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EBS/89/241

CONFIDENTIAL

December 22, 1989

To: Members of the Executive Board

From: The Secretary

Subject: Uganda - Staff Report for the 1989 Article IV Consultation and Midterm Review of the First Annual Arrangement Under the Enhanced Structural Adjustment Facility

Attached for consideration by the Executive Directors is the staff report for the 1989 Article IV consultation with Uganda and the midterm review of the first annual arrangement under the enhanced structural adjustment facility. Draft decisions appear on pages 35-37.

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

Mr. R. Williams (ext. 7643) or Mr. Kalinga (ext. 6518) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

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INTERNATIONAL MONETARY FUND

UGANDA

Staff Report for the 1989 Article IV Consultation and for the Midterm Review of the First Annual Arrangement Under the Enhanced Structural Adjustment Facility

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

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

Approved by Mamoudou Touré and J.T. Boorman

December 21, 1989

I. Introduction

The discussions for the 1989 Article IV consultation with Uganda and for the midterm review of the first annual arrangement under the enhanced structural adjustment facility (ESAF) were conducted in Kampala during the period August 13-September 1, 1989, in Washington, D.C., during September 26-October 2, 1989, and again in Kampala during November 12-27, 1989. 1/ The Ugandan representatives included Dr. C.W.C.B. Kiyonga, Minister of Finance, Mr. S. Kiggundu, Governor of the Bank of Uganda, and other senior officials concerned with economic and financial matters. Mr. Begashaw, the Fund's resident representative in Kampala, took part in the discussions. Ms. Meesook, Mr. Pradhan, and Mr. Ablo from the World Bank participated in some of the discussions.

Uganda is on the 12-month consultation cycle and continues to avail itself of the transitional arrangements of Article XIV. The last Article IV consultation discussions were held in Kampala during July 1988, and the consultation was concluded by the Executive Board on September 14, 1988. At that time, Executive Directors commended the authorities for the progress made in the rehabilitation of the economic and social infrastructure and the restoration of positive real growth to

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1/ The staff team for the August/September 1989 mission consisted of Mr. Artus (head-AFR), Mr. Drees (ADM), Mr. Ballali (AFR), Mr. Kalinga (AFR), and Mr. Mylonas (ETR), with Ms. Fundafunda (AFR-secretary), while Messrs. Artus (head), Ballali, Kalinga (all AFR), and Mylonas (ETR) participated in the discussions that took place in Washington in September/October 1989. The staff representatives during the November 1989 discussions included Messrs. Williams (head-AFR), Kalinga (AFR), Mylonas (ETR), and Ms. Horne (FAD), with Mrs. Conell (AFR) as secretary.

the economy. However, they also noted that weaknesses in policy implementation had persisted, which had contributed to the failure to achieve the 1987/88 program objectives. Accordingly, they urged the authorities to implement a more flexible exchange rate policy and prudent demand management policies in the context of the 1988/89 (July/June) program in order to move toward medium-term viability. In this regard, Executive Directors considered it particularly important for the authorities to take major revenue-raising and expenditure-reducing measures to reduce the overall fiscal deficit. An information notice on Uganda's exchange arrangements, real effective exchange rate, and notification of delay in concluding the 1989 Article IV consultation was issued on November 17, 1989.

The arrangements under the ESAF were approved by the Executive Board on April 17, 1989 (EBS/89/62, 4/3/89), with a total access of SDR 179.28 million or 180 percent of quota, to be disbursed in six semiannual installments. Uganda received the initial disbursement of SDR 42.33 million (42.5 percent of quota) following Board approval. The second disbursement of SDR 32.37 million (32.5 percent of quota) is subject to observance of the end-September 1989 performance criteria and completion of the midterm review by end-December 1989. As of end-November 1989, Uganda's outstanding use of Fund resources was equivalent to 208 percent of quota (Table 1). Over the past year, Uganda has experienced difficulties in discharging its financial obligations to the Fund on time.

In the attached letter to the Managing Director dated December 21, 1989 (Appendix I) concerning this review, the Minister of Finance describes the progress made in the implementation of Uganda's program during the past year, requests a waiver with respect to each of the performance criteria not observed, sets out the objectives and policies to be pursued during the remainder of 1989/90, and proposes quantitative benchmarks for end-December 1989, end-March 1990, and end-June 1990.

The Fund and the World Bank staffs continue to collaborate closely in discussions with the Ugandan authorities. Negotiations on a second Economic Recovery Credit (ERC II) in an amount of about US$125 million were held during the first half of November 1989, and the World Bank Board is expected to discuss the Credit in January 1990. A second supplement to ERC I of SDR 10 million was approved by the Bank Board on December 18, 1989.

Summary statements of Uganda's relations with the Fund and the World Bank Group are provided in Appendices II and III, respectively. Statistical issues are discussed in Appendix IV, and basic economic and financial data and a summary of social and demographic indicators are given in Appendix V.

Table 1. Uganda: Position of the Fund Through June 1992

	Outstanding Dec. 20	1989/90 Jan.-March	1989/90 April-June	1990/91 July-June	1991/92 July-June
	(In millions of SDRs)				
Transactions under tranche policies (net)		-5.8	-10.2	-10.8	—
Purchases		—	—	—	—
Repurchases		5.8	10.2	10.8	—
Transactions under special facilities (net)		—	—	-15.6	-24.9
Purchases		—	—	—	—
Repurchases		—	—	15.6	24.9
Structural adjustment facility loans		—	—		
Enhanced structural adjustment		32.4	27.4	52.3	24.9
facility loans		—	—	—	—
Total outstanding (end-of-period)	168.6	195.2	212.5	238.4	238.4
Under tranche policies	26.7	20.9	10.8	—	—
Under special facilities	49.8	49.8	49.8	34.2	9.3
Under structural adjustment facility	49.8	49.8	49.8	49.8	49.8
Under enhanced structural adjustment facility	42.3	74.7	102.1	154.4	179.3
	(In percent of quota; end of period)				
Memorandum items:					
Total Fund credit outstanding	169.3	196.0	213.3	239.3	239.3
Under tranche policies	26.8	21.0	10.8	—	—
Under special facilities	50.0	50.0	50.0	34.3	9.3
Under structural adjustment facility	50.0	50.0	50.0	50.0	50.0
Under enhanced structural adjustment facility	42.5	75.0	102.5	155.0	180.0

Source: Treasurer's Department, International Monetary Fund.

II. The 1988/89 SAF Program

In September 1988 the Fund's Executive Board approved a second annual arrangement under the structural adjustment facility (SAF) in support of Uganda's structural adjustment program for 1988/89. The main objectives of the 1988/89 program were to maintain an annual average rate of growth of real GDP of at least 5 percent, which would permit per capita growth of real GDP of at least 2 percent a year; to reduce the rate of inflation on an end-of-year basis, from 240 percent in 1987/88 to 60 percent in 1988/89; and to effect a substantial strengthening of the balance of payments through higher exports, increased donor assistance, and external debt restructuring. An additional important element of the program's focus was the rehabilitation of the economic and social infrastructure requisite for attaining higher productive activity, especially in the rural sectors, and for the provision of the population with at least minimum levels of social services. The program included a wide range of policy actions encompassing the exchange and trade system, the public finances, the monetary sector, pricing policies, parastatal reforms, and public sector management. Specifically, the Uganda shilling was devalued by 60 percent in foreign currency terms on July 1, 1988, from U Sh 60 to U Sh 150 per U.S. dollar, and by 9.1 percent on December 3, 1988 to U Sh 165 per U.S. dollar. The authorities also implemented a number of measures aimed at increasing and diversifying exports and at liberalizing the import system. In November 1988, an export retention scheme was announced under which exporters of nontraditional agricultural products were permitted to retain up to 100 percent of export proceeds for use in making payments for licensed imports. In December 1988, the import system was liberalized further with the introduction of the special import program (SIP), which involved the allocation of foreign exchange for a very broad list of imports on a first-come, first-served basis. The price control regime was also liberalized; price administration was maintained only on petroleum products, beer, sugar, salt, soap, and soft drinks, and was to be applied flexibly. The retail prices of petroleum products more than doubled during the six-month period ended December 1988, reflecting primarily the pass-through effects of the exchange rate actions taken during the period and the need for increased revenue from this source.

In the fiscal sector, the authorities announced a budget for 1988/89 that aimed at a significant reduction in the overall deficit through substantial increases in revenue and grants and the introduction of measures designed to reduce expenditures in real terms. In consequence, and reflecting the projected increase in net foreign financing, the budget envisaged that the Government would retire U Sh 5 billion (19 percent of beginning broad money) of its debts to the banking system. The expansion in total domestic credit thus could be limited to 26 percent of beginning broad money, while still providing for a doubling in credit to the private sector. The credit program was based on a projected increase in broad money of 68 percent, consistent with the targeted sharp deceleration in the inflation rate.

III. The ESAF Program for 1989/90

1. Introduction

In early 1989, the Ugandan authorities decided to intensify and strengthen their adjustment and rehabilitation efforts in the context of a program supported by the Fund's ESAF. The macroeconomic objectives of the ESAF program for 1989/90-1991/92, which was approved by the Fund in April 1989, included the maintenance of the annual rate of GDP growth of at least 5 percent; a reduction in the inflation rate from an estimated 55 percent in 1988/89 to 7.5 percent (end-year basis) in 1991/92; and the attainment of a sustainable external position by the end of the program period. These objectives were to be achieved through: (a) the introduction of a package of enhanced incentives for export and import substitution through the pursuit of more flexible exchange rate policies, trade liberalization, more frequent adjustment of producer prices, and the suspension of foreign exchange surrender requirements for all noncoffee exports, effective March 1989; (b) increased outlays on the rehabilitation and restructuring of productive capacity, infrastructure, and basic social services; (c) implementation of policies to strengthen budgetary performance by improving the tax system, the Government expenditure control mechanism, and the civil service structure; (d) a continuation of the public enterprise reform; (e) financial sector reform, including a restructuring and rehabilitation of the problem banks and building societies. The program also contained--for the first time--specific measures aimed at assisting vulnerable groups in the urban and rural sectors, including the retrenched public employees most acutely affected by the adjustment measures. To this end, projects were delineated in the health, education, and rural sectors to address these issues.

Beginning in early 1989, the Government implemented a number of additional measures aimed at strengthening the adjustment effort. With a view to achieving an improvement in Uganda's external competitiveness and to increasing revenue from trade taxes, the Uganda shilling was devalued by 17.5 percent in foreign currency terms on March 7, 1989. As a result of this change, the real effective exchange rate was estimated to be about 5 percent lower than the level prevailing on July 1, 1988. The Government also decided to review the exchange rate monthly with a view to maintaining the real effective level achieved with the March 7, 1989 devaluation. The Government also announced on March 7, 1989 a broadening of the export retention scheme to include all noncoffee exports, in order to strengthen the incentives for the production and export of such commodities. To strengthen coffee export prospects, the Government decided to apply more firmly the differential pricing for various grades of coffee and to reduce the amount of barter shipments to International Coffee Organization (ICO) quota markets. The specific duty rates on petroleum products, which had been raised by between 140 percent and 192 percent in December 1988 (bringing the average ad valorem rate to 30 percent), were increased again by between 48 percent and 56 percent in March 1989. Minimum bank deposit and maximum lending rates were raised by 7 percentage points and 10 percentage points, respectively bringing the minimum one year deposit rate to 38 percent and the maximum lending rate to 50 percent, to improve incentives for the flow of private financial savings through the banking system and to enhance efficiency in loan allocation. The Government also decided to address a number of structural issues in the financial sector, including the heavy reliance of problem banks on the Central Bank and the weak performance of building societies. The former problem was tackled by placing overdraft limits on the banks while the latter was addressed through closer supervision of their operations.

Taking into account the additional measures, the overall fiscal deficit including grants, on a commitment basis, was projected to decline to 1.0 percent of GDP in 1988/89, which was below the level of 1.3 percent of GDP in the July 1988/89 budget; and monetary and credit policies were formulated to be consistent with a deceleration in the inflation rate from 240 percent (end-year basis) in 1987/88 to 55 percent in 1988/89--below the 60 percent budget target--while achieving a GDP growth rate of 5 percent. Reflecting these structural policies, inter alia, the external current account deficit was projected to decline somewhat from the July projection of 4.6 percent of GDP to 4.1 percent of GDP in 1988/89. Nonetheless, the overall balance of payments deficit was expected to widen because of a downward revision in projected capital inflows to a level of 2.7 percent of GDP, compared with the July estimate of 5.1 percent of GDP.

2. Performance under the program and recent economic developments

Overall progress under the 1988/89 program was below expectations, and performance during the second half of 1988/89 was, in some respects, unsatisfactory (Table 2). Important gains were made in the rehabilitation of economic and social infrastructure and in increasing output, but much less progress was made with regard to the stabilization objectives. The marked decline in the price of coffee, Uganda's main export crop, and lower-than-programmed external assistance were important causal factors, but these were exacerbated by slippages in policy implementation.

a. Real sector developments

The economy continued to respond favorably to the improvement in the domestic security situation and to the measures implemented under the program, in spite of the downturn in world coffee prices. Real output is estimated to have increased by 6.8 percent in 1988, reflecting in part the gains made in rehabilitating economic and social infrastructure, especially in transportation. As in the previous years, the recovery was broadly based, with most sectors registering some growth.

Table 2. Uganda: Selected Economic and Financial Indicators, 1985/86-1989/90

	1985/86 Actual	1986/87 Prel.	1987/88 Proj.	1988/89 ESAF Prog.	1988/89 Rev.	1989/90 ESAF Prog.	1989/90 Budget
	(Annual percent changes, unless otherwise specified)						
National income and prices							
GDP at constant prices	-1	1	5	5	7	5	5
Consumer prices (annual average)	129	256	188	123	142	36	55
Consumer prices (year-end over year-end)	153	237	239	55	86	30	30
External sector (on the basis of U.S. dollars)							
Exports, f.o.b.	-1	1	-22	1	-6	6	-23
Imports, c.i.f. 1/	-5	35	6	18	3	11	14
Non-oil imports, c.i.f. 1/	-2	41	6	20	2	11	14
Export volume (coffee) 2/	—	7	-7	4	17	2	7
Import volume (non-oil) 1/	-9	30	-3	17	-1	8	14
Terms of trade (deterioration -)	-4	-15	-22	-15	-23	1	-35
Nominal effective exchange rate (depreciation -)	-59	-76	13	-64	-60	—	—
Real effective exchange rate (depreciation -)	-11	-32	217	-62	-34	—	—
Government budget 3/							
Total revenue and grants	97	192	368	136	105	70	147
Total revenue	76	206	301 4/	123 4/	117	76	114
Total expenditure	97	142	281	75	104	65	120
Money and credit 5/							
Domestic credit	82	107	148	42	157	28	10
Government	31	68	49	-19	46	-17	-28
Private sector	51	39	99	60	111	45	38
Money and quasi-money (M2)	148	95	200	62	125	36	21
Velocity (GDP relative to M2)	9	16	18	21	14	18	18
Interest rate (annual rate, one-year savings deposit)	35	35	28	38	38	...	...
	(In percent of GDP) 6/						
Central government budget deficit							
Commitment basis 7/	-4.5	-4.3	-4.6	-1.0	-3.5	-0.8	-3.7
Cash basis	-4.5	-4.3	-5.0	-2.4	-4.6	-1.6	-4.3
Domestic bank financing	1.9	3.9	2.4	-0.7	-0.7	-0.7	-1.3
Foreign financing (net)	1.4	0.5	2.6	3.0	3.0	2.2	5.4
Current account deficit (-) or surplus							
Including official transfers	1.1	-1.8	-3.7	-4.1	-4.7	-3.6	-7.8
Excluding official transfers	—	-2.5	-5.4	-8.6	-7.3	-8.5	-11.7
	(In percent of exports of goods and nonfactor services)						
Current account deficit							
Including official transfers	8	-25	-63	-54	-73	-48	-120
Excluding official transfers	—	-35	-92	-112	-114	-115	-181
External debt, including arrears							
Including use of Fund credit	308	309	465	521	542	535	792
Excluding use of Fund credit	243	247	392	448	467	458	689
Debt service ratio 8/							
Including the Fund	52	54	62	66	71	39	62
Excluding the Fund	22	27	35	33	36	19	34
	(In millions of U.S. dollars)						
Overall balance of payments surplus or deficit (-)	24	-79	-64	-72	-103	-2	-69
External payments arrears (at end of period)	74	30	77	97	95	58	95
Gross reserves (end of period)	64	31	35	65	23	80	23

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

1/ The original ESAF projections have been adjusted in line with the revision to the 1987/88 data.
2/ Based on shipments.
3/ Fiscal year (July/June).
4/ Excluding currency reform levy.
5/ In percent of money stock at the beginning of the period.
6/ The following ratios should be treated with caution owing to the tentative nature of the GDP estimates.
7/ Includes grants.
8/ After rescheduling; for 1988/89-1989/90, assumes rescheduling with bilateral creditors on same terms as 1987/88.

Reflecting the ongoing process of rehabilitating coffee trees in the main growing areas of the south and west, coffee production is estimated to have increased by 14 percent during the year. Purchases of coffee at 2.9 million bags during the 1988/89 crop year (October-September) were about 12 percent higher than the level for the corresponding period in 1987/88. The improved security situation and the introduction of the new crop financing scheme, under which farmers were guaranteed cash payments immediately upon the delivery of coffee, contributed to the increase in purchases. Output of other export crops, including cotton and tea, is also estimated to have increased substantially. Production of these latter crops should benefit over time from the introduction in March 1989 of the export retention scheme for all noncoffee exports, which greatly improved the scope for increasing producer incentives. Manufacturing output also registered strong gains in 1988, especially food processing, soft drinks, beer, and tobacco. Electricity production, however, registered a decline largely because of the poor maintenance of equipment.

The consumer price index (CPI) rose by 86 percent in 1988/89 (year-end basis) as against a revised program target of 55 percent. After rising by 22 percent in July 1988, largely in response to the July 1 devaluation and the associated increase in administered prices, the CPI rose by only 7 percent during the six-month period August 1988-January 1989. Inflationary pressures then re-emerged, with the CPI rising at a monthly average of about 11 percent between February and April 1989. The major factor underlying the upward pressure on prices was the rapid monetary expansion associated with the new crop financing scheme, but these pressures were exacerbated by the shortage of foreign exchange for private sector imports. In this regard, the suspension of foreign exchange allocations under the SIP in March 1989 contributed to a sharp depreciation in the parallel market exchange rate and to a corresponding increase in the prices of imported consumer goods.

b. Fiscal developments in 1988/89

Preliminary data for 1988/89 indicate that the overall fiscal deficit, on a commitment basis (3.5 percent of GDP), was considerably larger than the program target (1 percent of GDP). Excluding grants, the gap between the actual deficit (4.8 percent of GDP) and the target level (3.5 percent of GDP) was much less (Table 3). The larger fiscal deficit was mainly the result of a shortfall in external grants in combination with larger-than-programmed total expenditure and net lending primarily on account of larger current outlays. Receipts of external grants at U Sh 10.8 billion (1.3 percent of GDP) were about half the programmed level of U Sh 18.5 billion (2.5 percent of GDP) on account of slow disbursement of import-support grants, which continued to be delayed in part by the authorities' lack of familiarity with the disbursement procedures of major donors. Expenditure and net lending at U Sh 89.8 billion (10.7 percent of GDP) was about 16 percent higher than the program estimate, reflecting higher outlays on wages and salaries and on defense-related expenditure and higher-than-budgeted lending to

Table 3. Uganda: Central Government Budgetary Operations, 1986/87-1989/90

	1986/87	1987/88	1988/89		1989/90	
	Prel.	Prov.	ESAF Prog.	Prov.	ESAF Prog.	Revised Budget
	(In billions of Uganda shillings)					
Revenue and grants	6.5	29.4	69.6	60.5	118.1	149.3
Total revenue	5.9	22.9	51.1	49.7	89.8	106.2
Tax revenue	5.7	20.8	43.2	42.7	83.8	99.4
Nontax revenue	0.2	2.1	7.9	7.0	6.0	6.8
Grants	0.6	6.5	18.5	10.8	28.3	43.1
Import support	...	...	...	4.6	10.0	12.9
Project grants	...	...	...	6.2	18.3	30.2
Total expenditure and net lending	11.0	44.3	77.1	89.8	126.3	198.7
Current expenditure	6.9	24.7	50.0	60.9	68.5	103.8
Wages and salaries	1.2	3.7	8.0	9.8	11.3	15.2
Interest	0.5	2.3	5.8	5.8	6.1	8.5
Domestic	0.2	0.6	0.6	0.6	0.5	0.6
External	0.3	1.7	5.2	5.2	5.6	7.9
Other 1/	5.2	18.7	36.2	45.3	51.1	80.1 2/
Development expenditure	4.1	19.6	26.6	27.0	57.8	94.9
Capital outlays	2.9	14.3	20.7	20.5	45.4	71.4
External financing	2.3	11.8	19.3	18.3	41.9	64.9
Domestic counterpart	0.6	2.5	1.4	2.2	3.5	6.5
Local capital 3/	1.2	5.3	5.9	6.5	12.4	23.5
Net lending	--	--	0.5	1.9	--	--
Overall deficit (-) on a commitment basis	-4.5	-14.9	-7.6	-29.3	-8.3	-49.4
Excluding grants	-5.1	-21.4	-26.1	-40.1	-36.6	-92.5
Change in arrears 4/	-0.3	-1.5	-10.5	-9.2	-8.7	-8.3
Domestic	--	--	...	...	--	-0.8
External	-0.3	-1.5	...	...	-8.7	-7.5
Overall deficit (-) on a cash basis	-4.5	-16.4	-18.0	-38.5	-17.0	-57.7
Financing	4.8	16.4	18.0	38.5	17.0	57.7
External (net)	0.5	8.6	22.5	25.1	23.4	73.2
Disbursement	1.7	11.2	26.8	27.9	34.4	92.4
Import support	...	...	...	17.6	15.9	57.4
Amortization (-)	-1.3	-4.6	-13.6	-13.6	-11.5	-21.8
Moratorium interest (-)	--	-0.3	-1.3	-1.3	-2.3	-3.6
Rescheduling	--	2.4	10.7	12.1	2.9	6.2
Domestic (net)	4.3	7.8	-4.5	13.4	-6.4	-15.5
Bank	4.7	7.8	-5.0	12.3	-7.4	-17.0
Nonbank	-0.4	--	0.5	1.1	1.0	1.5
Memorandum items:						
GDP	110.4	325.6	752.8	839.9	1,079.7	1,348.4
	(In percent of GDP)					
Revenue and grants	5.9	9.0	9.2	7.2	10.9	11.1
Total revenue	5.3	7.0	6.8	5.9	8.3	7.9
Total expenditure and net lending	10.0	13.6	10.2	10.7	11.7	14.7
Current expenditure	6.2	7.6	6.6	7.3	6.3	7.7
Development expenditure	3.8	6.0	3.5	3.2	5.4	7.0
Overall deficit (-) on a commitment basis	-4.1	-4.6	-1.0	-3.5	-0.8	-3.7
Excluding grants	-4.6	-6.6	-3.5	-4.8	-3.4	-6.9
Overall deficit (-) on a cash basis	-4.3	-5.0	-2.4	-4.6	-1.6	-4.3
Bank financing	4.3	2.4	-0.7	0.7	-0.7	-1.3

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

1/ Includes defense expenditure funded locally.
2/ Includes provision of U Sh 3 billion for transfers to CMB.
3/ Local capital outlays are mainly self-help schemes and projects for reconstruction and maintenance of assets in local areas financed solely from domestic sources.
4/ Changes in arrears for 1988/89 and 1989/90 are calculated as a residual.

CMB. The shortfall in tax receipts from coffee of U Sh 5.4 billion (0.6 percent of GDP) was largely offset by higher-than-projected revenue from other sources, notably excise duties and sales taxes on domestic goods.

The increase in the fiscal deficit was financed largely from domestic bank sources. Net external financing amounted to U Sh 25.1 billion (2.9 percent of GDP), compared with the programmed U Sh 22.5 billion (3.0 percent of GDP). Net bank credit to the Government at about U Sh 12.3 billion in 1988/89 was 45 percent of beginning-of-period broad money stock, compared with the targeted reduction of U Sh 5.0 billion (19 percent of initial money stock). Domestic nonbank financing at U Sh 1.1 billion was more than double the programmed amount reflecting larger purchases of treasury bills by the nonbank financial sector.

c. The monetary sector

Monetary developments in 1988/89 were dominated by the large increase in private sector credit for both crop finance and other uses. From July 1988 to end-June 1989, bank claims on the private sector rose by 248 percent, with most of the increase taking place during the second half of the fiscal year. 1/ Reflecting this development and the failure of the Government to reduce its obligations with the banking system as programmed, broad money rose by 125 percent as against a program target of 65 percent in 1988/89 (Table 4).

Outstanding bank credit for crop purchases (primarily coffee), which rose by 18 percent during the six-month period ended December 1988, tripled to U Sh 19.5 billion during the six-month period ended June 1989. The introduction of the new coffee financing scheme contributed strongly to this outcome because under the scheme, all the liabilities of the marketing board to primary societies, private processors, cooperative unions, and to commercial banks were paid off by the Bank of Uganda. The credit expansion was also fostered by the decision to guarantee farmers cash payment for all coffee delivered to primary societies and processors. Previously, payments for coffee deliveries were effected with a substantial time lag. The requirements for crop financing were influenced by the increase in the producer prices of coffee from U Sh 29 to U Sh 60 per kilogram in July 1988 and by the increase in margins of processors and the Coffee Marketing Board

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1/ In the context of the program, the authorities have been reviewing the monetary statistics of the Bank of Uganda with special emphasis on the external debt transactions of the Government. Prior to the current program, government external debt not externalized was not systematically incorporated in the monetary statistics. The authorities have now revised the data starting from 1987/88 in line with the fiscal data. In consequence, the outstanding levels of bank credit to the Government and the other liabilities of the Bank of Uganda have been adjusted.

Table 4. Uganda: Monetary Survey, June 1988-June 1990

(In billions of Uganda shillings)

	1988		1989					1990	
	June	Dec.	March	June	Sept. Prog.	Sept. Prov. Actual	Dec.	March	June
Net foreign assets	-18.0	-54.3	-70.5	-70.7	-72.3	-75.0	-136.2	-146.8	-154.4
Total domestic bank credit	24.2	36.8	51.5	66.3	58.5	68.7	69.0	74.3	72.7
Government	11.9	20.2	22.2	24.2	18.2	19.8	18.2	13.2	7.2
Private sector	12.3	16.7	29.3	42.1	40.3	48.9	50.7	61.0	65.5
Crop finance	4.9	5.8	14.2	19.5	16.7	22.4	25.4	30.1	28.6
Other	7.8	10.7	15.1	22.6	23.6	26.5	25.3	30.5	36.9
Broad money	26.8	39.4	50.6	60.2	57.6	66.2	66.5	71.0	73.0
Other items (net)	20.6	57.0	69.6	64.6	71.4	72.5	133.7	143.5	154.6

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

(CMB) following the July 1988 exchange rate action. The devaluation led to an increase in the nominal amount of credit needed to facilitate import transactions, and noncrop credit also rose sharply, particularly in the second half of 1988/89.

The credit expansion was fueled by the injection of liquidity attendant on the settlement by the Bank of Uganda of all CMB obligations which, as mentioned above, included all CMB liabilities to commercial banks. Reflecting both this sharp increase in commercial bank's liquidity and the failure of the Central Bank to take offsetting measures as was required, private sector credit rose sharply. This situation was exacerbated by excessive lending by the Uganda Commercial Bank (UCB) and the Cooperative Bank (Coop Bank) that was funded primarily from central bank sources. The pressure on credit during the second half of 1988/89 also reflected the relative decline in real borrowing costs in view of the authorities' failure to adjust interest rates in light of the increase in the inflation rate. As a result of these developments, and the failure of the Government to reduce its obligations to banks as programmed, total domestic bank credit rose by U Sh 14.7 million during the quarter ended June 1989, twice as much as programmed. In consequence, Uganda failed by large margins to meet the end-June 1989 benchmarks on total domestic bank credit and on bank credit to the Government.

The rate of expansion of money and credit moderated considerably during the first quarter of 1989/90 ended September 1989. Total domestic credit rose by only U Sh 2.4 billion during the period, although private sector credit rose by U Sh 7.9 billion as the Government's liabilities to the banking system declined sharply. The improvement in the Government's position reflected large receipts of import-support resources. Nevertheless, Uganda failed to observe the end-September 1989 ceilings with respect to the increase in total domestic credit and reduction in government liabilities in relation to the March 1989 base (Table 5). As against a programmed increase of U Sh 7.0 by end-September 1989 from the end-March 1989 base domestic credit rose by U Sh 17.2 billion instead, and net bank credit to government declined by U Sh 2.4 billion during the same period as against the programmed reduction of U Sh 4.0 billion.

d. The external sector

Provisional data for 1988/89 indicate that total exports at US$281 million were about 9 percent less than the program estimate (Table 6). The shortfall was wholly attributable to a decline in the world coffee price. Export volumes exceeded program projections by about 4 percent. During the year, Uganda's ICO export quota was reduced from 2.3 million bags to 2.1 million bags, thus limiting the opportunities for sales to these markets. This was offset by increased barter sales, especially during the second half of the year. Overall, coffee barter exports equaled 800,000 bags, slightly exceeding projections, with approximately 80 percent taking place in the second half of the

Table 5. Uganda: Quantitative Benchmarks and Performance Criteria for the First-Year Arrangement Under the Enhanced Structural Adjustment Facility, June and September 1989 1/

	1989			
	June		September	
	Program benchmarks	Prel. actuals	Program ceiling	Prel. actuals
	(In billions of Uganda shillings; end of period)			
Quantative performance criteria and benchmarks				
Cumulative change from March 31, 1989 to end of period in:				
Total domestic credit	0.5	14.7	7.0	17.2
Net bank credit to Government	-3.2	2.0	-4.0	-2.4
	(In millions of U.S. dollars)			
Cumulative change from March 31, 1989 to end of period in:				
New nonconcessional borrowing, excluding short-term trade credits and borrowing under debt rescheduling 2/	15	18	15	34.3
External payments arrears 3/	--	-6	--	-7
Stock of gross foreign reserves 4/	65	23	40	15
	Target date		Actual	
Structural performance criteria				
Adoption of a budget in July 1989 consistent with the objective and targets of the program	End-December 1989		Done in October 1989	
Implementation of measures designed to improve the performance of the financial system	End-December 1989		Introduced in November 1989	

1/ The benchmarks for September 1989 are also performance criteria.
2/ Maximum cumulative limit for contracting or guaranteeing after April 1, 1989, of external loans on concessional terms with an initial maturity of up to and including 12 years; this limit excludes normal short-term trade credit and debts contracted in the context of rescheduling agreements.
3/ Cumulative change in external payments arrears, excluding arrears eligible for rescheduling under the January 1989 Paris Club agreement or eligible for rescheduling with other creditors.
4/ Gross level of international reserves of the Bank of Uganda.

Table 6. Uganda: Balance of Payments, 1986/87-1991/92

	1986/87	1987/88 Est.	1988/89 Prog. SAF	1988/89 Rev.	1989/90 Prog. ESAF	1989/90 Rev.	1990/91 Prog. ESAF	1990/91 Rev.	1991/92 Prog. ESAF	1991/92 Rev.
	(In millions of U.S. dollars)									
Current account	-101	-201	-180	-230	-171	-302	-186	-276	-199	-231
Trade balance	-130	-246	-340	-281	-393	-423	-417	-432	-431	-416
Export, f.o.b.	384	298	302	282	320	216	354	259	405	340
Of which: coffee	(365)	(286)	(297)	(276)	(304)	(197)	(323)	(222)	(349)	(278)
Imports, c.i.f.	-514	-545	-643	-563	-713	-639	-771	-691	-836	-756
Project-related	(154)	(176)	(254))	(186)	(277)	(206)	(285)	(222)	(286)	(244)
Nonproject	(360)	(369)	(388)	(377)	(437)	(434)	(486)	(469)	(550)	(512)
Nonfactor services (net)	-64	-111	-87	-128	-85	-101	-88	-101	-88	-111
Net interest	-47	-57	-70	-67	-60	-66	-50	-53	-44	-45
Private transfers	100	120	120	114	128	134	137	144	146	158
Official transfers	40	92	197	131	240	154	232	167	217	183
Capital account	22	138	108	127	169	233	189	246	198	216
Official medium- and long-term (net)	45	56	52	56	94	89	108	126	130	99
Of which: disbursements	(135)	(141)	(143)	(143)	(154)	(171)	(167)	(185)	(180)	(149)
Import support credits	—	45	82	68	71	124	85	104	72	101
Kenya compensation	28	10	13	13	7	6	—	—	—	—
Short-term (net)	-31	37	-42	-17	—	14	—	16	—	16
Counterpart to IMF valuation	-20	-10	2	7	-3	—	-3	—	-4	—
Overall balance	-79	-64	-72	-103	-2	-69	4	-30	-1	-15
Financing	79	64	72	103	1	69	-4	30	1	15
Monetary authorities	21	-13	-19	18	10	24	-6	18	-15	-16
Gross reserve change	33	-4	-31	12	-15	—	-40	-15	-15	-15
IMF (net)	-3	-17	12	7	25	24	34	33	—	-1
SAF/ESAF and purchases	57	34	95	94	79	77	70	68	34	33
Other (net)	-8	7	—	—	—	—	—	—	—	—
Commercial banks (net)	10	-10	6	6	—	—	—	—	—	—
External arrears (excluding IMF)	-45	47	21	18	-39	—	-39	-47	-19	-47
Exceptional financing	92	40	64	60	30	45	41	59	36	78
Rescheduling	92	40	62	57	29	41	-	—	—	—
Debt cancellation	—	—	2	3	1	4	—	—	—	—
Residual financing gap	—	—	—	—	—	—	41	59	36	78
Memorandum items:										
Outstanding arrears	30	77	97	95	58	95	19	47	—	—
Foreign exchange reserves (end of period)	31	34	65	23	80	23	120	38	135	53
Foreign exchange reserves/Imports (months' coverage)	0.7	0.7	1.2	0.5	1.4	0.4	1.9	0.7	1.9	0.8
	(In percent)									
Current account/GDP	-1.8	-3.7	-4.1	-4.7	-3.6	-7.8	-3.3	-7.2	-2.5	-5.6
Excluding official transfers	-2.5	-5.4	-8.6	-7.3	-8.5	-11.7	-7.0	-11.5	-6.0	-10.0
Debt service ratio 1/	53.9	62.3	70.9	76.1	47.1	79.8	37.7	50.6	29.8	35.3
After rescheduling	53.9	50.0	66.1	71.0	38.9	62.0	37.7	50.6	29.8	35.3
Of which: IMF 1/	26.7	28.2	33.3	34.8	20.3	27.9	12.0	15.4	9.6	11.3

Source: Fund staff estimates based on data from Ugandan authorities.

1/ In percent of exports of goods and nonfactor services.

fiscal year. Recorded noncoffee exports continued to account for only a small share of total official exports--2 percent in 1988/89--accentuating the vulnerability of the balance of payments to events in the world coffee market.

Merchandise imports of US$563 million in 1988/89 were about US$80 million lower than the program estimate, largely because of lower-than-planned foreign aid (official project and import-support transfers and credits were about US$100 million below program expectations). For the most part, this was due to the slow disbursement of committed resources. These delays were due to the authorities' lack of familiarity with the disbursement procedures and the failure on the part of donors to finalize loan documents on time. 1/ Net nonfactor services were 10 percent higher than in 1987/88, but nevertheless, exceeded the program targets by about 50 percent, largely on account of higher transport costs.

As a result, the estimated current account deficit was 4.6 percent of GDP in 1988/89, 0.5 percentage points of GDP larger than programmed and 0.9 percent of GDP more than the 1987/88 outcome. Reflecting this, the overall balance of payments deficit at US$103 million in 1988/89 was 0.25 percent of GDP above the program target.

From end-March (the base period for the program) to end-June 1989, external arrears declined by US$6 million, though for the fiscal year as a whole they increased by US$18 million (after rescheduling). The annual increase was about the level projected at the beginning of the program, with the end-June benchmark being met. In the circumstances, gross foreign reserves bore the burden of the foreign exchange resource shortfall, declining by US$12 million in 1988/89 rather than rising by US$31 million as programmed; thus, the end-June level of gross reserves was US$42 million less than the end-June benchmark. 1/ This reduced the Central Bank's foreign exchange coverage of imports to about 0.5 month. The decline in the value of exports also diminished the economy's capacity to repay its debt service obligations, as reflected by the deterioration in the debt service ratio from a projected 71 percent of exports of goods and services at the beginning of the program to 76 percent at the end of 1988/89.

The deterioration in the balance of payments relative to the originally envisaged program continued in the first quarter of 1989/90.

1/ Project-related imports have been adjusted downwards to take account of recent information that indicates that the availability of project-related official transfers and official capital inflows have been much lower than assumed earlier.

1/ An overestimation of the end-March 1989 base for gross foreign reserves of US$30 million accounts for part of this difference with the end-June 1989 level.

Consequently, the end-September performance criterion on the accumulation of gross reserves was not observed by a margin of US$25 million. However, the targeted reduction in external arrears was observed, wholly on account of better-than-anticipated terms regarding the clearing of arrears with one creditor.

In anticipation of drawings on a concessional bilateral medium-term loan of about US$130 million, the Bank of Uganda negotiated during the last quarter of 1988/89 a bridge loan of about US$60 million from commercial bank resources. Drawings on the bridge loan totaled US$18 million as of end-June 1989 and US$34 million by end-September 1989. These drawings were in excess of the limit of US$15 million on new nonconcessional foreign borrowing, and consequently, Uganda failed to meet both the end-June and the end-September performance tests on nonconcessional borrowing. Meanwhile, the authorities have indicated that they have made arrangements to pay the bridging loan in December 1989 from the proceeds of the concessional loan.

Progress has been slow with respect to concluding bilateral agreements under the conditions agreed at the 1989 Paris Club rescheduling. Despite the end-September deadline for concluding such agreements, only one has been signed to date. Meanwhile, Uganda has maintained its best efforts to conclude such agreements with its creditors, and an agreement with one Paris Club creditor appears to be making substantial headway. Uganda has so far failed to make all nonrescheduled payments by the deadline of end-August 1989 as well as payments into the special Paris Club account, scheduled to commence in September 1989.

IV. The Program for 1989/90

In view of the slippages in implementation up to then and the worse-than-envisaged prospects facing Uganda for the balance of 1989/90, the midterm review discussions focused on policies that would be implemented in the remainder of 1989/90 to achieve the broad program objectives. Accordingly, the program for 1989/90 contains strong corrective measures, including the 41.2 percent devaluation of the shilling in foreign currency terms, on October 24, 1989. The original 1989/90 ESAF objectives in respect of inflation and real GDP growth rates have been maintained, while the targets in the fiscal, monetary and external sectors have been revised to reflect the changed external prospects and the measures being taken under the program. However, in spite of strong remedial actions, with the prospective limited recovery in coffee prices, Uganda's foreign exchange situation is expected to remain extremely tight. In consequence, it would be very difficult to attain the original objectives for the reduction in external arrears and the increase in gross reserves.

1. Pricing and coffee sector policies

In response to the continuing improvements in the domestic security situation and the implementation of measures under the program, real output growth is projected to remain at the original program target of 5 percent. However, this outcome depends crucially on a return to more normal growing conditions for the all-important agricultural sector during the 1989/90 crop seasons. The building and construction sectors are expected to perform well in response to the projected increase in development activity, and the strong growth in manufacturing output that the sector has been registering in recent years is expected to continue.

The authorities have decided to maintain the inflation target for 1989/90 (July/June) at 30 percent in spite of a much higher rate for 1988/89 than originally envisaged, the 16 percent increase in prices that has taken place during the first four months of the fiscal year, and the large depreciation of the shilling that has taken place, because of the tighter monetary stance underlying the revised program. In addition, a large proportion of increase in prices since June 1989 was due to the sharp increase in the prices of foodstuffs which were adversely affected by the drought. With the onset of the new harvest in December 1989 and January 1990, these prices are expected to decline substantially. In anticipation of the October exchange rate action, the authorities raised the retail prices of fuel products by between 22 percent and 27 percent with effect from September 27, 1989. These prices were increased again by between 11 percent and 19 percent following the October 1989 exchange rate action. At the prevailing levels of import costs and exchange rate, the new prices exceed import costs by a comfortable margin. The authorities have also agreed to review these prices regularly in light of changes in import and exchange costs to ensure that the budgeted revenue from this source is attained. The retail prices of the few remaining commodities subject to price administration have also been adjusted to reflect the increased cost of importation at the new exchange rate.

In spite of the depreciation of the shilling in 1989/90, it has been decided to leave the producer price of coffee at the present level primarily on account of the low level and trend of the export price of coffee. Nevertheless, coffee purchases by the CMB in 1989/90 are expected to remain at the 1988/89 level of about 2.9 million bags, reflecting the continuing positive impact of prompt cash payment under the new crop financing arrangements as well as the projected increase in coffee production.

A broad range of measures have been implemented to strengthen the operational and financial position of the CMB and coffee management policies. The margins provided to the CMB, the processors, and primary unions have been raised by 50 percent, 9 percent, and 15 percent, respectively, to reflect the rise in operating costs stemming from the exchange rate action and higher interest costs. To further strengthen the CMB's finances, the 1989/90 budget includes a provision of U Sh 3 billion for the reduction of the CMB's uncovered bad debts arising from losses sustained in previous years, although the precise amount transferred to the marketing board will depend on an assessment of the CMB's audited accounts for the 1988/89 crop year. All government arrears to the CMB, mainly on account of coffee barter sales that have built up since May 1989 when the Government and the CMB last reconciled their accounts, are to be settled by end-December 1989. All parastatal arrears to the CMB are to be fully paid off by end-March 1990, and, to ensure that these arrears do not arise again, the CMB will from December 1989 be paid before any barter shipments of coffee take place. The imposition of discounts for impure and wet coffee is being fully implemented. Transport facilities permitting, the CMB will pursue coffee management policies that minimize the accumulation of substantial stocks of coffee, and the CMB's account at the Bank of Uganda will be credited promptly following the realization of export receipts. To improve the monitoring of CMB operations by the Government and the Bank of Uganda, a mechanism that reconciles the uses and sources of funds on a monthly basis will be in place by end-December 1989.

2. The 1989/90 fiscal program

A budget was announced in July 1989 that was inconsistent with the program and had to be revised. The revised budget adopted by the Government in October 1989 provides for an overall fiscal deficit on a commitment basis equivalent to 3.7 percent of GDP (6.9 percent excluding grants), a target that is above the original ESAF target of 0.8 percent of GDP (3.4 percent of GDP excluding grants) for a number of reasons, including the significant deterioration in the external economic environment. Moreover, as against the original ESAF program, the revised program addresses several important issues, including a strengthening of the financial position of the CMB and augmentation of the development budget consistent with Uganda's growth objectives and projected inflows of concessional external resources. As a result of the higher-than-initially programmed depreciation of the shilling, the overall fiscal deficit is projected to be larger than programmed, reflecting the fact that the unfavorable effect on total expenditure exceeded the favorable effect on revenue and grants. More important quantitatively, an estimated 2 percentage points of the increase in the ratio of the nominal budget deficit to nominal GDP reflects the differential impact of the October exchange rate action on the valuation of budget transactions and nominal GDP. Total revenue and grants are programmed to rise by 3.9 percent of GDP to 11.1 percent of GDP in 1989/90, compared with the original estimate of 10.9 percent of GDP. Foreign grants are now projected to increase to the equivalent of 3.2 percent of GDP, as against the original program estimate of 2.6 percent of GDP, reflecting the more depreciated exchange rate. The ratio of total revenue to GDP is projected to increase by 2 percentage points in 1989/90 to 7.9 percent. The reduction of 0.4 percentage points in the revenue ratio from the original ESAF target of 8.3 percent of GDP, is wholly on account of lower revenue from the coffee sector, equivalent to 1.4 percent of GDP, compared with the original projection of

2.2 percent of GDP. The outcome for coffee revenues is the net effect of a more depreciated exchange rate, a decline from the originally assumed unit export price of US$1.87 per kilogram to US$1.10, and the increase in the margins of the CMB, processors, and primary societies to compensate for the higher operating and finance costs.

The revised 1989/90 budget also incorporates a number of measures to streamline and broaden the revenue base that are estimated to yield about U Sh 6 billion (0.4 percent of GDP) in additional revenue. Those changes include the imposition of a new 10 percent duty on almost all zero-rated imports, including raw materials, which had hitherto carried no duty and a 10 percent sales tax on all exempted goods under the sales tax. In addition, tax rates on cigarettes were raised from 50 percent to 60 percent; duties on soap were raised from 2 percent to 5 percent; new excises were imposed on plastics, mattresses, paints, and exercise books, and excise duty rates were raised on cigarettes and beer by 5 percentage points. However, the specific duty rates on petroleum products were not changed in order to cushion the increases in prices resulting from the October 1989 devaluation, reducing the average ad valorem rate to about 22 percent. Additional direct tax measures were introduced in the budget to improve incentives to domestic savers and investors, which included the raising of the income tax threshold, and reductions in the maximum income tax rate from 60 percent to 50 percent and in the corporate tax rate from 60 percent to 45 percent. To help compensate for possible revenue losses arising from these actions, measures were taken to strengthen tax administration, including the registration of all auditors and accountants as income tax practitioners and the imposition of more stringent reporting requirements for landlords.

Government expenditure is targeted to increase to 14.7 percent of GDP in 1989/90, compared with the 11.7 percent of GDP originally programmed. In addition to the impact of exchange rate changes on foreign-financed development expenditure, the upward revisions in expenditure reflect primarily (a) higher allocations for the security forces to provide for improved pay and conditions; (b) upward revisions in external interest payments; (c) a provision of U Sh 3 billion for the reduction in the CMB's indebtedness; and (d) higher-than-programmed development outlays, reflecting the pressing need to ease the constraints on growth caused by a poor and malfunctioning infrastructure. An expenditure control mechanism is presently in place for monitoring monthly budgeted releases by ministries. Based on preliminary estimates of both revenue and expenditure developments in the first quarter of 1989/90, the revised fiscal program appears to be broadly on track.

Under the revised program, net external financing of the deficit is projected to rise by 2.3 percentage points to 5.4 percent of GDP when compared to the original program, reflecting both higher-than-programmed import-support loans and the larger depreciation of the shilling now assumed for 1989/90. Domestic nonbank financing remains as originally programmed (0.1 percent of GDP) but net repayments by the Government to the banking sector are now programmed to amount to U Sh 17 billion (1.3 percent of GDP), about double that originally targeted; of this amount U Sh 8.7 billion represents the proportion of the concessional loan earmarked for crop financing. The program also provides the resources for a reduction of U Sh 8.3 billion in the level of the Government's total arrears, of which U Sh 7.5 billion represents external arrears and U Sh 0.8 billion is for the reduction in arrears to CMB; hence, the overall cash deficit is projected to be larger than the commitment basis deficit by this amount.

In line with the 1989/90 fiscal program, the Government intends to continue in its efforts toward structural budgetary reforms, especially in the area of organizational rationalization and strengthening of the mechanisms for staff control in the civil service. With the completion of the list of established posts in the civil service in June 1989, the Government intends to integrate the establishment register with the payroll list with a view toward implementing a new system of payroll control by March 1990. The Public Service Review Commission is expected to present a report and recommendations on a wide range of issues relating to civil service reform in April 1990. On the revenue side, despite recent efforts by the Government to strengthen tax administration and rationalize the tax structure, the revenue base in Uganda remains very narrow. In this regard, the Government intends to monitor developments in the taxation of barter sales of coffee and other transactions between the CMB and the Government, as well as the progress toward the liberalization of the coffee sector to ensure that government revenue is not adversely affected. To help address the problem of strengthening the revenue base, which is viewed as essential to achieving the macroeconomic and social objectives of the structural adjustment program, the Government is presently receiving technical assistance from the World Bank and some bilateral donors in the area of tax administration and policy.

3. Public enterprise reform

During 1989/90, the Government intends to pursue further its efforts toward increasing the efficiency and financial viability of public enterprises. Under the Public Enterprise Project assisted by IDA resources, a study of the techniques to be applied in the divestiture of parastatals is expected to be completed in December 1989. In addition, a public sector administrative reform and planning study is presently being commissioned to examine and make recommendations concerning the institutional arrangements for, and the role of the Government in, managing public sector enterprises, including the role of the Uganda Development Corporation. Diagnostic studies of nonindustrial enterprises, including Uganda Railways and Uganda Airways, as well as management audits of industrial enterprises, are expected to be completed by end-June 1990. A Public Enterprises Secretariat has been established with the responsibility for advising the Government on the program of public enterprise reform within the industrial sector.

4. Monetary and credit policies

Monetary and credit policies in 1989/90 have been designed to further the Government's objectives of reducing the inflation rate, promoting a more stable economic environment, and strengthening the overall balance of payments. Accordingly, total domestic bank credit is programmed to increase in 1989/90 by an amount equivalent to only 11 percent of beginning broad money with net credit to the Government declining by U Sh 17 billion (equivalent to 28 percent of beginning broad money). In addition to effecting these large net payments to the banking system, the Government is programmed to reduce the CMB's debts with commercial banks by U Sh 3 billion during the year. These actions should permit an adequate increase in credit to the private sector, while an increase in total domestic credit is limited to an amount consistent with an expansion in broad money of about 21 percent. Thus, monetary policy is programmed to be much tighter during 1989/90 than under the original program, when broad money was targeted to expand by 36 percent. This policy stance reflects the authorities' determination to reduce substantially inflationary pressures emanating from the earlier excess expansion as well as their concerns regarding the more difficult external prospects.

A number of measures are being implemented with a view to moderating the increase in credit. In this context, the actions aimed at strengthening CMB operations, together with the coffee sector policies, should assist in reducing credit demands. In addition, the Coffee Desk at the Bank of Uganda has undertaken a comprehensive review of all primary societies and cooperatives in order to ensure that in the future credit is extended only to viable entities. The authorities are also planning to apply more strictly the cash and liquidity ratios. In this regard, the measures outlined below, aimed at limiting the use of Bank of Uganda credit by problem banks, should help.

Deposit and lending rates were raised in March 1989 by 5 percentage points each, bringing the one-year deposit rate to 38 percent, which is a minimum rate, and the maximum lending rate to 50 percent. Since that time, the inflation rate has been much higher than programmed, with the result that real rates have been negative. However, in recent months, the inflation rate has decelerated somewhat, and the authorities are directing their financial policies to the original inflation objective. The authorities would like to achieve positive real rates of interest primarily through a further substantial reduction in the inflation rate. In the meantime, they believe that the present maximum lending rate of 50 percent provides commercial banks ample room for effecting further increases in deposit rates, which they are free to do if the banks consider it necessary, and if appropriate cost savings actions are undertaken by them.

The authorities plan to move ahead with the reform of the financial sector, and in this connection, a study to be undertaken with World Bank and Fund assistance will be completed by end-June 1990 on the viability of the Cooperative Bank. Meanwhile, a new management team has been installed at the Cooperative Bank, and the Bank of Uganda has taken action aimed at halting further lending to the Cooperative Bank. A plan also has been put in place to reduce the level of outstanding overdrafts of the Uganda Commercial Bank at the Central Bank from an average of about U Sh 3 billion in September 1989 to an average of less that U Sh 1.5 billion in December 1989 and to its elimination by March 1990. These actions should greatly reduce the large variance that presently exists in the loan to deposit ratios among commercial banks and should assist in managing the growth in private sector credit within the requirements of the program.

5. External sector policies

The outlook for Uganda's external sector for the 1989/90 fiscal year is far worse than earlier envisaged, with the external current account deficit now expected to widen to 7.8 percent of GDP (4.6 percent in 1988/89) instead of declining to 3.6 percent of GDP as earlier projected. Consequently, in spite of a projected increase in net external capital inflows from 3.0 percent of GDP in 1988/89 to 4.4 percent of GDP in 1989/90, compared with the originally programmed inflows of 3.2 percent of GDP in 1989/90, the overall balance of payments deficit is projected to be considerably larger (US$67 million) than the original program target of US$2 million. As a result, it is not expected that Uganda will be able to meet the original program targets regarding the buildup in external reserves and the reduction in external payments arrears.

The external current account deficit is projected to be larger (US$131 million) than programmed in 1989/90, because both of a much higher trade deficit and a sharper than earlier envisaged decline in official transfers. The original assumption was for a recovery in the average export price per kilogram of coffee from about US$1.60 in 1988/89 to US$1.85 in 1989/90, but reflecting the collapse in the world price following the breakdown in the International Coffee Agreement quota system, the average price of coffee is now expected to decline to about US$1.10 per kilogram. Thus, in spite of a projected 9 percent increase in the volume of coffee exports, compared with the original program levels, coffee export receipts are now projected to be about 35 percent below the amounts assumed in the program. Imports are also expected to be lower than previously envisaged by about 10 percent on account of lower project-related imports.

However, the effect on total imports is expected to be somewhat mitigated by the higher-than-originally envisaged import-support loans. The two new sources of funds are US$35 million from additional import-support loans from the IDA and about US$65 million from the previously mentioned concessional bilateral credit. The additional IDA funds arise from the expected disbursements from both newly committed resources as well as from previously committed but undisbursed resources. In this regard, with World Bank technical assistance, the authorities are introducing a more efficient disbursement system for IDA and other resources which is expected to improve the speed of such disbursement.

The net effect on the foreign exchange budget of the revisions to the external projections, inclusive of the projected effects of the adjustment policies, indicate a need for additional untied resources of about US$50 million in order to meet the original program targets with regard to the reduction in arrears and the increase in gross foreign reserves. After extensive but unsuccessful efforts to raise the additional resources, it is now proposed that those indicative targets should be revised. Accordingly, gross reserves are now projected not to increase in 1989/90, instead of the original provision for a US$15 million increase. Similarly, no reduction in external payments arrears is programmed for 1989/90 as against the initially targeted reduction of US$39 million by end-June 1990. The currently envisaged overall balance of payments deficit of US$69 million would be financed by the projected rescheduling under the 1989 Paris Club agreements and the two disbursements under the ESAF expected in 1989/90.

A key objective of the program is to structurally strengthen the balance of payments over the medium term through the promotion and diversification of exports and the development of efficient import substitution. Consistent with this objective, the authorities devalued the exchange rate on October 24, 1989 by 41.2 percent in foreign currency terms, from U Sh 200 per U.S. dollar to U Sh 340 per U.S. dollar. As a result of this action, and taking into account price changes through August 1989, the real effective exchange was estimated to be about 9 percent more depreciated than the level prevailing after the exchange rate action of March 7, 1989 (Chart 1). The authorities have decided to peg the exchange rate of the shilling to a trade-weighted basket of currencies with effect from November 1989 and to prevent any real effective appreciation of the currency through monthly adjustments. In line with this policy, the Uganda shilling was devalued again on November 28, 1989 by 8.2 percent in foreign currency terms to U Sh 370 per U.S. dollar to take account of price and exchange rate developments in Uganda and its partner countries in September and October 1989. Meanwhile, the parallel market rate has depreciated to about U Sh 650-U Sh 700 per U.S. dollar from about U Sh 550-U Sh 600 in June 1989. In addition, exchange rate policy will be reviewed on at least a semiannual basis in light of developments regarding Uganda's external competitiveness, and progress toward the achievement of the inflation and external objectives, as well as the balance between the demand and supply of foreign exchange.

In view of the limited availability of foreign exchange, the flexible exchange rate stance should result in a more efficient implementation of the trade and exchange reforms that the authorities are currently pursuing. In this regard, an open general licensing (OGL) system was introduced in 1987 to provide foreign exchange on a priority basis to companies operating in critical industries, drawing on import assistance from donors. The availability of foreign exchange under the

OGL system has made a substantial contribution to improving capacity utilization and the availability of manufactured goods. Since December 1988, a large amount of such assistance has also been allocated under the SIP, which covers a broader list of imports and is open to any firm that has immediate access to the domestic funds needed to purchase foreign exchange. However, as a result of the sharp decline in the disbursement of import-support resources, allocation of foreign exchange under the SIP was suspended in March 1989. A SIP II scheme with a broader import coverage commenced in June 1989 and is providing inputs for agriculture and related transport and infrastructure development, manufacturing enterprises, and for selected finished goods. At inception, foreign exchange for SIP II imports was bought at U Sh 400 to the U.S. dollar. At the time of the October 24 devaluation, the SIP II exchange rate was permanently unified with the official exchange rate, removing thereby the existing multiple currency practice. As the availability of foreign exchange improves, including through receipt of import-support assistance, the Government plans to expand the SIP scheme as the principal means for the liberalization of imports.

The Government is also streamlining and improving the administrative procedures of the OGL and SIP schemes. In this regard, a new system of documenting these transactions has been devised, which should speed up significantly the processing of foreign exchange approvals. It is intended to further liberalize the import system by limiting the share of OGL imports relative to SIP imports. In addition, with the assistance of the World Bank, a special credit guarantee facility has been established to assist enterprises considered viable, but which have hitherto found it difficult to obtain adequate finance from the banking system to purchase foreign exchange and have thus failed to benefit from the utilization of import-support resources because of inadequate collateral.

The authorities are complementing the measures detailed above with a number of other structural and institutional reforms with a view to strengthening the external sector. In this connection, the actions aimed at strengthening CMB operations, together with the coffee sector policies, should assist in increasing export receipts from coffee operations. In addition, in view of the difficult foreign exchange situation, the authorities have taken measures aimed at improving foreign reserve management including actions aimed at limiting barter sales of coffee. In this context, in light of the 900,000 bags of coffee shipped from July to September 1989, of which 300,000 bags constituted barter shipments, additional shipments of 2.0 million bags of coffee to cash markets will be required to meet the planned export target of at least 2.6 million bags to cash markets in 1989/90 (July/June). The Government is taking three key actions; first, it is targeting an average monthly level of coffee shipments of 220,000 bags to cash markets from October 1989 to June 1990. Second, the Government's nondebt and non-oil foreign exchange expenditure will be limited to US$3 million a month starting November 1989, from an estimated monthly average of US$4 million in 1988/89. Third, the

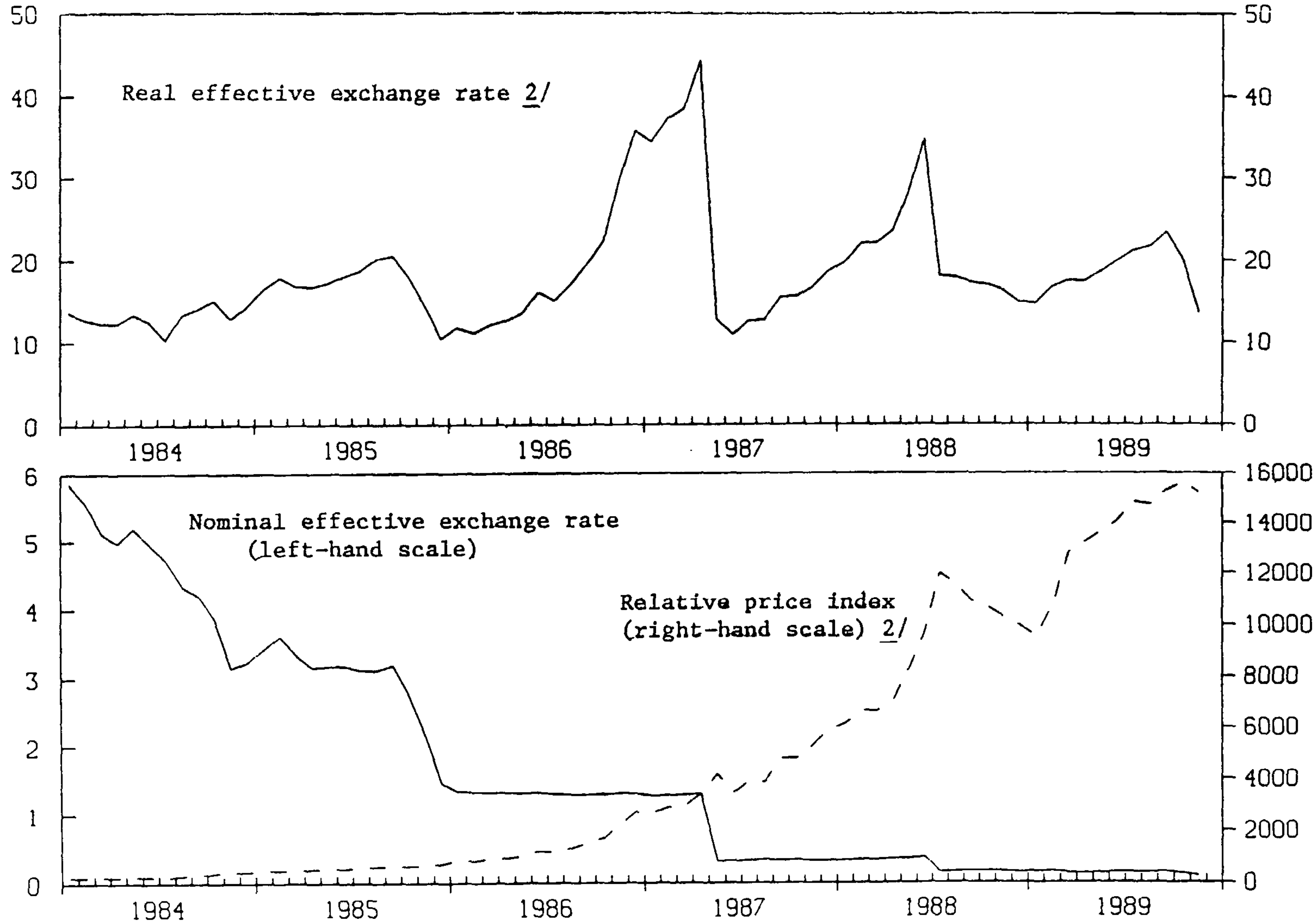
CHART 1

UGANDA

INDICES 1/ OF EFFECTIVE EXCHANGE RATES AND RELATIVE PRICES

JANUARY 1984 TO NOVEMBER 1989

(PERIOD AVERAGE, 1980=100)



SOURCES; IMF Information Notice System and: staff estimates

1/ Trade-weighted indices

2/ Deflated by seasonally adjusted consumer prices.

authorities intend to continue their efforts to contact their creditors to complete bilateral reschedulings on terms envisaged under the 1989 Paris Club arrangement.

Uganda's total external debt is projected to increase in 1989/90 from 530 percent of exports of goods and services at end-June 1989 to 751 percent by end-June 1990. Meanwhile, as a result of the sharp drop in export receipts during the year, the debt service ratio (including the Fund and prior to rescheduling) is projected to increase from 76 percent in 1988/89 to 80 percent in 1989/90. In light of the heavy debt service burden, the authorities will continue their prudent debt management policies by strictly limiting the contracting of nonconcessional government and government-guaranteed debts for maturities of 0-12 years to US$15 million in 1989/90. Consequently, it is not proposed to modify the benchmarks regarding the contracting or guaranteeing of nonconcessionary loans.

6. The social impact of the program

To address the needs of the vulnerable groups, as well as of those who may be adversely affected by the adjustment measures implemented under the program (e.g., lower level civil servants likely to be retrenched), the Program for Alleviation of Poverty and the Social Costs of Adjustment (PAPSCA) has been developed. The program aims at addressing the needs of those who will be in precarious economic and social conditions in the short run while recognizing that the implementation of the program will place immediate and heavy demands on public sector management. It therefore attaches priority to the involvement of local communities and nongovernmental organizations (NGOs) in the program's implementation. As a by-product, PAPSCA will enhance the sustainability and acceptability of the adjustment program. For the medium term, the PAPSCA provides for the creation of a process for incorporating concerns for the poor and the most vulnerable in the design of the Government's economic policy initiatives.

The PAPSCA addresses the urgent needs of some of the victims of the period of civil unrest and economic decline who are not expected to benefit directly from the program. These include victims of the wars--widows, orphans, and the disabled; AIDS orphans; and children and other residents of disadvantaged districts including those living in dangerously unhealthy urban slum areas. These groups are too weak to participate in the recovery program, and unless their needs are addressed, their economic and social conditions will continue to deteriorate. They will require special assistance if they are to eventually respond to policy measures under the program to increase their productivity.

The implementation of various components of an overall social action program has already begun with external assistance. Major projects in education, health, and infrastructure rehabilitation, all geared toward poverty alleviation, are either ongoing or planned. The full execution of these programs will be to the benefit of the majority of Ugandans in the medium term. The program was discussed with donor representatives in early December 1989 on the occasion of the Consultative Group Meeting on Uganda. Several NGO representatives were invited to join in the discussion and they indicated strong support for the program, in which their input had been reflected, and were prepared to assist in its implementation.

V. The Medium-Term Outlook

The review of the medium-term outlook for the Ugandan economy assumes that the authorities will continue to implement structural adjustment measures and prudent macroeconomic policies in line with the policy framework paper and that with the restoration of normal security conditions throughout the economy, private sector activity will pick up momentum. Accordingly, the projections envisage that the recovery in private investment, which began in 1988/89, will at least be maintained during the remainder of the program period at about 10.0 percent of GDP (Table 7). In view of the extent of the devastation of private real assets during the 15 years ended in 1986/87, these projected investment levels are not overoptimistic. Public investment is projected to rise from 5.5 percent of GDP in 1988/89 to 9.2 percent in 1991/92 and to remain stable thereafter. At present, the main constraints to the attainment of higher investment levels are inadequate power capacity, a weak administrative and implementing capability, poor transportation infrastructure, and a lack of basic inputs. The pipeline of unused external project resources is substantially above Uganda's implementing capacity at present.

Reflecting the improvements in the economy described above, real GDP is projected to increase at an annual rate of 5 percent. In response to the measures under the program, including the expansion of the 100 percent foreign exchange retention scheme to cover all noncoffee exports, and the more competitive exchange rate stance assumed for the period, cash crop production and manufacturing output are projected to perform well.

In response to the fiscal measures being implemented, aimed at raising the tax effort and disciplining public expenditure, government savings are projected to increase from a budgeted 0.2 percent of GDP in 1989/90 to 2.2 percent of GDP in 1993/94 (Table 8). Reflecting this, the overall deficit excluding grants is projected to decline gradually from 6.9 percent of GDP in 1989/90 to 5.3 percent of GDP in 1993/94.

The original ESAF program envisaged the attainment of external sector viability, in the context of continued economic growth, by the end of the three-year program period. To sustain the import growth levels consistent with the growth objective, this scenario envisaged a substantial recovery of noncoffee exports, such as cotton and tea, and assumed that world coffee prices would remain in real terms at the level

Table 7. Uganda: Medium-Term Macroeconomic Projections, 1987/88-1993/94

	1987/88 Prov.	1988/89 Est.	1989/90	1990/91	1991/92 Projections	1992/93	1993/94
Nominal GDP at market prices (in billions of U Sh)	325.6	839.9	1,348.4	1,713.1	1,996.7	2,228.6	2,457.0
Real GDP growth (percentage change)	5.0	6.5	5.0	5.0	5.0	5.0	5.0
			(In percent of GDP)				
Central Government							
Revenue	7.0	5.9	7.9	8.4	9.4	9.8	10.0
Current expenditure	7.6	7.3	7.7	7.7	7.8	7.8	7.8
Development expenditure and net lending	6.0	3.4	7.0	7.4	7.7	7.8	7.5
Budget deficit, excluding grants	-6.6	-4.8	-6.9	-6.7	-6.1	-5.9	-5.3
Grants	2.0	1.3	3.2	3.5	3.5	3.7	3.5
Budget deficit, including grants	-5.2	-3.5	-3.7	-3.2	-2.6	-2.2	-1.8
Savings and investment balance							
Total gross domestic investment	15.1	15.5	17.0	18.2	18.9	18.9	18.9
Public sector 1/	6.2	5.5	8.2	8.8	9.2	9.2	9.2
Rest of the economy	8.9	10.0	8.8	9.4	9.7	9.7	9.7
Gross domestic savings	7.7	7.2	3.5	4.3	6.2	7.0	7.4
Government	-0.6	-1.4	0.2	0.7	1.6	2.0	2.2
Rest of the economy	8.3	8.6	3.3	5.0	4.6	5.0	5.2
External sector							
Exports of goods and nonfactor services	5.9	6.4	6.5	7.7	9.1	10.0	10.8
Imports of goods and nonfactor services	12.5	14.7	20.0	21.6	21.8	21.9	22.3
Overall resource balance	-6.6	-8.3	-13.5	-13.9	-12.7	-11.9	-11.5
Current account balance 2/	-3.7	-4.7	-7.8	-7.2	-5.6	-4.8	-4.0

Source: Ministry of Planning and Economic Development and staff estimates.

1/ Central Government and public enterprises.
2/ Including official transfers.

Table 8. Uganda: Long-Term Balance of Payments Scenario

	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02
					(In millions of U.S. dollars)					
Current account	-219	-195	-192	-185	-182	-188	-219	-252	-266	-280
Trade balance	-416	-424	-445	-457	-471	-494	-521	-550	-580	-612
Exports, f.o.b.	408	474	534	591	650	706	762	823	889	960
Of which, noncoffee	(92)	(120)	(138)	(155)	(171)	(188)	(203)	(219)	(236)	(255)
Imports, c.i.f.	-824	-898	-979	-1,048	-1,121	-1,199	-1,283	-1,373	-1,469	-1,572
Nonfactor services (net)	-121	-132	-143	-153	-164	-176	-188	-201	-215	-230
Net interest	-54	-62	-64	-67	-70	-74	-79	-86	-94	-101
Private transfers	172	188	205	219	234	251	268	287	307	328
Official transfers	200	235	256	273	289	304	301	299	317	335
Capital account	216	235	255	270	284	281	279	296	313	331
Official multilateral flows (net)	216	235	255	270	284	281	279	296	313	331
Of which: disbursements	(289)	(313)	(341)	(364)	(388)	(414)	(443)	(473)	(505)	(539)
Overall balance	-3	40	63	85	103	93	60	44		51
Financing	3	-40	-63	-85	-103	-93	-60	-44	-47	-51
Monetary authorities	-33	-40	-63	-85	-103	-93	-60	-44	-47	-51
Gross reserve change	-15	-30	-34	-40	-44	-36	-7	-11	-29	-48
IMF (net)	-18	-10	-30	-45	-59	-57	-53	-33	-17	-3
Residual financing gap	—	—	—	—	—	—	—	—	—	—
External arrears	36	—	—	—	—	—	—	—	—	—
					(In percent)					
Memorandum items:										
Assumed growth rates										
Coffee exports	13.5	12.0	12.0	10.0	10.0	8.0	8.0	8.0	8.0	8.0
Noncoffee exports	50.0	30.0	15.0	12.5	10.0	10.0	8.0	8.0	8.0	8.0
Imports	9.0	9.0	9.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Aid disbursements	9.0	9.0	9.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Real GDP	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
					(In millions of U.S. dollars)					
End of period levels										
External arrears	—	—	—	—	—	—	—	—	—	—
Gross international reserves	68	98	132	172	216	251	258	270	299	347
External debt	2,585	2,820	3,075	3,345	3,629	3,910	4,189	4,485	4,798	5,129
Use of Fund resources (SDR million)	225	218	196	163	120	78	39	15	2	—
Gross reserves—months' import coverage	1.0	1.3	1.6	2.0	2.3	2.5	2.4	2.4	2.4	2.6
					(In percent)					
Ratios:										
Current account/GDP	-4.8	-4.0	-3.7	-3.3	-3.1	-3.0	-3.2	-3.4	-3.4	-3.3
Excluding official transfers	-9.3	-8.9	-8.6	-8.3	-7.9	-7.7	-7.6	-7.5	-7.5	-7.3
Debt service 1/	29	26	29	30	32	34	35	33	31	30
Of which: IMF	4	3	6	8	9	8	7	4	2	—
Debt 1/	586	551	533	524	516	513	509	504	499	494

Source: Fund staff estimates based on data from Uganda authorities.

1/ In percent of exports of goods and nonfactor services.

attained in the second half of 1988/89, that is, about US$2.00 per kilogram.

In the event, the massive terms of trade deterioration in 1989/90 arising from the collapse in the price of coffee is expected to delay the attainment of external sector viability and could jeopardize the growth objectives of the program. The revised medium-term scenario assumes that the price of coffee recovers substantially only in 1991/92. Thus, the balance of payments consistent with the growth objectives will contain significant financing gaps in 1990/91-1992/93, leading to a one-year delay in reaching external sector viability relative to the original program's objective (Table 8). The exceptional financing required would necessitate additional debt relief as well as additional import assistance, perhaps under the auspices of the World Bank's Special Program of Assistance (SPA).

For the longer term, the world price of coffee is assumed to regain its 1988/89 real level by 1994/95 and maintain it thereafter. The projections indicate that this would allow Uganda to attain its growth objectives as well as have the capacity to repay the Fund during the years when the ESAF obligations fall due (Table 6). This scenario also entails the realization of the original assumptions regarding the implementation of policies allowing for the re-emergence of noncoffee exports and a growth of foreign assistance at the same rate as that of the economy. The former assumption implies a return of cotton and tea production to levels attained in the early 1970s while the latter indicates the sensitivity of the economy to the availability of external assistance.

It is currently projected that outstanding Fund credit will decline from the current 100 percent of exports to 90 percent of exports by the end of the program period. For the three-year period, gross Fund financing relative to the economy's gross financing needs will fall from the initial program's projection of 23 percent to 19 percent.

VI. Quantitative Benchmarks

The ESAF program provided for a review of the quantitative benchmarks for the balance of 1989/90 to be undertaken at the time of the midterm review. Accordingly, in the context of the review, understandings were reached on quantitative benchmarks for end-December 1989, end-March 1990, and end-June 1990 (Table 9), which take account of the more difficult external environment now envisaged for the balance of the year. In addition, the following will be considered as policy benchmarks: (1) implementation of measures to improve the operational efficiency of the CMB as described in paragraphs 10 and 11 of Appendix I; (2) implementation of the expenditure cuts and all the revenue-raising measures as described in paragraphs 12 and 13; (3) the elimination of UCB's overdraft with the Bank of Uganda by end-March 1990 as described in paragraph 17; (4) completion of the study to determine

Table 9. Uganda: Quantitative Benchmarks for the First-Year Arrangement Under the Enhanced Structural Adjustment Facility, December 1989-June 1990 1/

	1989	1990	
	December	March	June
	(In billions of Uganda shillings: end of period)		
Quantitative performance benchmarks			
Cumulative change from June 30, 1989 to end of period in:			
Total domestic credit 1/	2.7	8.0	6.4
Net bank credit to Government 1/	-6.0	-11.0	-17.0
	(In millions of U.S. dollars)		
Cumulative change from March 31, 1989 to end of period in:			
New nonconcessional borrowing, including short-term trade credits and borrowing under debt rescheduling 2/	15.0	15.0	15.0
External payments arrears 1/ 3/	-7.0	-7.0	-7.0
Stock of gross reserves 1/ 4/	15.0	18.0	23.0

1/ See EBS/89/62 (Annexes I and II) for definitions.

2/ Maximum cumulative limit for contracting or guaranteeing after April 1, 1989 of external loans on nonconcessional loans with an initial maturity of up to and including 12 years; this limit includes normal short-term trade credit and debts contracted in the context of rescheduling agreement.

3/ Cumulative change in external payments arrears, including arrears eligible for rescheduling under the January 1989 Paris Club agreement or eligible for rescheduling with other creditors.

4/ Gross level of international reserves of the Bank of Uganda.

the viability of the Cooperative Bank by end-June 1990 as described in paragraph 17; (5) attainment of the targeted level of cash exports of coffee in 1989/90 given in paragraph 19; and (6) frequent adjustments of the exchange rate as described in paragraph 18.

VII. Staff Appraisal

The external environment facing Uganda deteriorated substantially soon after the ESAF program was formulated. Coffee prices plummeted in the last quarter of 1988/89, import assistance disbursements fell sharply, and imports were compressed. Nevertheless, the authorities pressed ahead with several key measures envisaged in the program, including a real depreciation of the exchange rate and the suspension of exchange surrender obligations for all noncoffee exports. To foster a more competitive environment and to promote efficient import substitution, a major liberalization of the price control regime was effected. The authorities also moved ahead with the rehabilitation of essential infrastructure, especially in the transportation and energy sectors, to ease some of the main constraints on production. In other respects, however, the domestic policy response was delayed and insufficient. With the deteriorating external conditions, attainment of program targets required a substantial reduction in the pace of government expenditure and the adoption of a policy of credit restraint. In the event, in the second half of 1988/89 recurrent fiscal expenditure and local capital outlays were much higher than budgeted and credit policy was managed ineffectively, with credit and monetary aggregates rising rapidly to levels that by June 1989 were already far above the September ceilings. Thus, in spite of the policy measures taken, and which helped to sustain a high growth rate, the program's stabilization objectives for 1988/89 were not fully achieved. The inflation rate decelerated from 240 percent to 86 percent in 1988/89, but the latter was well above the 55 percent target and, in addition, balance of payments pressures intensified.

In response to a continued sharp decline in the export price of coffee--the average level is over 40 percent below the original 1989/90 program assumption--the authorities markedly reduced the rate of credit expansion and took actions to improve the performance of the fiscal sector during July-September 1989; since October, 1989 they have been implementing a broad package of new measures. In addition to a revised budget for 1989/90, the measures included a devaluation of the shilling; actions to strengthen the financial position of CMB and coffee management policies; and measures to reduce the reliance of problem banks on the Central Bank and to ensure enforcement of prescribed liquidity and cash ratios. Rigorous implementation of these measures and the restrictive financial policies formulated for the remainder of this fiscal year should bring the program back on track in terms of achieving the original domestic objective on inflation.

Given the adverse exogenous developments and earlier policy slippages, with the exception of the benchmark and performance criterion on the reduction in external payments arrears--met only because of a special refinancing operation--Uganda failed to meet the June 1989 quantitative benchmarks and the performance criteria for end-September 1989. The authorities have requested a waiver with respect to each of the end-September 1989 performance criteria not observed. Noting the extent to which exogenous factors played a role in the outcome, and particularly the strong remedial measures being taken towards bringing the program on track, the staff believes that this request should be granted. Moreover, the authorities introduced a multiple currency practice in June 1989 which was eliminated in October 24, 1989. The staff also proposes that the necessary waiver of the related performance criteria be granted.

Execution of the revised budget should result in a considerably larger reduction in the Government's indebtedness to the banking sector compared with the originally envisaged program for 1989/90. New tax measures taken will enable the authorities to recoup about one half of the projected large (0.8 percent of GDP) loss in revenue from the coffee sector, but in the near term, successful budget execution depends crucially on the success in controlling expenditure. Expenditure levels in July-September 1989 were broadly consistent with the revised budget for the whole 1989/90 fiscal year. The Government's development program is more ambitious than in the original ESAF and external financing is expected to play a relatively much larger role. The extent of this dependence is worrisome from a perspective of sustainability which, in the staff's view, makes it urgent for Uganda to formulate at an early date a package of structural fiscal measures to help strengthen the tax base. The reviews now in progress on tax administration and policy are very welcome, but this work should be broadened and intensified and Fund technical assistance should be sought for that purpose. These efforts should be complemented by further actions to rationalize the civil service and to improve public sector administration. In this regard, the steps that the authorities are already taking in this direction merit support.

The authorities' intention to limit domestic credit expansion to amounts consistent with the achievement of the program's original stabilization objectives is commendable and will require renewed discipline in the conduct of monetary and credit policies. In particular, the authorities must pursue rigorously the actions to enforce reserve and liquidity requirements and should be prepared to react flexibly to changing circumstances. Although recognizing the difficulty in containing credit demand with negative real interest rates, the authorities want to achieve positive rates through a substantial reduction in inflation. If the programmed reduction in inflation is achieved, key deposit and lending rates would be positive in real terms by the end of 1989/90. If, however, the inflation rate does not respond as strongly as planned to the remedial policies, the authorities should be prepared to move quickly and forcefully to allow interest rates to move upward. It must also be emphasized that the success in implementing the credit program will depend crucially on the authorities' success in achieving the targeted improvement in the government position vis-à-vis the banking system.

Uganda's external position will remain very difficult for the balance of this fiscal year and over the medium term because of its weak and narrow export base and its large outstanding debt obligations. The real exchange rate adjustment attendant with the October 1989 devaluation of the shilling and the decision to at least maintain the rate at the real level achieved are particularly welcome. With appropriately restrained fiscal and monetary policies, that policy also should help to narrow the differential between the official and the parallel market rate.

Even with firm macroeconomic policies, Uganda will have to continue to rely heavily on external financial support for its adjustment and rehabilitation program. Timely and adequate donor assistance on highly concessional terms will be critical and it is important also that assistance be quick disbursing and not tied to specified import categories. Uganda continues to receive strong support from its major creditors and donors but the value of untied program assistance is insufficient to permit full attainment of the initial external targets of the program. The authorities have been experiencing difficulties in meeting their external payments obligations, including those of the Fund, and in response, they have taken a number of remedial actions, including the limiting of barter exports of coffee and reducing government nondebt external payments. These improvements in foreign exchange management will help relieve the pressures on the foreign exchange budget. Nevertheless, and as reflected in the revised external targets, foreign exchange availability is not expected to be sufficient to permit achievement of the originally programmed increase in gross reserves and the reduction in external arrears for 1989/90. Moreover, because of the extent and likely duration of weak export prices, attainment of external viability is now projected to take longer than envisaged in the policy framework paper. Nevertheless, with rigorous implementation of structural measures in an appropriate macroeconomic framework, Uganda should be able to achieve a sustainable external position--without sacrificing growth objectives--by the mid-1990s. However, in view of the dependence of the program on external assistance and the performance of the coffee sector, the success of the adjustment efforts will depend on the willingness of the government to adjust policies when necessary. The staff believes that the revised program for 1989/90 represents a serious effort in that direction.

Uganda continues to maintain exchange restrictions under the transitional arrangements contemplated in Article XIV restrictions. Moreover, the following exchange restrictions retained by Uganda are subject to approval under Article VIII, Section 2(a): a comprehensive system of foreign exchange allocation, including the features of the system that evidence external payments arrears. In recent years, Uganda has also channelled an increasing amount of payments and receipts through existing bilateral payments arrangements both with Fund members and nonmembers. The authorities have begun the process of gradually liberalizing payments for certain imports through a modified open general licensing system and more broadly through the special import program, and have decided to eliminate, through payment of rescheduling, the outstanding external payments arrears by the end of the three-year program period. The authorities should be encouraged to make progress in these areas and to eliminate reliance on bilateral payments arrangements as rapidly as possible. In the interim, and with the exception of the restrictive features of the bilateral payments arrangements with other members, the staff recommends that the Fund approve the retention of these restrictions until the completion of the 1990 Article IV consultation, or December 31, 1990, whichever is earlier.

It is recommended that the next Article IV consultation with Uganda be held on the standard 12-month cycle.

VIII. Proposed Decisions

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

A. 1989 Consultation

1. The Fund takes this decision relating to Uganda's exchange measures subject to Article VIII, Section 2(a), and in concluding the 1989 Article XIV consultation with Uganda in the light of the 1989 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 the exchange restrictions on payments and transfers for current international transactions described in accordance with Article XIV, Section 2, except that the restrictions arising from the allocation of foreign exchange, the restrictions evidenced by the accumulation of external payments arrears, and the restrictive features of some bilateral payments arrangements with Fund members are subject to approval by the Fund under Article VIII, Section 2(a). The Fund notes the intention of Uganda to eliminate these restrictions and encourages the authorities to remove them as soon as possible. In the meantime, and with the exception of the restrictive features of the bilateral payments arrangements with other members, the Fund grants approval for the retention of existing restrictions by Uganda until the completion of the 1990 Article IV consultation, or December 31, 1990, whichever is earlier.

B. Midterm Review of First Annual Arrangement Under the Enhanced Structural Adjustment Facility

"1. The Fund decides that the mid-term review contemplated in paragraph 2(a) of the first annual arrangement under the Enhanced Structural Adjustment Facility (ESAF) for Uganda (EBS/89/62, Supplement 1, 4/12/89 has been completed and that, notwithstanding the nonobservance of the performance criteria on: (a) net domestic credit of the banking system; (b) net claims on the government by the banking system; (c) gross foreign reserves of the Bank of Uganda; (d) contracting or guaranteeing by the government of nonconcessional external loans; and (e) introduction of multiple currency practices, Uganda may request the disbursement of the second loan specified in paragraph 1(c)(ii) of the first annual arrangement.

2. The letter dated December 21, 1989 from the Minister of Finance of Uganda shall be attached to the ESAF arrangement for Uganda (EBS/89/62, Supplement 1, 4/21/89), and the letter dated March 31, 1989 from the Minister of Finance of Uganda, together with the attached Memorandum on the Economic and Financial Policies of the Government of Uganda, for the period April 1, 1989 - June 30, 1990, shall be read as supplemented and modified by the letter dated December 21, 1989.

3. Accordingly, the indicators referred to in paragraph 3(a) of the first annual arrangement shall include the benchmarks for end-December 1989, end-March 1990, and end-June 1990 set out in the table annexed to the letter dated December 21, 1989."

December 21, 1989

Mr. Michel Camdessus
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. Camdessus:

1. Since the present Government came to power in early 1986, following 15 years of political strife and civil war, Uganda has been engaged in a major stabilization and economic recovery effort. In mid-1987 the Government adopted a three-year adjustment program supported by an arrangement under the Fund's structural adjustment facility (SAF). The performance during the first annual SAF program for 1987/88 (July-June) was rather mixed. However, program implementation and economic performance improved considerably during the first six months of the 1988/89 program, which was supported by a second annual arrangement under the SAF, and was broadly in accordance with the objectives of the program. Real GDP grew by 8.4 percent in 1987 and 6.8 percent in 1988, mainly as a result of a strong recovery in agriculture and manufacturing.

2. Encouraged by the performance during the first half of the second-year SAF arrangement, the Government undertook to intensify its adjustment and rehabilitation efforts with a view to removing the remaining imbalances in the economy and achieving balance of payments viability over the medium term, while maintaining the growth momentum of the economy. The broadened and deepened structural adjustment effort was supported by a three-year program under the enhanced structural adjustment facility (ESAF) for 1989/90-1991/92, which was approved by the Fund on April 17, 1989.

3. Accordingly, beginning in early 1989, the Government implemented a number of additional measures in support of the first annual program under the ESAF arrangement. With a view to achieving an improvement in Uganda's external competitiveness and to increasing revenue from trade taxes, the Uganda shilling was devalued by 17.5 percent in foreign currency terms on March 7, 1989. As a result of this change, the real effective exchange rate was estimated to be about 5 percent more depreciated than the level prevailing on July 1, 1988. The Government also decided to review the exchange rate monthly with a view to maintaining the real effective level achieved with the March 7, 1989 devaluation. The Government also announced on March 7, 1989 a broadening of the export retention scheme to include all noncoffee exports, in order to strengthen the incentives for production and export of such commodities. To strengthen coffee export prospects, the

Government decided to apply more firmly the differential pricing for various grades of coffee and to reduce the amount of barter shipments to ICO quota markets. The specific duty rates on petroleum products, which had been raised by between 140 percent and 192 percent in December 1988 were increased again by between 48 percent and 56 percent in March 1989. Minimum bank deposit and maximum lending rates were raised by 7 percentage points and 10 percentage points, respectively, to improve incentives for the flow of private financial savings through the banking system and to enhance efficiency in loan allocation. The rate of 38 percent on one-year deposits and the maximum lending rate of 50 percent were well above the inflation target for 1989/90 (30 percent). The Government also decided to address a number of structural issues in the financial sector, including the heavy reliance of problem banks on the Central Bank and the weak performance of building societies. The former was tackled by placing overdraft limits on the banks while the latter was addressed through closer supervision of their operations.

4. Taking into account the additional measures, including additional increases in specific duties on petroleum products, the overall fiscal deficit on a commitment basis was projected to decline to 1.0 percent of GDP in 1988/89, which was below the level of 1.3 percent of GDP in the July 1988 budget; and monetary and credit policies were formulated to be consistent with a deceleration in the inflation rate from 240 percent (end-year basis) in 1987/88 to 55 percent in 1988/89--below the 60 percent budget target--while achieving a GDP growth rate of 5 percent. Reflecting these policies, the external current account was projected to decline somewhat from the July projection of 4.6 percent of GDP to 4.1 percent of GDP in 1988/89. Nonetheless, the overall balance of payments was expected to weaken, mainly because of a downward revision in projected capital inflows equivalent to 2.7 percent of GDP, as compared to the July 1988 estimate of 5.1 percent of GDP. On balance, however, the strengthening of policies in the period before the ESAF arrangement was approved had a marked favorable outcome on financial developments in the latter part of 1988/89.

5. However, in contrast to the first half of 1988/89, major slippages emerged in program implementation during the second half of the year, owing in part to a collapse in the world price of coffee and to a sharp fall in the flow of external aid. The unfavorable external developments adversely affected budgetary receipts and there were slippages on the expenditure side, with larger-than-programmed current expenditures and other local capital outlays. As a consequence, the overall 1988/89 fiscal deficit (on a commitment basis) of 3.5 percent of GDP was much larger than programmed. Reflecting these developments, bank financing of the Government increased by 6 percent of beginning money stock instead of declining by 19 percent of beginning money stock as programmed.

6. Total domestic credit expanded much more rapidly than envisaged under the program. As a result, the credit benchmarks for end-June 1989

were exceeded by large amounts. This was caused by increased crop financing, owing in part to the need to liquidate the arrears of the Coffee Marketing Board (CMB) to cooperative and private processors; the rapid increase in credit for other uses; and the failure to reduce bank financing of the Government by the programmed amount. Consequently, monetary expansion during 1988/89 at 125 percent was much higher than programmed, which led to an intensification in inflationary pressures; the inflation rate rose to 86 percent during 1988/89 versus the revised target of 55 percent.

7. The ESAF program provided for monthly adjustments in the official exchange rate beginning in April 1989 to avoid any appreciation in the real effective exchange rate. However, given the extent of the inflationary pressures that had emerged, the authorities were hesitant to change the currency peg until additional external resources could be arranged and corrective fiscal and other actions taken to reassert control over domestic demand. As measured by changes in the index of the real effective exchange rate, Uganda's external competitiveness thus deteriorated considerably from the March position. Meanwhile, reflecting in particular the impact of the continuing decline in the export price of coffee to levels sharply below the programmed level, but also the slowdown in the disbursement of untied import support assistance, the foreign exchange budget of the Bank of Uganda weakened. As a result, the end-June 1989 benchmark with respect to the stock of reserves was not met.

8. It was against this background, as well as the worse-than-envisaged external prospects facing Uganda for the balance of 1989/90, that the midterm review, which took place both in Kampala and in Washington, focused on remedial policies that would be implemented in 1989/90 to safeguard the broad program objectives. As a result, the Government has adopted strong corrective measures including a 41.2 percent devaluation of the shilling in foreign currency terms, and will, if necessary, implement additional measures in the course of the year to ensure that the program's major objectives are achieved. Thus, the original 1989/90 ESAF objectives in respect of inflation and real GDP growth rates have been maintained, although the targets in the fiscal, monetary, and external sectors have been revised to reflect the changed external prospects and the measures being taken under the program.

9. In spite of a much higher inflation rate for 1988/89 than originally envisaged, the 16 percent increase in prices that has taken place during the first four months of 1989/90, and the depreciation of the shilling in 1989/90, the 30 percent inflation target for 1989/90, and thus the orientation of financial policies, have been maintained. In anticipation of the October exchange rate action, the authorities raised the retail prices of fuel products by between 22 percent and 27 percent with effect from September 27, 1989. These prices were increased again by between 11 percent and 19 percent following the October 24 exchange rate action. At the prevailing levels of import

costs and the exchange rate, the new prices exceed import costs by a comfortable margin. The authorities have also agreed to review these prices regularly in light of changes in import and exchange costs to ensure that the budgeted revenue from this source is attained.

10. A broad range of measures have been implemented to strengthen the operational and financial position of the Coffee Marketing Board (CMB) and coffee management policies. In spite of the depreciation of the shilling in 1989/90, it has been decided to leave the producer price of coffee at the present level primarily in reflection of the low level and trend of coffee export prices. However, the margins provided to CMB, the processors, and primary unions have been raised by 50 percent, 9 percent, and 15 percent, respectively, to reflect the rise in operating costs stemming from the exchange rate action and higher interest costs. To strengthen further the CMB's finances, the 1989/90 budget includes a provision of U Sh 3 billion for the reduction of the CMB's liabilities with commercial banks, although the precise amount transferred to the Board will depend on an assessment of CMB's audited accounts for the 1988/89 crop year.

11. All government arrears to CMB, mainly on account of coffee barter sales that have been built up since May 1989 when the Government and CMB reconciled their accounts, are to be settled by end-December 1989. All parastatal arrears to the CMB are to be fully paid off by end-March 1990 and to ensure that these arrears do not arise again, CMB will from December 1989 be paid before any barter shipments of coffee take place. The imposition of discounts for impure and wet coffee is being fully implemented. Transport facilities permitting, CMB will pursue coffee management policies that minimize the accumulation of substantial stocks of coffee; and CMB's account at the Bank of Uganda will be credited promptly following the realization of export receipts. To improve the monitoring of CMB operations by the Government and the Bank of Uganda, a mechanism that reconciles the uses and sources of funds on a monthly basis will be in place by end-December 1989.

12. The budget for 1989/90 announced in early July 1989 has been revised considerably to bring it in line with the objectives of the ESAF program. The revised fiscal program provides for an overall fiscal deficit on a commitment basis of U Sh 49.4 billion, equivalent to 3.7 percent of GDP (7.3 percent excluding grants), a target that is above the original ESAF target of about 1 percent of GDP (3.4 percent excluding grants) for a number of reasons, including the significant deterioration in the external environment facing Uganda. As against the original ESAF program, the revised budget addresses several important issues including a strengthening of the financial position of CMB and an augmentation of the development budget consistent with Uganda's growth objectives and projected inflows of concessional external resources. More important quantitatively, the increase in the ratio of the nominal budget deficit to nominal GDP reflects the differential impact of the October exchange rate action on the valuation of budget transactions and nominal GDP, which is estimated to be about 2 percent of GDP. To

achieve the revised deficit target, total revenue and grants are programmed to rise by 3.9 percentage points of GDP to 11.1 percent of GDP in 1989/90, compared to the original estimate of 10.9 percent of GDP. Total revenue will be raised by 2 percentage points of GDP to 7.9 percent in 1989/90. This target represents a slight reduction from the original ESAF target of 8.3 percent of GDP, on account of lower revenues from the coffee sector, which is expected to yield 1.4 percent of GDP compared with the original target of 2.2 percent of GDP. This outcome is the net effect of a more depreciated exchange rate, the assumed decline in the unit export price from the initial program assumption of US$1.85 per kilogram to US$1.1 per kilogram, and the upward adjustment in the margins of the CMB, processors, and primary societies. A number of measures to streamline and broaden the revenue base are also contained in the present budget. These include extensive increases in excise and sales duties on cigarettes and soap, and the imposition of a new 10 percent duty on almost all zero-rated imports--including raw materials that had hitherto carried no duty--and a 10 percent sales tax on all exempted goods under the sales tax tariff.

13. Reflecting in part the valuation effects of the much larger devaluation under the revised program, government expenditure is targeted to increase to U Sh 198.7 billion (equivalent to 14.7 percent of GDP) in 1989/90, compared with the 11.7 percent of GDP originally programmed. However, when compared with the budget announced in July 1989, the revised provisions for other recurrent and defense outlays are about 30 percent and 45 percent, respectively, lower in real terms. During the course of 1989/90, the Government intends to monitor carefully expenditure developments to ensure the full implementation of these cuts in specific ministries and projects.

14. Allowing for the U Sh 8.3 billion set aside for the reduction in external arrears and the projected external financing of U Sh 73.2 billion (5.4 percent of GDP) and domestic nonbank financing equaling U Sh 1.5 billion (0.1 percent of GDP), net claims on the Government by the banking system are projected to decline by U Sh 17 billion (1.3 percent of GDP) in 1989/90. To meet the revised quantitative targets for the remainder of the fiscal year, net claims on the Government by the banking system, which were reduced by U Sh 4.4 billion by end-September 1989 from the June 1989 base level, will need to be reduced by a cumulative U Sh 6.0 billion by end-December 1989, by a cumulative U Sh 11.0 billion by end-March 1990, and by a cumulative U Sh 17.3 billion by end-June 1990.

15. During 1989/90, the Government intends to continue in its efforts toward structural budgetary reforms, especially in the area of rationalization and strengthening of the mechanism for staff control in the civil service. With the completion of the establishment list of established posts in the civil service in June 1989, the Government intends to integrate the establishment register with the payroll list with a view to implementing a new system of payroll control by March 1990. The Public Service Review Commission is expected to present

a report and recommendations on a wide range of issues relating to civil service reform in April 1990. On the revenue side, despite recent efforts by the Government to strengthen tax administration and rationalize the tax structure, the revenue base in Uganda remains very narrow. In this regard, the Government intends to monitor developments in the taxation of barter sales of coffee and other transactions between the CMB and the Government and will also review progress toward coffee liberalization and related proposals to ensure that government revenue is not adversely affected. To help address the problem of strengthening the revenue base, which is viewed as essential to achieving the medium-term fiscal and macroeconomic objectives of the structural adjustment program, the Government is currently receiving technical assistance from the World Bank and bilateral donors in the area of tax administration and policy, and would seek assistance from the Fund if deemed necessary.

16. With regard to parastatal reform, the Government intends to pursue its efforts to increase the efficiency and financial viability of public enterprises. Under the Public Enterprises Project assisted by IDA resources, a study on the techniques to be applied to divestiture of parastatals is expected to be completed in December 1989. Diagnostic studies of nonindustrial enterprises, including Uganda Railways and Uganda Airways, as well as management audits of industrial enterprises, are to be completed by end-June 1990. A Public Enterprises Secretariat has been set up and has the responsibility for advising the Government on the program of public enterprise reform within the industrial sector.

17. Measures to address the factors that led to the rapid expansion of money and credit during the first half of 1989 and to resolve other problems in the financial sector are being implemented. Thus, the rate of expansion of money and credit moderated considerably during the third quarter. The main impetus to this moderation has been the ongoing process of retiring government debt to the banking system. Credit to the private sector has continued to expand, albeit slowly. The structural reforms that the Government has undertaken in the coffee sector also should help in reducing liquidity in the economy. The Bank of Uganda will henceforth ensure that the cash reserve requirement and the liquidity ratio are strictly observed by all banks. Since part of the increase in credit had been due to an unusually rapid credit expansion by the Uganda Commercial Bank (UCB) and the Cooperative Bank (Coop Bank), which had relied heavily on overdrafts with the Bank of Uganda to finance their expansion, a plan has been put in place to reduce UCB's outstanding overdraft at the Central Bank from U Sh 2.0 billion at end-June 1989 to less than U Sh 1.5 billion by end-December, and to zero by end-March 1990. Meanwhile, no further credit will be extended to the Coop Bank by the Central Bank and a study will be completed by end-June 1990 to review its viability. These actions, when taken together with the budgeted reduction in government liabilities of the banking system of U Sh 17.0 billion in 1989/90, and the U Sh 3 billion reduction in CMB debts, should permit an increase in private sector credit adequate to meet the credit requirements of the

economy and that is consistent with the programmed deceleration in broad money growth from 125 percent in 1988/89 to about 20 percent in 1989/90.

18. A key element to strengthen the program was the adoption and implementation of the new exchange rate system. On October 24, 1989, the official exchange rate was devalued by 42 percent in foreign currency terms to U Sh 340 per U.S. dollar. Since November 1989, the exchange rate of the shilling has been pegged to a trade-weighted basket of currencies and its value will be changed, at least monthly to reflect, inter alia, the inflation differential between Uganda and its major trading partners. Exchange rate policy will be reviewed again with the Fund staff at the time of the discussions for the second annual arrangement in light of macroeconomic developments and Uganda's external competitiveness.

19. Uganda's foreign exchange situation has been very tight over the last several months and it is likely to remain difficult during the remainder of the 1989/90 fiscal year. Accordingly, in order to ease the foreign exchange position of the Bank of Uganda, the Government has taken a number of actions. First, taking account of the 300,000 bags of barter shipments effected from July to September 1989, and in view of the planned shipment of at least 2.6 million bags of coffee to the cash markets in 1989/90 (July/June), the Government aims at an average monthly shipment of 220,000 bags of coffee to cash markets from October 1989 to June 1990. Second, the Government's nondebt and non-oil foreign exchange expenditure will be limited to US$3 million a month starting November 1989 from an estimated monthly average of US$4 million in 1988/89. Third, the Government will continue its efforts (to contact its creditors so as) to complete its bilateral rescheduling on terms envisaged under the 1989 Paris Club arrangement. Nevertheless, it will not be possible to increase gross international reserves or to reduce external payments arrears to the extent originally envisaged.

20. The open general licensing (OGL) system was introduced in 1987 to provide foreign exchange on a priority basis to companies operating in critical industries, drawing on import assistance from donors. The availability of foreign exchange under the OGL system has made a substantial contribution to improving capacity utilization and the availability of manufactured goods. Since December 1988, a large amount of such assistance has also been allocated under the special import program (SIP), which covers a broader list of imports and is open to any firm that has immediate access to the domestic funds needed to purchase foreign exchange. However, as a result of the sharp decline in the disbursement of import-support resources, allocation of foreign exchange under SIP was suspended in March 1989. A SIP II program with a broader import coverage commenced in June 1989 and is providing inputs for agriculture and related transport and infrastructure development, manufacturing enterprise, and for selected finished goods. As the availability of foreign exchange improves, including through receipt of import-support assistance, the Government plans to expand the SIP scheme as the principal means for the liberalization of imports. The Government is also streamlining and improving the administrative

procedures of the OGL and SIP schemes. In this regard, a new system of documenting these transactions has been devised, which should speed up significantly the processing of foreign exchange approvals. Quarterly disbursement targets will be set up for the OGL scheme consistent with the availability of foreign exchange. In addition, with the assistance of the World Bank, a special credit guarantee facility has been established to assist enterprises that are considered viable, but that have hitherto found it difficult to obtain adequate finance from the banking system to purchase foreign exchange and have thus failed to benefit from the utilization of import-support resources because of inadequate collateral.

21. With the implementation of the policies and measures described above, Uganda's external payments position should improve. Total exports of coffee beans are expected to reach 2.9 million bags instead of the initially programmed amount of 2.7 million bags. However, as this year's average export price is now forecast to be 40 percent below the originally programmed level of US$1.85 per kilogram, coffee export earnings are expected to be lower by 35 percent when compared with the original program projection. Consequently, total export earnings will be lower as well. Imports are programmed to be lower, mainly on account of externally financed imports. Reflecting these developments, the current account deficit including official transfers is expected to amount to 8 percent of GDP as against an original program projection of 3.6 percent of GDP.

22. The Government intends to pursue a prudent external debt management policy by strictly limiting commercial borrowing by the public sector, while seeking official assistance on concessional terms. Accordingly, the contracting of government- and government-guaranteed external loans on nonconcessional terms in the 0- to 12-year maturity range will be limited to the original program level of US$15 million. The Bank of Uganda will continue to refrain from borrowing from commercial sources. As a result of this debt-management policy, Uganda's debt service burden will decline progressively, although it will remain very high in 1989/90 because of the low export price of coffee.

23. In spite of the efforts that the Government has made in recent months to place the program back on track, Uganda met only one of the end-September performance criteria, that relating to the decline in external arrears (Table 1). In particular, instead of the programmed increase of total domestic credit of U Sh 7 billion between end-March and end-September 1989, total domestic credit rose by U Sh 17.2 billion; net bank credit to the Government declined by U Sh 2.4 billion during the same period as against a programmed decline of U Sh 4.0 billion; external arrears declined by US$7.0 million instead of a zero increase; the stock of international reserves amounted to US$15 million by end-September 1989 instead of the programmed level of US$40 million; and new nonconcessional borrowing amounted to US$34.3 million by end-September 1989 instead of the programmed limit of US$15 million wholly on account of a bridging loan, which the Government contracted in June 1989 in the

expectation of repaying it during the second half of 1989. The Government has now made arrangements to fully repay the bridging loan by December 1989. Given the extent to which this breach of quantitative performance criteria was due to factors beyond the immediate control of the authorities and taking into account the strong remedial actions already taken and the establishment of benchmarks consistent with the broad achievement of program objectives, the Government requests a waiver with respect to each of the performance criteria not observed.

24. The quantitative benchmarks for monitoring progress under the program are shown in Table 2, and the following will be considered as policy benchmarks: (1) implementation of measures to improve the operational efficiency of the CMB as described in paragraphs 10 and 11; (2) implementation of the revised budget for 1989/90, including the implementation of the expenditure cuts and all the revenue-raising measures as described in paragraphs 12 and 13; (3) the elimination of UCB's overdraft with the Bank of Uganda by end-March 1990 as described in paragraph 17; (4) completion of the study to determine the viability of the Cooperative Bank by end-June 1990 as described in paragraph 17; (5) attainment of the targeted level of cash exports of coffee in 1989/90 given in paragraph 19; and (6) frequent adjustments of the exchange rate as described in paragraph 18.

25. It is the Government's intention to remove as soon as possible the restrictions arising from the allocation of foreign exchange, the restrictions evidenced by the accumulation of external payments arrears and the restrictive features of some bilateral payments arrangements with Fund members. During the program period, the Government does not intend to engage in multiple currency practices, to impose new restrictions and/or to intensify existing restrictions on payments and transfers to current international transactions, to introduce new restrictions or to intensify existing restrictions on imports for balance of payments reasons, or to conclude bilateral payment agreements with Fund members not consistent with the provisions of Article VIII of the Articles of Agreement.

/s/

C.W.C.B. Kiyonga
Minister of Finance
Government of Uganda

Table 1. Uganda: Quantitative Benchmarks and Performance Criteria for the First-Year Arrangement Under the Enhanced Structural Adjustment Facility, June and September 1989 1/

	1989			
	June		September	
	Program bench-marks	Prelim. actuals	Program ceiling	Prelim. actuals
	(In billions of Uganda shillings; end of period)			
Quantitative performance criteria and benchmarks				
Cumulative change from March 31, 1989 to end of period in:				
Total domestic credit	0.5	14.7	7.0	17.2
Net bank credit to Government	-3.2	2.0	-4.0	-2.4
	(In millions of U.S. dollars)			
Cumulative change from March 31, 1989 to end of period in:				
New nonconcessional borrowing, excluding short-term trade credits and borrowing under debt rescheduling 2/	15.0	28.0	15.0	34.3
External payments arrears 3/	--	-6.0	--	-7.0
Stock of gross foreign reserves 4/	65.0	23.0	40.0	15.0

Table 1 (concluded). Uganda: Quantitative Benchmarks and Performance Criteria for the First-Year Arrangement Under the Enhanced Structural Adjustment Facility, June and September 1989 1/

	1989			
	June		September	
	Program bench-marks	Prel. actuals	Program ceiling	Prel. actuals

	Target date	Actual
Structural performance criteria		
Adoption of a budget in July 1989 consistent with the objective and targets of the program	End-December 1989	Done in October 1989
Implementation of measures designed to improve the performance of the financial system	End-December 1989	Introduced in November 1989

1/ The benchmarks for September 1989 are also performance criteria.
2/ Maximum cumulative limit for contracting or guaranteeing after April 1, 1989, external loans on concessional terms with an initial maturity of up to and including 12 years; this limit excludes normal short-term trade credit and debt contracts in the context of rescheduling agreements.
3/ Cumulative change in external payments arrears, excluding arrears eligible for rescheduling under the January 1989 Paris Club agreement or eligible for rescheduling with other creditors.
4/ Gross level of international reserves of the Bank of Uganda.

Table 2. Uganda: Quantitative Benchmarks for the First-Year Arrangement Under the Enhanced Structural Adjustment Facility, December 1989-June 1990 1/

	1989	1990	
	December	March	June
	(In billions of Uganda shillings; end of period)		
Quantitative performance benchmarks			
Cumulative change from June 30, 1989 to end of period in:			
Total domestic credit 1/	2.7	8.0	6.4
Net bank credit to Government 1/	-6.0	-11.0	-17.0
	(In millions of U.S. dollars)		
Cumulative change from March 31, 1989 to end of period in:			
New nonconcessional borrowing, including short-term trade credits and borrowing under debt rescheduling 1/	15.0	15.0	15.0
External payments arrears 1/ 3/	-7.0	-7.0	-7.0
Stock of gross reserves 1/ 4/	15.0	18.0	23.0

1/ See Annexes I and II of Appendix II of the Attachment to EBS/89/62 for definitions.

2/ Maximum cumulative limit for contracting or guaranteeing after April 1, 1989 external loans on nonconcessional loans with an initial maturity of up to and including 12 years; this limit excludes normal short-term trade credit and debt contracts in the context of rescheduling agreement.

3/ Cumulative change in external payments arrears, excluding arrears eligible for rescheduling under the January 1989 Paris Club agreement or eligible for rescheduling with other creditors.

4/ Gross level of international reserves of the Bank of Uganda.

UGANDA - Relations with the Fund
(As of November 30, 1989)

I. Membership Status

(a) Date of membership:	March 31, 1963
(b) Status:	Article XIV

A. Financial Relations

II. General Department

(a) Quota:	SDR 99.6 million
(b) Total Fund holdings:	SDR 196.4 million (197.2 percent of quota)
(c) Fund credit:	SDR 180.3 million (181.0 percent of quota)
Of which:	
General resources account	
Credit tranches	None
Enlarged access	SDR 38.4 million (38.6 percent of quota)
Compensatory Financing Facility (exports)	SDR 49.8 million (50.0 percent of quota)
Special disbursement account	SDR 59.8 million (60 percent of quota)
(d) Reserve tranche position:	--

III. Financial Arrangements and Special Facilities

(a) Current arrangement:
Arrangement under the enhanced structural adjustment facility

(i) Duration	April 17, 1989-April 16, 1992
(ii) Amount	SDR 179.3 million
(iii) Utilization	SDR 42.3 million

(b) Previous SAF arrangements:
Arrangements under the structural adjustment facility

(i) Duration	June 15, 1987-June 14, 1990
(ii) Amount	SDR 69.72 million
(iii) Utilization	SDR 49.80 million

UGANDA - Relations with the Fund (continued)
(As of November 30, 1989)

(c) Previous stand-by arrangements:

(i) In 1983/84

(1) Duration	Sept. 16, 1983-Sept. 15, 1984
(2) Amount	SDR 95.0 million
(3) Utilization	SDR 65.0 million
(4) Undrawn balance	SDR 30.0 million

(ii) In 1982/83

(1) Duration	Aug. 11,1982-Aug. 10, 1983
(2) Amount	SDR 112.5 million
(3) Utilization	SDR 112.5 million
(4) Undrawn balance	--

(iii) 1981/82

(1) Duration	June 5, 1981-June 30, 1982
(2) Amount	SDR 112.5 million
(3) Utilization	SDR 112.5 million
(4) Undrawn balance	--

(d) Special facilities:

Compensatory financing facility

In 1987/88

Date approved:	February 5, 1988
Amount:	SDR 24.8 million

In 1986/87

Date approved:	June 15, 1987
Amount:	SDR 25.0 million

In 1981/82

Date approved:	June 5, 1981
Amount:	SDR 45.0 million

IV. SDR Department

(a) Net cumulative allocation:	SDR 29.4 million
(b) Holdings:	SDR 1.16 million
(c) Current designation plan:	None

V. Administered Accounts

(a) Trust Fund	
(i) Disbursed:	SDR 22.5 million
(ii) Outstanding:	SDR 3.1 million
(b) ESAF Trust Loans	SDR 32.4 million

VI. Overdue Obligations to the Fund:
(As of December 20, 1989) --

UGANDA - Relations with the Fund (continued)
(As of November 30, 1989)

B. Nonfinancial Relations

VII. Exchange Rate Arrangement:

Since March 7, 1989, the Uganda shilling has been pegged to the U.S. dollar at the rate of U Sh 200 per U.S. dollar.

VIII. (a) Last Article IV consultation discussions (standard 12-month cycle) concluded in June/July 1988. The following decision was adopted by the Executive Board:

1. The Fund takes this decision relating to Uganda's exchange measures subject to Article VIII, Section 2(a), and in concluding the 1988 Article XIV consultation with Uganda, in the light of the 1988 Article IV consultation with Uganda conducted under Decision No. 5392-(77/63); adopted April 29, 1987, as amended (Surveillance over Exchange Rate Policies).

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

(b) Last staff visit, to undertake the discussions for the 1989 Article IV consultation and for the midterm review of the first-year ESAF arrangement, was held during November 12-28, 1988.

IX. Consultation Cycle

A consultation cycle of 12 months was indicated in the summings up of the 1987 and 1988 Article IV consultations.

X. Technical Assistance

Uganda has received extensive technical assistance from the Fund in recent years:

(a) CBD has provided technical assistance through its panel of experts and by various missions:

UGANDA - Relations with the Fund (continued)
(As of November 30, 1989)

(i) Advisor to the Governor, on Bank Supervision (Mr. Chaudhury, May 1980-May 1982);

(ii) Advisor to the Governor, to assist in the management of the floating exchange rate regime and foreign exchange operations (Mr. Schelin, May-July 1981);

(iii) Advisor to the Governor, to assist the Bank in its operations of foreign exchange (Mr. Niehues, September 1981-April 1982). During his assignment, Mr. Niehues became the Director of the newly created Foreign Exchange Operations Department;

(iv) Advisor to the Governor, to assist the Bank to strengthen its research capacity (Mr. Vertongen, January 1982-July 1983). During his assignment, Mr. Vertongen became the Director of the Research Department;

(v) Advisor to the Governor, to assist the Bank in its accounting, reserves, and public debt management (Mr. Lontock, March 1982-March 1983);

(vi) Advisor to the Governor, to assist the Bank in strengthening its Accounts Department (Mr. Lindsay, September 1982-September 1985). Mr. Lindsay became the Chief Accountant of the Bank shortly after his assignment;

(vii) Director of Foreign Exchange Operations Department (Mr. Abdul-Rahman, August 1982-August 1985);

(viii) Director of Research Department (Mr. Vollan, July 1983-December 1984);

(ix) Director of Research Department (Mr. Lemne, April-May 1985);

(x) Director of the newly created External Debt Management Office to coordinate, update, and regularize servicing of external debt (Mr. Bourke, October 1983-November 1984);

UGANDA - Relations with the Fund (continued)
(As of November 30, 1989)

(xi) Advisor, External Debt Management Office (Mr. Gopalan, November 1984-September 1985);

(xii) Advisor to the Governor on Bank Supervision and Development Finance (Mr. Bhagavat, December 1983-September 1985); and

(xiii) Advisor to the Governor on Accounting (Mr. Soeting, June 1988-June 1989).

Four CBD technical assistance missions have visited Uganda since 1981. The first mission (December 2-16, 1981) examined the structure and functions of the Bank of Uganda, reviewed the banking and financial systems, and revised and updated the banking legislation. The second mission February 8-15, 1984) discussed with the authorities alternative medium- and long-term investment financing instruments. A third mission (October 21-28, 1987) reviewed the accounting and supervisory departments in the Bank of Uganda to assess a request for technical assistance in accounting. A fourth mission, to review the banking system and assess the instruments for monetary credit control, took place June 15-25, 1988.

(b) FAD has provided technical assistance through members of its panel of experts and several missions:

(i) Budget Advisor to the Minister of Finance, to review the existing procedures and propose a system for monitoring future budgetary operations (January-April 1982);

(ii) Budget Advisor to the Minister of Finance (Mr. Wait, October-December 1982);

(iii) Budget Advisor to the Minister of Finance (Mr. Thompson, January 1983-July 1984); and

(iv) Budget Advisor to the Minister of Finance (Mr. Mookerjee, January-September 1985).

In addition, the following FAD missions have visited Uganda:

(i) To review the fiscal system of Uganda (October 23-November 18, 1983); and

(ii) To assist in redrafting the Income Tax Decree, (October 5-23, 1984).

UGANDA - Relations with the Fund (continued)
(As of November 30, 1989)

(c) Uganda has also received technical assistance through several missions from BUR, which have visited Uganda since 1983:

(i) To review the system of reporting and to update balance of payments statistics (January 10-24, 1983);

(ii) To give a seminar on the system of reporting government finance statistics and to update the data (August 15-23, 1983);

(iii) To review the accounts of the Bank of Uganda (August 29-September 10, 1983);

(iv) To review the accounts of the Bank of Uganda (April 30-May 5, 1984);

(v) To review national accounts data (November 1986); and

(vi) To review balance of payments data (February 1987).

(d) LEG has provided technical assistance in the fields of fiscal and banking legislation through the following missions:

(i) To review and revise banking legislation (November 20-December 16, 1981);

(ii) To review fiscal legislation and prepare a draft Income Tax Act (October 22-November 4, 1983);

(iii) To draft income tax regulations (October 8-24, 1984);

(iv) To redraft the Income Tax Act (February 3-March 1, 1985);

(v) To finalize income tax legislation (July 27-August 9, 1986);

(vi) To revise sales and excise tax legislation (October 14-24, 1987); and

(vii) To revise customs legislation (June 22-29, 1988)

UGANDA - Relations with the Fund (concluded)
(As of November 30, 1989)

In addition, LEG staff assisted a delegation of tax officials from Uganda visiting headquarters in drafting certain income tax regulations and other explanatory memoranda related thereto.

(e) The IMF Institute held a joint seminar in Kampala with the Bank of Uganda in "Techniques of Financial Programming" (January 31-February 8, 1985) to introduce selected Ugandan officials engaged in the implementation of economic policy to techniques of financial programming in their country's context.

XI. Resident Representative

The Fund has maintained a resident representative in Uganda since July 1982. A staff member, Mr. G. Begashaw, has been the Fund resident representative since December 1987. His term of office expires in January 1990. It is envisaged that a new resident representative will be assigned to Uganda by the end of next month. Mr. Begashaw was preceded by another staff member, Mr. Z. Ebrahim-zadeh, who served as resident representative during September 1984-November 1987.

UGANDA--Relations with the World Bank Group
(As of September 30, 1989)

Commentary on Lending Operations

1. The World Bank's strategy in Uganda is designed to support a far-reaching medium- and long-term structural adjustment program. It has the following major objectives: (1) to assist the Government through the Bank's economic work, technical assistance, and program lending to increase the efficiency of economic management and restore a sound basis for growth; (2) to promote the development of the economy by underpinning structural adjustment lending with infrastructure rehabilitation and sector adjustment operations (agriculture, industry, public enterprises, energy, public sector institutions, and finance) within a framework of appropriate policies; and (3) to act as the focal point for increased aid coordination among donors and between Uganda and donors.

2. As of September 30, 1989, the World Bank Group had approved operations for Uganda totaling US$904 million. The country's difficult political and economic situation has in the past affected many Bank Group-financed operations. However, the improved security situation has in recent years resulted in improved project execution and disbursement performance. The attached table contains the latest disbursement status of World Bank Group operations in Uganda.

3. In view of the major dislocation of economic and social infrastructure during the prolonged period of political strife, recent and proposed Bank Group projects emphasize rehabilitation, maintenance, and institution building. In September 1987, the World Bank approved a first Economic Recovery Credit (ERC I) designed to provide critically needed imports. This has laid the base for policy reforms in a number of areas including producer prices, price and distribution controls, and public sector management. A supplement to ERC I of US$25 million was approved by the Bank Board in April 1989. Meanwhile, a Second Economic Recovery Credit (ERC II) in an amount of about US$125 million is expected to be presented to the World Bank Board in January 1990. This credit will support policy reforms in agriculture, trade and exchange system, industry, public enterprises, and public sector management.

4. Given the need to focus Uganda's public expenditures on high priority rehabilitation and maintenance activities and on making adequate provision for recurrent cost outlays, improved aid coordination is increasingly important. The Bank pursues its policy dialogue with Uganda in close collaboration with the IMF and other donors. The Bank chaired the June 1987 meeting of Uganda's Consultative Group when the Government and donors reached a consensus on the main elements of the structural adjustment program. The most recent meeting was held in November 1989, which mobilized resources to support the 1989/90 program.

Uganda: Status of Bank Group Operations (continued)

A. Statement of Bank Loans and IDA Credits 1/
(As of September 30, 1989)

(Amounts in millions of U.S. dollars)

Loan or Credit Number	Year	Borrower	Purpose	Bank	IDA	Undis-bursed
One (1) loan and twenty-two (22) credits fully disbursed				8.40	315.45	
1248	1982	Uganda	Industrial Rehabilitation Fund I		35.00	7.80
1328	1983	Uganda	Agricultural Rehabilitation		70.00	11.76
1434	1984	Uganda	Second Technical Assistance		15.00	3.99
1445	1984	Uganda	Third Highway		58.00	33.58
1510	1985	Uganda	Water Supply and Sanitation Program		28.00	1.92
1539	1985	Uganda	Agricultural Development		10.00	8.57
1560	1985	Uganda	Second Power		28.80	29.46
1561	1985	Uganda	Petroleum Exploration Promotion		5.10	5.66
1803	1987	Uganda	Fourth Highway		18.00	9.86
1824	1988	Uganda	Forestry Rehabilitation		13.00	10.14
0340	1988	Uganda	Nonsector-Specific (Economic Recovery Credit/SAF)		24.00	0.03
1844	1988	Uganda	Nonsector-Specific (Economic Recovery Credit/SAF)		65.00	2.64
1869	1988	Uganda	South West Ag. Rehab.		10.00	9.30
1893	1988	Uganda	Sugar Rehabilitation		24.90	21.08
1934	1988	Uganda	Health Rec.		42.50	35.96
1951	1988	Uganda	Technical Assistance III		18.00	16.64
1844-1	1989	Uganda	Economic Recovery Credit		1.70	--
1844-2	1989	Uganda	Economic Recovery Credit		25.00	11.79
1962	1989	Uganda	Public Enterprises		15.00	14.30
1965	1989	Uganda	Education IV		22.00	18.91
1986	1989	Uganda	Railways I		7.00	6.63
1991	1989	Uganda	Telecom II		52.30	48.86
		Total		8.40	903.75	308.86
		Of which has been repaid		8.40	23.34	
		Total now held by Bank and IDA		—	880.41	
		Total undisbursed				308.86

1/ Less cancellations.

Uganda: Status of World Bank Group Operations (concluded)

B. Statement of IFC Investments
(As of September 30, 1989)

(Amounts in millions of U.S. dollars)

Fiscal Year	Obligor	Type of Business	Loan	Equity	Total
1965	Mulco Textiles, Ltd.	Textiles	2.79	0.71	3.50
1972	Tourism Promotions Services	Tourism	1.11	—	1.11
1984	Toro and Mityana Tea Co., Ltd. (TAMTECO)	Food and food processing	1.62	—	1.62
1984	Sugar Corporation of Uganda	Food and food processing	8.00	—	8.00
1985	Uganda Tea Corporation Ltd.	Food and food processing	2.81	—	2.81
1985	Development Finance Company of Uganda	Development finance	—	0.38	0.38
	Total gross commitments		16.33	1.09	17.42
	Less: repayments, cancellations, terminations, sales		5.01	0.72	5.73
	Total commitments now held by IFC		11.32	0.37	11.69
	Total undisbursed (including participants portion)		—	—	—

Source: IFC Disbursements Section.

Uganda--Statistical Issues

1. Outstanding statistical issues

a. Real sector

The statistical base in real sector statistics is weak and incomplete. A major review of the national accounts has recently been undertaken by the World Bank in cooperation with the UN. Technical assistance has been provided by the UN to reorganize the collection of trade statistics, based on customs returns, but this work has not been completed and trade data are lacking through the third quarter of 1987; currently, Direction of Trade and alternative data sources are used. Technical assistance is currently being provided by the UN in population statistics and by the ILO in manpower statistics.

b. Government finance

The data published in IFS are the same as those published in the 1988 Government Finance Statistics Yearbook (GFSY). The 1988 GFSY contains data through fiscal year 1984 and provisional data for 1985 and 1986.

c. Monetary accounts

Data for the monetary authorities are very uncurrent, reflecting largely the fact that the Bank of Uganda is prohibited by law from providing any unaudited balance sheet data. Owing to the slow auditing process, the reporting of current data is not expected in the near future.

d. Balance of payments and external debt

The latest period for which comprehensive data have been sent is 1986. Data for 1987 and 1988 were provided in a very aggregated form.

2. Coverage, currentness, and reporting of data in IFS

The table below shows the currentness and coverage of data published in the country page for Uganda in the October 1989 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the Central Bank of Uganda which, during the past year, have been provided on an infrequent basis for monetary accounts and on an irregular basis for balance of payments.

Status of IFS Data

		Latest Data in October 1989 IFS
Real Sector	- National accounts	1986 1/
	Prices: CPI	April 1989
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	1986 (Provisional)
	- Financing	1986 (Provisional)
	- Debt	1986 (Provisional)
Monetary Accounts	- Monetary authorities	Q4 1986
	- Deposit money banks	March 1989
	- Other banking institutions	n.a.
Interest Rates	- Discount rate	May 1989
	- Bank lending/ deposit rate	May 1989
	- Bond yields	May 1989
External Sector	- International reserves	February 1989
	- Exchange rates	July 1989
	- Balance of payments	1988
	- International reserves	February 1989

3. Technical assistance missions in statistics (1985-present)

Subject	Staff Member	Date
General Economic Data	A. Siddique	Oct./Nov. 1986
Money and Banking	R.V. Kennedy	Nov. 9-20, 1987

1/ Only GDP and at constant prices only through 1985.

UGANDA--Basic Data

Area, population, and GDP per capita

Area:	241,139 square kilometers
Population (1989):	
Total	16.4 million
Growth rate	3.0 percent (1973 to 1985)
GDP per capita (1988):	US$300

	1984	1985	1986	1987	1988
National accounts	(In millions of Uganda shillings)				
GDP at factor cost (at 1966 prices)	6,162	6,461	6,564	7,119	7,600
Agriculture, forestry, and fishing	2,871	3,156	3,143	3,390	3,625
Manufacturing	292	262	249	288	360
Construction	97	91	100	185	219
Commerce	582	564	575	655	743
Government	923	932	941	950	959
	(In percent)				
Annual real rate of growth	-7.2	4.6	1.6	8.5	6.8

	1984/85	1985/86	1986/87	1987/88	1988/89 Est.
Price movements	(Percentage change from the previous year) 1/				
Cost of living:					
GDP deflator 2/	107	129	256	188	123
Cost of living index	100	127	260	186	142

1/ Fiscal year July/June; increase in yearly average.
2/ Staff estimates.

UGANDA--Basic Data (continued)

	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
	(In millions of U.S. dollars)					
Balance of payments						
Exports, f.o.b.	378	383	379	383	298	282
Imports, c.i.f.	-368	-400	-379	-511	-614	-563
Trade balance	10	-16	1	-129	-316	-281
Services (net)	-105	-112	-101	-111	-142	-43
Unrequited transfers (net)	97	104	132	140	248	238
Current account balance	3	-24	31	-100	-210	-237
Capital account balance	71	69	-8	22	147	135
Overall balance	73	46	24	79	-64	-102
Financing	-73	-46	-24	-79	-64	102
Of which:						
monetary authorities (net)	(-52)	(-39)	(-38)	(21)	(-13)	(18)
exceptional financing	(42)	(53)	(--)	(92)	(40)	(66)
external arrears (reduction -)	(-63)	(-59)	(19)	(-45)	(47)	(18)
Current account balance as percent of GDP	0.1	-0.9	1.1	-1.3	-4.1	0.5
Gross foreign reserves						
(end of period)	95	63	64	31	35	65
(in months of imports)	3.1	1.9	2.0	0.8	0.7	1.2
External public debt						
Disbursed and outstanding (end of period) 1/	1,257.9	1,140.6	1,127.1	1,2224.3	1,400.4	1,428.3
Debt service ratio (as percent of exports of goods and nonfactor services)	41.3	46.9	52.1	54.0	62.0 2/	71.0
Excluding the Fund	29.7	24.3	22.3	27.3	27.0	36.0
IMF	11.6	22.6	29.8	26.7	25.0	35.0

1/ Including Fund credit, but excluding arrears.
2/ After rescheduling.

UGANDA--Basic Data (continued)

	1984/85	1985/86	1986/87	1987/88	1988/89 Prov.
Central government finance 1/	(In millions of Uganda shillings)				
Revenue and grants	1.7	3.4	6.5	29.4	60.5
Of which: revenue	(1.6)	(2.9)	(5.9)	(22.9)	(49.7)
Expenditure	2.4	4.7	11.0	44.3	89.8
Current	(1.6)	(3.5)	(6.9)	(24.7)	(60.9)
Development	(0.4)	(1.2)	(4.1)	(19.6)	(27.0)
Unallocated	(0.4)	(--)	(--)	(--)	(--)
Overall deficit (commitment basis)	-0.7	-1.4	-4.5	-14.9	-29.3
Change in arrears	0.1	--	0.3	-1.5	-9.2
Overall deficit (cash basis)	-0.6	-1.4	-4.8	-16.4	-38.4
Financing	0.6	1.4	4.8	16.4	38.5
Foreign (net)	(0.1)	(0.4)	(0.5)	(8.6)	(25.1)
Domestic (net)	(0.5)	(1.0)	(4.3)	(7.8)	(13.4)
Of which: banking system	[0.6]	[0.6]	[4.7]	[7.8]	[12.3]
	(In percent of GDP)				
Revenue and grants	12.5	11.0	5.7	9.0	7.2
Expenditure	17.7	15.5	10.0	13.6	10.7
Overall deficit (commitment basis)	-5.2	-5.6	-4.1	-4.6	-3.5
	(Annual percentage change) 2/				
Money and credit 1/					
Domestic credit (net)	145	82	107	148	157
Government (net)	(73)	(31)	(68)	(49)	(46)
Nongovernment	(72)	(51)	(39)	(99)	(111)
Money plus quasi-money	139	148	95	200	125

1/ Fiscal year (July/June)
2/ As percent of broad money at the beginning of the period.