, my authorities earnestly request the Executive Board to augment the overall amount of the three-year ESAF commitment, such that the rephasing does not disturb the financing plan for the third-year arrangement by leaving it underfinanced.

Even though donor response at the recently concluded Consultative Group meeting was positive, one should not ignore the difficulties of putting such financial assurances in place in a timely fashion. The Ugandan experience, in this regard, was that the disbursement of external loans and grants was not as sufficient and timely as expected. Moreover, the strains on Uganda's foreign exchange budget, caused largely by the heavy debt-service burden, will continue. The approval of the requested augmentation will not only help to protect the much-needed reform program but will also create the appropriate catalytic signal to win the required financial support from the other multilateral organizations and the donor community.

In closing, I would like to express once again the appreciation of the Ugandan authorities to the staff, management, and the members of the Board for their keen interest in Uganda's problems and the support they have consistently provided in the process of the macroeconomic and structural adjustment.

Mr. Wright made the following statement:

At this stage in the program year, it looks as if 1990/91 will prove to be disappointing for Uganda in many respects. Drought has hindered the economic growth that is vital to raise per capita income from its currently very low level, and the external position has deteriorated. Inflation exceeds the targeted leveled, and several performance criteria for the midterm review were missed.

Nevertheless, I do not find the generally upbeat tone of the staff appraisal inappropriate, especially when one takes account of the added difficulties faced by the authorities since the arrangement under the ESAF was originally put together. First came the collapse of the International Coffee Agreement. Then came drought and the impact of the Middle East crisis, all against the background of the growing scourge of AIDS. On top of all this, the authorities have felt that the country's security has been under threat. In persisting with their efforts in macroeconomic stabilization and structural reforms in such circumstances, the authorities have shown commendable determination.

Among the achievements which deserve particular mention are the acceleration of the exchange rate reform, substantial civil service restructuring, price decontrol, and marketing board reform. Inflation has fallen sharply, despite higher oil prices, drought, and price liberalization and there has been progress in fiscal consolidation and in improving accounting within both the fiscal and the monetary systems. Overall, I endorse the staff's favorable assessment of the direction of the program.

Nonetheless, it is quite clear that the prognosis for Uganda is far from good. The fiscal stance is still too lax, yet there is a desperate need for higher expenditure on social services and infrastructure. Monetary expansion is too rapid and remains difficult to monitor and hard to interpret. Inflation is too high, investment too low, and structural problems remain. Medium-term external viability also remains some way off and dependent on external assistance.

In getting to grips with all these challenges there will clearly be a need for continued Fund assistance through the provision of both technical and financial assistance. In order to justify that support, the authorities must recognize that they need to increase their efforts despite difficult circumstances. I have several comments on what is required for the second half of this program year and over the longer term.

Looking first at the second half of this year, the adjustment in current expenditure being undertaken to ensure compliance with the original budget is substantial. But its beneficial effect will be diluted unless military spending is also reined in. Of course, this expenditure restraint is only half the story: there remains a fundamental need for revenue mobilization; but I accept the judgment of the staff, and technical missions, that this requires a long-term solution, and I will return to this point in a moment.

Also encouraging is the continued commitment to unify exchange rates by the end of this calendar year, but I hope that in concentrating on this objective the authorities do not lose sight of the need for an efficiently operating bureau market, and that they will accelerate their review of the recommendations of the relevant technical assistance mission, which took place in November. The background paper gives an indication of how far the bureau are currently from being free-market operators.

An area which is particularly disturbing is monetary control. Measured credit growth, in terms of program performance, seems to have been distorted by peculiarities of the Bank of Uganda accounting system. I am unclear, for example, as to whether foreign currency payments by the Bank of Uganda automatically count as lending to the government, even where counterpart funds are provided. Perhaps the staff could comment. In any case, we have known for some time that the monetary accounts are in desperate need of improvement, beyond what has already been achieved.

The outlook for credit growth over the year as a whole is encouraging. Other bright spots include the stricter enforcement of banking ratios and the strengthening of individual banks. But monetary growth has been much higher than projected and may well continue that way because of the expansion of other domestic assets held by the banking system. It seems that this item, the stock of which exceeds that of broad money, is still little understood, and the slowdown in its growth projected in the second half of this year is an assumption, the validity of which I find hard to gauge. Will issues in the proposed Treasury bill market, which Mr. Monyake mentions in his statement, help to absorb these assets? Once again, this is an area where monetary accounting is urgently required. In the short term, the saving grace in the area of monetary policy is the authorities' stated, and to this point proven, intention to maintain positive real interest rates. As the staff note, this is bearing fruit in encouraging savings and time deposits, resulting in a decline in velocity. The importance of continuing with appropriate interest rates cannot be stressed too strongly.

Looking further ahead, the medium-term projections show that by the end of the arrangement under the ESAF, Uganda will still be well on the way to medium-term external viability, albeit somewhat delayed compared with our original expectations. But this is of course a best-case scenario. To ensure that this transpires, there are several points to which I would urge the authorities to pay particular attention.

First, it is a matter of some urgency that the proposed tax authority be established outside of the civil service to improve the collection of revenue. At the same time, the authorities must seek every opportunity to expand the tax base. And they certainly should refrain from ad hoc tinkering, such as making discretionary changes to sales tax rates in response to sluggish sales in certain domestic sectors.

Second, they must sustain the drive to improve public accounts, and in particular sort out the difficulties encountered in keeping track of development expenditures supported by external finance. This is an essential condition for proper control of expenditure. In this context, building on what has already been achieved in civil service reform will also be invaluable.

Third, the monetary accounts have to be completed. This is the major structural performance slippage in the first half of this year, and one which is particularly regrettable, since adequate monetary data are a key factor in getting on top of inflation. In this context, I would be grateful if the staff could provide more information on what action is being taken to improve understanding and control of assets in the banking system currently falling in the "other assets" category, which I mentioned earlier.

Fourth, every incentive must be given to coffee producers. Although other exports have been growing at an encouragingly rapid pace, coffee remains the key. In this context, although I appreciate the budgetary implications, I am not sure that a quicker move to bureau exchange rates for coffee purchases might not have been a good idea. In any event, I welcome the staff's encouragement to the authorities to move as swiftly as possible in this direction. However, I was somewhat alarmed to read of the apparently early stage of thinking about related issues, such as tariff protection and import payments systems. If the authorities are serious about the unification of exchange rates by the end of this year, they will have to resolve these issues as a matter of urgency. How, for example, will the Open General Licensing System (OGL) and the Special Import Program (SIP) be phased out?

Sixth, the private sector will require encouragement at every turn. Parastatal reform seems on the face of it to be progressing well, and I welcome the establishment of the investment code. However, I understand that investors from overseas still face considerable obstacles, such as difficulties in repatriation of dividends, and I notice that in the medium-term projections the staff seem to see no significant role for foreign direct investment. I find it hard to believe that there is not considerable scope for this, provided an appropriately stable and open environment can be created. I would welcome any comments that the staff may have on the potential for such investment.

The final issue which requires comment is the authorities' request for a rephasing of purchases under the ESAF, and Mr. Monyake's discussion of augmentation. Given the impact of higher oil prices, I have little difficulty with the rephasing. However, in making this purchase, the authorities should take careful note of the staff's comments--with which I concur--that this does not constitute any right to an augmentation of next year's arrangement. They must recognize that despite their determination in implementing this program, it would be difficult to justify increasing what is already a high level of access without a significant further strengthening of policy. And the lower level of access next year will, of course, render them more vulnerable to any further exogenous shock; this serves to emphasize the urgency of dealing with all the issues the staff have raised and which I have commented on.

Mr. Dognin made the following statement:

Once again, this review reveals the mixed performance results of Uganda's adjustment program. There is no doubt that external shocks and the drought which have affected the country have further complicated the management of the economy. The authorities, for their part, have tightened their policies, but not to the extent which would have been desirable to reverse the deterioration of the major indicators. As a result, the budget deficit worsened and monetary aggregates expanded beyond the objectives. Hence, like in January and September 1990, performance criteria have not all been observed and waivers are requested. This is still a source of concern.

I will comment briefly on the latest developments in the program and on the financing outlook. As to the latest developments concerning the fiscal sector, the results are somewhat disappointing both on the revenue and the expenditure sides. Revenue covers more or less only 90 percent of the current expenditures. I am afraid that the revenue enhancing measures were not given the utmost priority, and the authorities seem to rely on expectations of larger foreign grants and aggressive exchange rate policies to keep the budget performance in line with objectives.

The strengthening of the tax administration is a step in the right direction, and the Fund's technical assistance in this area is very valuable. As we have just seen in the review of Zambia, there is indeed an urgent need to enhance the revenue performance, which remains very low (6 percent of GDP) in comparison with international and even African standards. The establishment of a Tax Authority could be a good step. I would be interested in knowing which main direction it intends to pursue.

On the expenditure side, the restructuring of the civil service in order to improve its efficiency is welcome, but as an immediate consequence the proportional amount of the wage bill in current expenditures will increase by almost 50 percent and the ratio of current expenditure to GDP will also rise this year in comparison with last year.

According to the report, 50 percent of the ghost workers are still on the payroll, if I am not mistaken. What kinds of actions are being contemplated to reduce this figure?

The increase in expenditure allocations for agriculture, health, education, and road maintenance deserves support, but should be offset by significant cuts in other expenditures, such as military outlays.

As regards monetary policy, the authorities have begun to seriously address structural weaknesses through the rehabilitation of problem banks (UCB and the Cooperative Bank), the transfer of crop finance operations to commercial banks, and the maintenance of positive real deposit rates. Nevertheless, much remains to be done to reduce the monetary expansion, which accelerates at a 28 percent increase ratio.

The Government should enforce the cash and liquidity ratios more strictly and reduce the banks' overdraft position with the Central Bank as soon as possible. I share the staff's concern that the updating of the Bank of Uganda's accounts should be completed in order to alleviate the unclassified accounts of the banking system. The delays which have occurred are not encouraging.

Regarding the three major areas for structural reform, I cannot but agree with the staff that their implementation is needed to ensure that targets for the end of the current fiscal year will be achieved. Therefore, I cannot but urge the authorities to reinforce their efforts and show their commitment. I definitely agree with the staff that a lot of the Ugandan economic problems are "of a structural nature," such as the poor and inadequate transportation infrastructure. Therefore, the role of the World Bank is essential. I would like to know what has been considered in this area?

As regards the exchange rate policy, the position of this chair is well known and we will not dwell a long while on that topic. Suffice it to say, I really wonder whether the monthly adjustment of the exchange rate should be a performance criterion in the Fund's program.

As regards the balance of payments objectives, slippages are larger than expected, due mainly to an increase in oil imports and the relatively bad performance of coffee exports; in the meantime, we must recognize that recent but significant steps have been made by the authorities to facilitate inflows of private financial capital (the investment code, the liberalization of trade and the exchange markets, and privatization), but improvements in stabilizing the economic situation of Uganda will be slow.

The overall balance of payments deficit is now likely to reach $113 million, $31 million higher than previously forecast. As announced by the staff, improvements in the external accounts rely on generous donor support and exceptional assistance, including rescheduling.

I welcome the fact that the program embodies a substantial reduction of external arrears and attaches great importance to achieving this goal. I am grateful to the staff for the details they have provided regarding the financing of the program, as it was one of the concerns expressed by this chair last year. Despite the difficulties encountered, a closing of the financial gap could be envisaged. I note, however, that difficulties might arise in the Paris Club, as all bilateral agreements have not been signed yet, in particular with one of the major creditors.

A final word on the medium-term outlook. Despite a large Fund involvement, the recovery of Uganda's balance of payments viability will be longer than was thought. This means that very forceful action is required from the authorities, and that financial discipline should be reinforced. Indeed, I note from the report that external assistance has already been increased. In any event, the authorities should not relax their actions, and it is imperative that the program under the ESAF be successful, as creditors of the ESAF have to be reassured about the appropriateness of providing such forms of aid through the Fund.

Regarding the proposed decisions, I have no major problem. I can go along with the rephasing of the purchases, as this chair has always expressed its willingness to assure flexibility in our policy. I agree with the staff that such rephasing should not imply, at this stage, an augmentation in arrears for the third year.

Ms. Creane made the following statement:

We would agree that Uganda has made adequate, if not perfect, progress on economic policies--particularly relative to many of its neighbors. Noticeable efforts were taken to keep the adjustment program on track during the review period, but Uganda's overall economic performance was unfortunately marred by not meeting several important targets--although some of the difficulties encountered were due to factors beyond the authorities' control.

On fiscal policy, the efforts to eliminate 20,000 ghost workers from the public payroll is to be congratulated, although there is sufficient room for further cuts with clear benefits in potentially allowing room for raising salaries and wages for the remaining core workers. We are still concerned about the continued use of coffee barter arrangements and are disappointed that the volume exceeded the performance criteria. These arrangements are inconsistent with the commitment to rationalize and set priorities on public sector spending. On the whole, though, the authorities were able to keep close to their overall budget goals, including the not particularly ambitious deficit target, as well as the commitment to no net bank financing of the budget. We hope that these efforts will be sustained at least at this level through the end of the program.

Progress on the monetary accounts has been less impressive, despite the authorities' apparent understanding of the importance of controlling monetary aggregates. At the same time, maintenance of positive real interest rates has been a notable effort. We encourage them to continue to adjust interest rates as necessary and to consider more flexible rates as next steps, which should have the clear added benefit of raising the extremely low rate of domestic savings. Given the obvious importance for monetary policy making of deciphering the still large unclassified segment of the banking system, we are disappointed with the slippage on completion of the Bank of Uganda audit to June 1991.

On the external accounts, the authorities have made a clear commitment to unify the exchange rate by devaluing the official exchange rate significantly in the last eight months and introducing foreign exchange bureaus. Uganda's exchange rate deregulation policy is already serving as a model for other economies; therefore, we urge them not to falter from the current plan, if I read the staff paper correctly, of completely unifying their exchange rate by the end of 1991. I would also like to note here our satisfaction with Uganda's record on timely payments to the Fund.

The one area that continues to cause unease is the outlook on external viability. Notwithstanding the positive impact the policy program should have, we are concerned about the continued existence of financing gaps. At the time of our last meeting, it was agreed that progress on closing the 1990/1991 financing gap be assessed at this time. The current paper notes that this gap will be considerably larger than expected at the last review. We have no problem with the proposal to rephase the ESAF disbursements, although at this time we cannot respond positively to a request for augmentation at a later stage. However, we would like more information on how the 1990/1991 financing gap will be closed, as well as some analysis of the impact the recent Consultative Group meeting will have on closing the 1991/1992 gap.

As is implied by this statement, we support the proposed decision.

Mr. Ichikawa made the following statement:

Uganda's performance during the first half of the 1990/91 program was mixed. While there was continued progress in domestic financial stabilization, the external balance continued to deteriorate. In my view, two key policy developments should be noted. The first is the major exchange rate depreciation, which stimulated the noncoffee sector and also allowed an increase in the coffee producer price. The devaluation also enhanced the revenue of the central government. The second key development was the progress in overall fiscal adjustment, including the establishment of positive real interest rates, which led to a further lowering of the inflation rate that exceeded the program rate. As a result of these key measures, domestic adjustment seems to have gained momentum.

Nevertheless, the situation is still extremely fragile, and the weakness in the underlying policies will have to be addressed seriously in the second half of the program. In particular, external developments are disappointing; the financing gaps as well as the external arrears have continued to grow despite the increase in external assistance. Uganda encountered several adverse exogenous shocks, including oil price hikes and a further decline in the coffee export price. However, in my view, the slippage in the conduct of fiscal policy is particularly significant. I am concerned about the continued rise in security related expenditures, which translated into a large increase in government imports. While other expenditures were curtailed to avoid overall fiscal overrun, the implication of the slippages in the security related area is significant. I would appreciate it if the staff could elaborate on the mechanism of the existing budgetary control on security-related expenditures and government imports, its effectiveness, and whether there is a possibility of strengthening the control.

The decline in the volume of coffee production is a source of concern from the external as well as the budgetary point of view, as coffee is a predominant source of earnings. While the devaluation permitted a doubling of the producer price, the continued fall in production volume suggests that the incentives might be inadequate. The early shift of coffee to the market-clearing exchange rate market would be helpful in allowing maneuverability of the CMB, while the producer incentive should not undermine the necessary adjustment of the production cost.

In this connection, the authorities' stance on exchange rate policy in the bureau market and the one after exchange unification is achieved is not clear. If the authorities pursue the real exchange rate rule, a substantial tightening of domestic financial policy will be needed in order to avoid inflation.

This chair remains highly concerned about Uganda's weak external prospects over the medium term. The accumulated financing gap for 1994/95 was again revised upward, deepening our concern about the prospects for medium-term viability. Since the last Board discussion, a high degree of flexibility has been attached to the ESAF, to protect the program from adverse external shocks. This being said, use of the new options, such as augmentation and the approval of a fourth year, should be closely linked to an improvement in performance. Thus, at this stage, we do not see any firm linkage between rephasing and augmentation in the third year. The latter should be considered in the light of an improvement in adjustment performance and in the context of improved prospects of financing assurance; otherwise increased exposure would only risk the repayment capacity.
With these comments, I support the proposed decision.

Mr. Esdar made the following statement:

Uganda, like other countries, is confronted with very severe and difficult problems. On the one hand, there is a need for fundamental structural and macroeconomic reforms in the country; on the other hand, the demand for main export products is characterized by fluctuations and uncertainty. The increase in the oil bill has weakened the external position, and high debt-service obligations have aggravated the situation. Given this environment, the authorities are to be commended for their efforts to keep the agreed program under the ESAF on track.

However, deviations from the agreed benchmarks emphasize the need to strengthen macroeconomic as well as structural reforms. With these remarks, I can certainly go along with the policy recommendations as outlined in the paper.

In the monetary sector, the maintenance of positive real interest rates is commendable, and is a very important step in the right direction. However, the containment of monetary expansion, improvement in monetary control, and restructuring of the banking sector are of similar importance in order to reduce further inflationary pressures.

In the public sector, the policy of limiting the overall public deficit remains crucial. This would require improvement in revenue management, perhaps by introducing a tax authority, as well as by strict control of expenditures. The high security-related outlays are especially of major concern. It would be interesting to know more about the magnitude of these expenditures and a possible time frame for their cutback. A streamlining of the civil service sector and fundamental civil service reform in line with the objective of increasing its productivity and efficiency, as recommended by the Public Service Review Commission, are certainly important additional steps to accomplish a more balanced fiscal situation.

Generally, in the area of parastatal reform and privatization, there seems to be room for a more ambitious course of action. In 1972, as outlined in the paper, nearly 7,000 enterprises were expropriated. Related to this figure, 180 privatizations and 29 joint ventures can only be regarded as a first step, and more progress in this field is needed.

With regard to the exchange rate system, the envisaged reform steps are welcome. However, I would like to encourage the authorities to remove remaining distortions and to unify the two exchange markets as soon as possible. Of major concern is the weak and vulnerable external position of Uganda. For the program period, there remain substantial unfinanced gaps in the balance of payments.

The arrears situation is a substantial obstacle to attracting foreign capital. Even under optimistic assumptions, there will be no external viability before 1995. This is hardly in line with the guidelines for requests for ESAF resources, which require an improvement in the external position and adequate external viability as objectives of the program. Given this situation, some lowering of the very ambitious growth targets might be necessary as well as adequate to bring the economy on a more sustainable path and to improve the overall financial stability. In addition, a reduction of security outlays, as mentioned before, which often require substantial foreign exchange, will facilitate this situation as well.

With regard to the requested rephasing of disbursements, in spite of some reservation, I can go along with the request in the expectation that the authorities will strengthen their adjustment efforts and on the understanding that this decision will not prejudice for an augmentation of the three-year program. I have sympathy with the staff's assessment that, in view of Uganda's already high access to ESAF resources, the authorities should be prepared to continue their adjustment efforts after the successful completion of the program under the ESAF without requiring augmentation. However, it certainly seems to be premature to discuss this issue in detail today.

Generally, a credible adjustment program, an environment supportive of private initiatives, adequate structural reforms, and re-establishing constructive debtor-creditor relations by overcoming the arrears problem will certainly encourage donors to support Uganda's efforts.

Mr. Ismael made the following statement:

I am much encouraged by Uganda's continuing adjustment efforts. With GDP growth at 6-7 percent between 1987 and 1989 and at 3 percent in 1990, while inflation was reduced from 240 percent three years ago to 22 percent by the end of February 1991, the results of the adjustment efforts are indeed impressive. With inflation expected to decelerate further to 15 percent by the end of this year, the need for frequent devaluations of the recent past could probably be removed as well. I also welcome the adoption of an investment code last November aimed at attracting foreign investment. It is my hope that this code will also facilitate the Government's efforts to sell off loss-making state enterprises, particularly those in better shape, to foreign investors.

Meanwhile, the economy has unfortunately suffered from poor world prices for coffee since the collapse of the International Coffee Agreement and Gulf war-induced higher oil prices, which are both beyond Uganda's control. As a result, it suffered both a shortfall in foreign exchange earnings last year and the loss of local revenue levied as export taxes on coffee exports. This further weakened the balance of payments, already under pressure because of higher oil prices.

Therefore, I welcome and support the package of reforms for the second half of the current fiscal year. Uganda deserves our support, and the authorities' request for rephasing and augmentation of the overall amount of the three-year ESAF commitment to protect the program and to win the required financial support from other multilateral organizations and the donor community is warranted, provided that the third-year program will be strengthened further. A possible area for strengthening the program in the third year is to have the exchange rates unified. In the meantime, I welcome the technical assistance which has been provided by bilateral and multilateral institutions to improve the banking practices of the Bank of Uganda.

In conclusion, I would be interested in receiving clarification of what is exactly meant by "unclassified assets of the banking system" and "locally financed capital expenditure"; whether their expansion has a direct bearing on inflation; and, if that is the case, what measures have been taken to keep them in check and make these items more transparent. I believe that broad money expansion could be better controlled if the unclassified accounts are removed.

Mr. Evans said that his comments on and impressions of the program were very much like those of previous speakers and he would therefore limit his remarks to a couple of areas.

Clearly there had been a great deal of progress, as Mr. Ismael had said, over recent years, and there were special exogenous circumstances that had caused so many of the performance criteria to be missed under the current review, Mr. Evans continued. Nonetheless, the authorities' record was not a very happy one: there was clear evidence of policy slippage, and it was worth recalling that the Board had been required to approve waivers at each of the past two reviews.

It was also clear that the main requirement was to tighten financial policies, although because of the slippages there was a need to move across quite a broad front, including in the structural areas, Mr. Evans said. Moreover, looking at just the short term, one must note that the targets had been relaxed in terms of inflation and the external account, and in looking further ahead, as many speakers had noted, the Fund would be financing gaps extending out into the medium term, even after basing the projections on what would appear to be a rather optimistic assumption of average export growth of some 20 percent. That projection might not be unrealistic, but in terms of the competitiveness that would be required to assure that sort of growth, there would have to be a considerable tightening of financial management.

Against that background, and in view of the circumstances behind the latest round of slippages, he had no real difficulty in agreeing to the rephasing, Mr. Evans commented. But as to the question of augmentation, the Board would need to see a much-improved track record before it could approve augmentation at a later stage. The option of a less demanding growth performance should be examined if there were to be any prospect of external viability being restored within the medium-term framework.

Mr. Zhang made the following statement:

At the outset I would like to express my broad agreement with the staff's appraisal and policy recommendations. Like previous speakers, I can endorse the proposed decisions.

The Ugandan authorities have undertaken many important adjustment and reform measures under the second annual arrangement under the ESAF. As the staff described in the paper, the program was kept broadly on track during the first half of

1990/91, and the macroeconomic objectives were largely realized. However, due to high fuel prices, low coffee prices, and bad weather conditions, which are beyond the authorities' control, real GDP is expected to grow by 3-4 percent in 1990/91, compared with a program projection of 5 percent, and some of the end-December 1990 performance criteria were not observed.

It is however encouraging to note that, in order to address the difficult situation, the authorities have formulated a revised program for the second half of the year. In so doing, the authorities have demonstrated their strong commitment to the adjustment and reform program.

Since it is crucial for the success of the adjustment program to exercise firmer control of fiscal and monetary policies, we welcome the measures the authorities will take in the second half of the year. As mentioned in the authorities' Memorandum on Economic and Financial Policies, efforts to strengthen tax administration will be continued and intensified. The authorities have also decided to press ahead with the setting up of a Tax Authority, which will certainly play a positive role in improving revenue collection in the medium term.

As for monetary policy, the authorities are encouraged to maintain their objective of ensuring positive interest rates, which is vital to the improvement of domestic resources. We also welcome the authorities' efforts to continue the reform of the financial system by strengthening management, restructuring the banking sector, and enhancing the supervisory power and capabilities of the Central Bank.

We believe that the authorities have indeed undertaken a very strong, comprehensive program. I share the view expressed in Mr. Monyake's statement that the authorities' important and demanding adjustment agenda cannot succeed without sufficient donor support, including support from the Fund. Therefore, I can endorse the authorities' rephasing request.

Mr. Orleans-Lindsay stated that he supported Uganda's package of economic reforms for the second half of the budget year, and he urged the authorities to implement the reforms with vigor. He could go along with the authorities' request for rephasing and an augmentation of the three-year ESAF commitment. He supported the proposed decisions.

Mr. Posthumus said that he endorsed the program and supported the authorities in their almost continuous efforts, in the face of substantial problems, to adjust their economy. The proposed decisions should be approved.

It would be helpful to have the staff clarify the meaning of the final paragraph on page 37, which was part of the staff appraisal, Mr. Posthumus commented. The text did not mention explicitly the fact that the authorities had committed themselves to unify the exchange rates before the end of 1991. But in a sentence in the same paragraph the staff welcomed the work that was currently underway to review a possible substitution of the lower protection tariffs for increased exchange rate protection. The meaning of the text was unclear to him; in particular, the source of the "increased exchange rate protection" was not obvious. He wondered why a unified exchange rate would be substituted by lower protection tariffs, and whether the tariffs were meant to protect imports or exports.

The staff representative from the African Department commented that the text to which Mr. Posthumus had referred was based on the fact that there was a de facto dual exchange system in Uganda with a parallel, and now quoted bureau, rate which was significantly more depreciated than the official rate. That system had given rise to a form of exchange subsidy to importers who had access to foreign exchange at the official rate. As a result, and as domestic prices were set more in line with prices that would have evolved had all imports come in at the parallel market rate, the government had maintained high import duties on items brought in through the official market. Those duty rates were higher than the authorities would feel comfortable with, as the gap between the official rate and the bureau rate was narrowed considerably further. Therefore, the authorities were assessing the level of the duty rates on specific imports to determine whether downward adjustments should be made to avoid undue cost pressure onsome firms as the gap between the rates narrowed. The text that Mr. Posthumus had noted was meant to welcome that assessment and the fact that the authorities nevertheless did not intend to delay the convergence of the rates.

Some Directors had asked why there had been a slippage in the behavior of the other items (net) structural benchmark, and why the staff assumed that there would be a marked slowdown in expansion of the item in the coming period, the staff representative recalled. They had also inquired about the kind of modifications that could be made to monetary instruments to offset unplanned developments in other items (net), should that prove necessary. A year or so earlier, the other items (net) entry had been left out of the purview of the monetary program, which focused on the concept of net domestic credit rather than the broader concept of net domestic assets. The staff had felt that it was not an adequate guide to policy and, indeed, that had proven to be the case. Although as those items most directly under the authorities' control, the identifiable credit operations, had been kept very close to the program targets, there had been an expansion in the other, unclassified accounts that had contributed to excessive monetary expansion. In response, the other items (net) were brought within the framework of the monetary program, which focused on the net domestic asset concept beginning in 1990/91. That step had not prevented those unclassified accounts from expanding, but it meant at least that they would be picked up by the ceiling and could signal that other policy steps should be taken.

Part of the policy response in the past program year was to greatly improve the government's position with the banking system, the staff representative continued. However, at the outset of the current program, there had been no prospect of a sizeable further improvement in the government's position with the banking system. The program was now being modified, so that for the fiscal year as a whole, an amount equivalent to some nine tenths of a percent of GDP, or U Sh 16.5 billion, would be deposited by the Government of Uganda in the central bank, a move that would help to keep the expansion of net domestic assets more in line with the original program target.

The fiscal authorities would have available U Sh 30 billion--1.6 percent of GDP--of additional counterpart resources resulting from the more rapid depreciation of the exchange rate and from the further commitment of funds by major donors. Of that amount, U Sh 16 billion had been lodged with the central bank and the rest was being used for reduction of arrears, not for additional expenditure. It was against that background that the containment of net domestic assets foreseen in the program seemed feasible.

With respect to other items (net), the staff had no evidence that the expansion of that item would be limited to 1 percent, the staff representative went on. The staff did not know what was causing the expansion. The external auditors were making good progress, and the authorities had already made available to them the accounts for 1989/90. It was the staff's understanding that the audit process would be completed by June 1991. The staff was hopeful that the process might be completed perhaps a month earlier, as a staff team planned to travel to Uganda soon to review that and other aspects of the program. Completion of the audit was instrumental in identifying the various operations of the central bank that were leading to the unplanned expansion of the unclassified accounts; identification was a prerequisite for containment.

Additional limited contingency planning had been built into the program very informally on the basis of the staff's best judgment that, with the program as formulated, in the absence of any major exogenous shocks, and with the evolution of real interest rates, the demand for financial assets would lead to an increase in broad money on the order of 30 percent in 1990/91, the staff representative commented. The credit program was, however, formulated on the more cautious assumption of monetary expansion of 21 percent.

While some Directors seemed to feel that the staff's medium-term projections for foreign direct investment were pessimistic, some others considered the projections to be optimistic, the staff representative remarked. Before such investment would expand rapidly to sizeable levels Uganda probably needed to further restore its financial credibility in the international community, in part by reducing the country's external arrears; the revised program for 1990/91 did involve some reduction in arrears. In addition, a new investment code was just being put in place, considerable economic infrastructure had to be replaced in Uganda, and the trade system had to be reformed. In that connection, it was important to note that, in the exchange rate policy area, the issue was not only the need to converge the exchange rates, but also to develop an exchange system that was conducive to liberal trade practices. The staff was aware of increasing investor interest in Uganda.

Some Directors had suggested that the staff's projections for noncoffee exports might be too ambitious, the staff representative continued. The staff had, however, probably initially underestimated noncoffee exports for 1990/91 by up to $30 million. The estimates for the present year included coffee exports of about $130 million and noncoffee exports of $60 million. If, indeed, the program was working, and if the direction of policies was as indicated in the policy framework paper, that should be reflected in considerable export diversification over the coming period.

On the fiscal side, as one speaker had noted, there had not been more revenue enhancement associated with additional measures that were adopted in 1991 this year, the staff representative noted. An important factor in that connection was that, in addition to the decline below projections in the volume of coffee exports, there had been a sharp increase--60 percent--in November 1990 in the producer price of coffee as well as sizable increases in the margins for processors. Those actions, desirable as they were, had cut coffee revenue for the budget significantly. The authorities had partially restored that revenue by significantly increasing the petroleum import duties. As a result of that action, the depreciation of the official exchange rate, and the increase in world petroleum prices, the domestic price of petroleum products in Uganda had risen by about 70 percent. Thus, a considerable tax effort had been needed merely to keep even in the circumstances.

Over the medium term, the staff representative said, the Fiscal Affairs Department team and a team provided by official development assistance from the United Kingdom would be working closely with the authorities to put the tax authority mechanism in place as soon as possible. The direct effect of the new mechanism should be enhanced tax administration and enforcement. In the medium term, there should be a slow but steady increase in the ratio of tax revenue to GDP of about 1 percent in the early years, with the increase in the ratio accelerating over the medium term.

The authorities were in the process of the second round of reducing the number of ghost workers in the civil service, the staff representative noted. The initial reduction was in process. The cuts were part of the overall civil service reform package being put together, which would involve substantial additional cuts in nonscheduled workers, as well as a 30 percent reduction in the size of the civil service over a three-year period. That larger reform, which was described in a White Paper presented to the donors at the recent Consultative Group meeting in Paris, was still being formulated.

Security expenditures, which included what would normally be called defense, supplies, and some related items, had reached a level of 31 percent of allocated expenditure in 1989-90, or some 45-50 percent of total recurrent expenditure, the staff representative commented. That issue had been discussed very forcefully at the recent Consultative Group meeting. The staff would not wish to try to speak for the authorities on their policy for the future, but one assumption in the program for 1990/91 was a 30 percent reduction for the second half of the year in allocations for recurrent nonwage, noninterest expenditures by all the ministries, including defense, with an exemption only for a few social ministries. If the actual reduction in defense expenditure were made, the level of such in fiscal 1990-91 would be reduced to about 23 percent of expenditure allocations, which, although still high, would involve a reduction in real terms of about 20 percent from 1989/90. As to the scale of defense imports, at some $25-30 million, they were much less noticeable in the total picture than domestic expenditures. One of the matters under review at present by the authorities was the need to cut direct government imports for the second half of the year to close the financing gap. Additional planned cuts in government expenditure abroad amounted to about $18 million, which could include some military items. The mechanism for controlling defense expenditures in the budgetary framework for that operation was different than for the other ministries, because the President of Uganda was the Minister of Defense. If the fiscal program was carried out--including holding to the overall deficit and expenditure allocations assumed therein--that would only be possible with the firm commitment of the President.

With respect to coffee policy, the staff representative continued, the authorities had faced a trade-off in the past three or four years between budgetary requirements on the one side, and on the other trying to keep the producer price in real terms sufficiently high to encourage the producers to keep refurbishing the coffee plantings. Because excessive budget deficits had been characteristic in the recent past, the producer price of coffee was not increased for three years even though domestic costs were rising strongly. With a rapidly depreciating exchange rate, an implicit export tax generated sizeable resources for the budget. In the framework of the new program, the producer price was to be kept realistic, and other measures were to be taken to obtain the necessary budget revenue.

The broad exchange rate policy was clear, in the sense that the authorities had recommitted themselves to continue narrowing the gaps between the official and bureau rates more rapidly than originally planned, the staff representative commented. The authorities planned to introduce, by the end of 1991, what was referred to as a market-clearing exchange system. In that connection, the term "system" should be emphasized, because converging the rates was only one of the policy ingredients. Another major task was the process of reforming the trade system, in part by liberalizing the import system, which was currently very unwieldy. The authorities were currently reviewing the trade and exchange system, and a staff team would shortly be traveling to Uganda to continue the dialogue in that area. Once converge was achieved and the trading regime reformed in the months ahead, the idea would be to continue to reduce domestic imbalances and inflation. That was the thrust of the program laid out in the policy framework paper. The authorities would reduce the rate of inflation below double digits by the end of the coming financial year in the framework of restrained financial policies. In these circumstances, relative stability could be achieved for the market-clearing exchange rate. Those efforts would clearly require a much strengthened fiscal position.

The staff representative from the Exchange and Trade Relations Department remarked that the staff report mentioned that there was still a financing gap of $89 million for 1991, of which $72 million was to be covered by the Paris Club and by pledges of at least $16.5 million made at a recent Consultative Group meeting. Since then, the staff had received indications that an additional $1 million or $2 million might be available. The staff's understanding was that any over-financing of the gap would be very small; but, as the staff had reduced the reserve target by $5 million, any over-financing could be used to build up reserves again toward their original target at the end of June 1991. For the following fiscal year, the numbers were not very definite and were still being reviewed; there were additional pledges from the Consultative Group for a substantial amount but the precise numbers were still being assessed, and the staff was not in a position yet to indicate precisely what they would be.

Mr. Wright said that he wished to raise two additional questions. First, the staff's comments on the result of the scrutiny of the accounts of the Bank of Uganda suggested that there might be some scope for looking again at the definition of the performance benchmarks after June 1991, because there was obviously a rather uneasy and uncertain relationship involving a target for net domestic assets and a ceiling for central bank credit to the government. He wondered whether the staff intended to look again at the performance benchmarks.

Second, with respect to the treatment of foreign currency payments by the central bank and its relationship to central bank credit to the government, it was his impression--which he hoped was incorrect--from reading the staff paper that the premise was that when the central bank made foreign currency payments on behalf of the government, they counted as credit to the government even when the government put up counterpart domestic currency. That practice was important if it introduced a bias into the measure of central bank credit to the government, particularly because if that itself was a performance criterion or benchmark, it might act as a deterrent to paying off external arrears, which he hoped was not actually the case.

The staff representative from the African Department responded that indeed that was not the case. In Uganda the amounts--whether or not they were paid abroad--incorporated in the budget to be put into a sinking fund for eventual externalization were part of the budget process. If the amounts involved were not paid when due, they were treated in the programs as an expansion of credit. Otherwise the staff could not monitor the budget carefully through the monetary accounts. If they authorities actually paid the amounts concerned, that was not credit expansion.

The other point that he had made was not so much that the performance criteria would be reviewed, although the staff team was going to be looking at them, but rather that their was a need to discuss the kind of measures the authorities might have to take in order to meet the criteria, the staff representative from the African Department said. If other items (net) were expanding much more rapidly than envisaged, and if there were no other direct monetary measures that could be taken, it would be necessary to suggest to the authorities that offsetting actions be taken through the budget.

Mr. Monyake remarked that, with support under the Fund's different financing arrangements, Uganda had made significant gains. There had also been some slippages in implementation, as he had observed.

The authorities were conscious of the seriousness of the problems facing the country and were keenly aware that policy deficiencies and slippages in implementation could only worsen the situation, Mr. Monyake continued. They realized that the more enduring solutions for Uganda had to be found in policies aimed at correcting the existing internal and external imbalances.

The deviations from the performance criteria, including that on net domestic assets, needed to be seen as a temporary phenomenon, Mr. Monyake said. In particular, the strong determination of the authorities to contain government borrowing from the banking system and steps being taken to contain security expenditures and to bring the accounts of the Bank of Uganda up to date, would contribute much toward avoiding further slippages.

The continued external vulnerability of the economy, to which many Directors had referred, underlined the need for export diversification, Mr. Monyake remarked. There was no doubt that, with sufficient donor support, the various incentives currently being put in place would be crucial for meeting that and other external sector objectives.

The Government placed a high priority on the servicing of external debt obligations as part of the process of maintaining normal relations with creditors, Mr. Monyake commented. The significantly higher than anticipated debt-related payments--including payments for arrears--in 1990 were a clear testimony of that conviction.

It could not be overemphasized that the strengthened adjustment measures needed to be supported by the continuing and unwavering assistance of the donor community, Mr. Monyake said. In that regard, he wished to stress that the Board's approval of the proposed decisions would lend considerable support to the bold and strenuous efforts being made by the Ugandan authorities.

Finally, he wished to express his authorities' appreciation to the staff for the constructive manner in which the Article IV consultation and the midterm review discussions took place, Mr. Monyake commented.

The Acting Chairman made the following summing up:

Directors noted the difficult economic and financial conditions, both internal and exogenous, facing Uganda during the year and the authorities' efforts to maintain the broad objectives of the program, which had helped to reduce inflationary pressures further. Directors commended the authorities for their adjustment efforts in the face of already difficult financial conditions, but they considered that the problems in economic management, particularly in the area of monetary and fiscal policy, and also the delays in implementing some measures in the structural area had all contributed to Uganda's failure to meet some of the end-December 1990 performance criteria. Directors, therefore, welcomed the authorities' decision to strengthen program implementation during the remainder of 1990/91.

With regard to the budget, Directors indicated that the outlook continued to be difficult, and that, if anything, budgetary management should be strengthened. While expenditure monitoring had improved considerably and overall revenue performance was broadly as budgeted, pressures to increase expenditures, especially for military outlays, remained strong. The public sector remains considerably overstaffed, and Directors stressed the importance of careful expenditure management during the remainder of the year to meet the program targets. Concern was expressed also about the continued growth in security expenditures. Directors welcomed the actions that the authorities were taking to strengthen revenue performance, including the establishment of a tax authority, but more remained to be done to expand Uganda's tax base.

Directors commended the authorities for maintaining positive real interest rates during the first half of 1990/91, and this step is already having significant positive effects on financial savings. They also welcomed the actions taken to strengthen the finances of problem commercial banks. Nevertheless, Directors observed that the execution of monetary policy remained too expansive. They urged the authorities to take appropriate actions to improve the management of monetary and credit policies, including an early completion of the updating of the central bank accounts, and in this regard Directors focused particular attention on the large size of the category of "other assets net."

Directors noted the measures taken during the year to improve the allocative role of the official exchange rate. They stressed the importance of disciplined monetary and fiscal policies to the unification of the official and second window exchange rates before the end of 1991. Directors noted the actions taken by the authorities in the area of exchange and trade liberalization, including establishment of foreign exchange bureaus, and supported their intentions to move faster in this area.

On structural aspects, Directors believed that more should be done to encourage private sector activity, including foreign direct investment; more sustained progress in the reform of parastatals, with privatization was called for. The promulgation of the investment code was a step in the right direction. Directors urged the authorities to press ahead with structural measures aimed at strengthening public sector management, financial institutions, and coffee sector performance.

The diversification of the economy that was beginning to take place required the sustained implementation of structural adjustment measures in combination with appropriate macroeconomic policies, and in this regard the impact of exchange reform on export diversification was noted.

Directors also noted that in spite of a projected increase in exports, especially noncoffee exports, Uganda's balance of payments would still remain weak over the next several years, even with a substantial adjustment effort. Successful implementation of the program would, therefore, depend also on strong donor support. Indications from the recently concluded consultative group meeting were that increased balance of payments support for 1991 would be forthcoming from donors if Uganda continued to implement structural adjustment and financial policies.

Directors supported the increase in drawings under the second annual ESAF arrangement, but many of them were of the view that it would be premature to consider the case for augmenting the resources under the three-year arrangement.

The next Article IV consultation with Uganda will be held on the standard 12-month cycle.

The Executive Board then approved the following decisions:

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 1991 Article XIV consultation with Uganda, in the light of the 1991 Article IV consultation with Uganda conducted under Decision No. 5392-(77/63), adopted April 29, 1977, as amended (Surveillance over Exchange Rate Policies).

2. Uganda maintains exchange restrictions on payments and transfers for current international transactions described in SM/91/72 in accordance with Article XIV, Section 2. In addition, Uganda imposes restrictions that are subject to approval under Article VIII, Section 2(a), including restrictions arising from the comprehensive system of allocation of foreign exchange, the restrictions evidenced by external payments arrears, limitations on travel allowances to some countries, and the restrictive features of some bilateral payments arrangements with Fund members, as well as a multiple currency practice arising from the foreign exchange bureau scheme which is subject to approval under Article VIII, Section 3. In view of the intention of Uganda to eliminate these restrictions in the near future, the Fund grants approval of the restrictions arising from the system of allocation of foreign exchange, of the restrictions giving rise to external payments arrears, and of the multiple currency practice until the completion of the next Article IV consultation or December 31, 1991, whichever is earlier.

Decision No. 9712-(91/56), adopted
April 17, 1991

Enhanced Structural Adjustment Facility - Review Under
Second Annual Arrangement

1. The Fund decides that the midterm review contemplated in paragraph 2(c) of the second annual arrangement under the enhanced structural adjustment facility (ESAF) for Uganda (EBS/90/149, Sup. 1, 9/17/90) has been completed.

2. The letter dated March 27, 1991 from the Minister of Finance of Uganda shall be attached to the second annual ESAF arrangement for Uganda and the letter dated August 13, 1990 from the Minister of Uganda, together with the attached memorandum on the economic and financial policies of the Government of Uganda, for the period July 1, 1990-June 30, 1991, shall be read as supplemented and modified by the letter dated March 27, 1991.

3. Accordingly,

(a) the indicators referred to in paragraph 3(a) of the second annual arrangement shall include the benchmarks for end-March 1991 and end-June 1991 set out in Table 1 annexed to the letter dated March 27, 1991;

(b) the amount of the second loan under the second annual arrangement is increased to the equivalent of SDR 37.35 million, and the amount of the third annual arrangement is correspondingly reduced to the equivalent of SDR 39.84 million; and

(c) Uganda may proceed to request the disbursement of the second loan under the second annual arrangement, notwithstanding the nonobservance of the performance criteria on: (i) net domestic assets of the banking system; (ii) net claims on the Government by the banking system; (iii) the outstanding short-term credits of the Bank of Uganda; (iv) barter shipments of coffee; (e) introduction of multiple currency practices; (v) failure to produce the accounts of the Bank of Uganda for 1989/90; and (vi) the accumulation of external payments arrears.

Decision No. 9713-(91/56), adopted
April 17, 1991

APPROVED: November 20, 1991

JOSEPH W. LANG, JR.
Acting Secretary