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EBS/88/184

CONFIDENTIAL

August 26, 1988

To: Members of the Executive Board

From: The Acting Secretary

Subject: Uganda - Staff Report for the 1988 Article IV Consultation and Request for Second Annual Arrangement Under the Structural Adjustment Facility

Attached for consideration by the Executive Directors is the staff report for the 1988 Article IV consultation with Uganda and its request for the second annual arrangement under the structural adjustment facility. Draft decisions appear on pages 33 and 34.

It is understood that the Executive Director elected by Uganda will be requesting the Board for a waiver of the circulation period to enable this subject, together with the policy framework paper for Uganda (EBD/88/239, 8/24/88), to be brought to the agenda for discussion on Wednesday, September 14, 1988.

Mr. Keyes (ext. 7888) or Mr. Taha (ext. 8751) 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 1988 Article IV Consultation and Request for Second Year Arrangement under the 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 A.D. Ouattara and A. Basu

August 25, 1988

I. Introduction

The 1988 Article IV consultation discussions with Uganda were held in Kampala during February 7-27, 1988, in Washington during March 27-30, 1988, and again in Kampala during May 7-27, 1988 and June 22-July 8, 1988. The Ugandan representatives were led by the Minister of Finance and included the Ministers of Commerce, Planning, and Industry, the Governor of the Bank of Uganda (the central bank), and other senior officials concerned with economic and financial matters. The staff representatives were Messrs. Keyes (head) and Taha (both AFR), Greene (RES), Brown (ETR), and Stella (FAD). Mr. Artus (AFR) also participated in the February and March discussions. Assisting the mission was Mr. Begashaw, the Fund resident representative in Kampala. Mr. Abdallah, Executive Director for Uganda, and his advisor, Mr. Faria, participated in some of the discussions.

The Ugandan authorities, in cooperation with the staffs of the Fund and the World Bank, have developed an updated three-year program of economic adjustment and rehabilitation covering the fiscal years (July-June) 1988/89-1990/91. The Minister of Finance of Uganda has transmitted to the Managing Director a revised policy framework paper (PFP) containing a description of the authorities' policies over this period. 1/ The same paper was sent to the World Bank and will be considered by the Bank's Committee of the Whole on September 6, 1988. In support of the policies outlined in the PFP, the Ugandan Minister of Finance has requested approval of the second annual arrangement under the Fund's structural adjustment facility (SAF), in an amount equivalent to SDR 29.9 million or 30 percent of quota. Uganda's second disbursement under the SAF would become available upon Executive Board

1/ EBD/88/239 (8/23/88).

approval of the second annual arrangement under the SAF covering the period July 1, 1988-June 30, 1989. The related memorandum on economic policy appears as the annex to Appendix I to this report.

The Ugandan authorities also requested approval for the release of the second tranche of a World Bank Economic Recovery Credit, for which the first tranche was approved and released on September 15, 1987. An appraisal mission from the Bank visited Uganda in May, 1988, and the second tranche was released on July 7, 1988.

Between 1981 and 1984 the Fund approved three stand-by arrangements for Uganda totaling the equivalent of SDR 320 million, or 321.3 percent of quota, plus a purchase under the compensatory financing facility (CFF) equivalent to SDR 45 million, or 45.2 percent of quota. After 1984 Uganda made no further use of Fund resources until mid-1987, when the Fund approved Uganda's request for arrangements under the SAF totaling the equivalent of SDR 63.2 million (63.5 percent of quota), including the first year disbursement thereunder for the equivalent of SDR 19.9 million (20 percent of quota), plus a compensatory financing facility purchase equivalent to SDR 25.0 million (25.1 percent of quota), on June 15, 1987. On February 5, 1988 the Fund approved Uganda's request for a compensatory financing facility purchase equivalent to SDR 24.8 million (24.9 percent of quota), bringing Uganda's total drawings under the CFF to 50 percent of quota (Table 1).

Over the past year Uganda has experienced difficulties in discharging its financial obligations to the Fund on time, and the Executive Board has been notified on four occasions that Uganda was overdue on its financial obligations to the Fund. On August 1, 1988 a complaint under Rule K-1 of the Fund's Rules and Regulations was issued, at which time Uganda's arrears to the Fund were SDR 20.0 million. On August 25, 1988 these arrears were cleared, Uganda became current with the Fund, and the complaint under Rule K-1 was withdrawn.

Uganda continues to avail itself of the transitional arrangements of Article XIV. Summaries of Uganda's relations with the Fund and the World Bank appear in Appendices I and II, respectively. Outstanding statistical issues are described in Appendix III. A summary of the basic data for Uganda appears in Appendix IV

As of July 31, 1988, Uganda's outstanding use of Fund's general resources, including overdue repurchases of SDR 13.5 million, totaled SDR 158.4 million, of which SDR 49.8 million is under the compensatory financing facility and SDR 108.6 million is under the enlarged access policy. In addition, SDR 9.3 million is outstanding to the Trust Fund and SDR 19.9 million to the Special Disbursement Account under the structural adjustment facility.

When the Executive Board considered the staff report on the 1987 Article IV consultations and Uganda's request for a first year SAF

Table 1. Uganda: Fund Position Through June 1991

	Outstanding June 30, 1988	1988/89 July-Sept. 1988	1988/89 Oct.-Dec. 1988	1988/89 Jan.-March 1989	1988/89 April-June 1989	1989/90 July-June 1990	1990/91 July-June 1991
			(In millions of SDRs)				
Transactions under tranche policies (net)	108.6	-22.0	-16.7	-8.6	-14.1	-36.3	-10.9
Purchases	--	--	--	--	--	--	--
Repurchases	--	22.0 1/	16.7	8.6	14.1	36.3	10.9
Arrears	--	--	--	--	--	--	--
Transactions under special facilities (net)	49.8	--	--	--	--	--	-15.6
Purchases	--	--	--	--	--	--	--
Repurchases	--	--	--	--	--	--	15.6
Structural adjustment facility loans	19.9	29.9	--	--	--	13.4	--
Total outstanding (end of period)	178.3	186.2	169.5	160.9	146.8	123.9	97.4
Under tranche policies	(108.6)	(86.6)	(69.9)	(61.3)	(47.2)	(10.9)	(--)
Under special facilities	(49.8)	(49.8)	(49.8)	(49.8)	(49.8)	(49.8)	(34.2)
Under structural adjustment facility	(19.9)	(49.8)	(49.8)	(49.8)	(49.8)	(63.2)	(63.2)
			(In percent of quota; end of period)				
Memorandum items:							
Total Fund credit outstanding	179.1	186.9	170.2	161.5	147.4	124.4	97.8
Under tranche policies	(109.1)	(86.9)	(70.2)	(61.5)	(47.4)	(10.9)	(--)
Under special facilities	(50.0)	(50.0)	(50.0)	(50.0)	(50.0)	(50.0)	(34.3)
Under structural adjustment facility	(20.0)	(50.0)	(50.0)	(50.0)	(50.0)	(63.5)	(63.5)

Source: Treasurer's Department, Interantional Monetary Fund.

1/ Including overdue repurchases of SDR 13.5 million.

arrangement on June 15, 1987, Executive Directors welcomed the wide-ranging economic adjustment and rehabilitation program that the Ugandan authorities had adopted to address long-standing structural issues. Emphasis was placed on the need for Uganda to follow a flexible exchange rate policy, to achieve budgetary targets, to monitor credit expansion carefully and to adjust key interest rates if called for by price and other developments. Directors recognized that the successful implementation of the program would call not only for increased export receipts but also a resurgence of capital inflows and debt relief.

II. Background and Recent Economic Developments

1. Background

The Ugandan economy has experienced profound difficulties over most of the past two decades. Real GDP declined significantly during the 1970s and early 1980s, reflecting lax economic policies and the effects of continuing military conflict and civil war. A short period of economic revival occurred between mid-1982 and mid-1984, as an economic adjustment program supported by Fund stand-by arrangements and World Bank structural adjustment credits was being implemented. Adherence to the adjustment effort waned during 1984/85, however, at a time of growing civil unrest. The economic situation deteriorated sharply during the following year, as civil war intensified and a new government took power early in 1986.

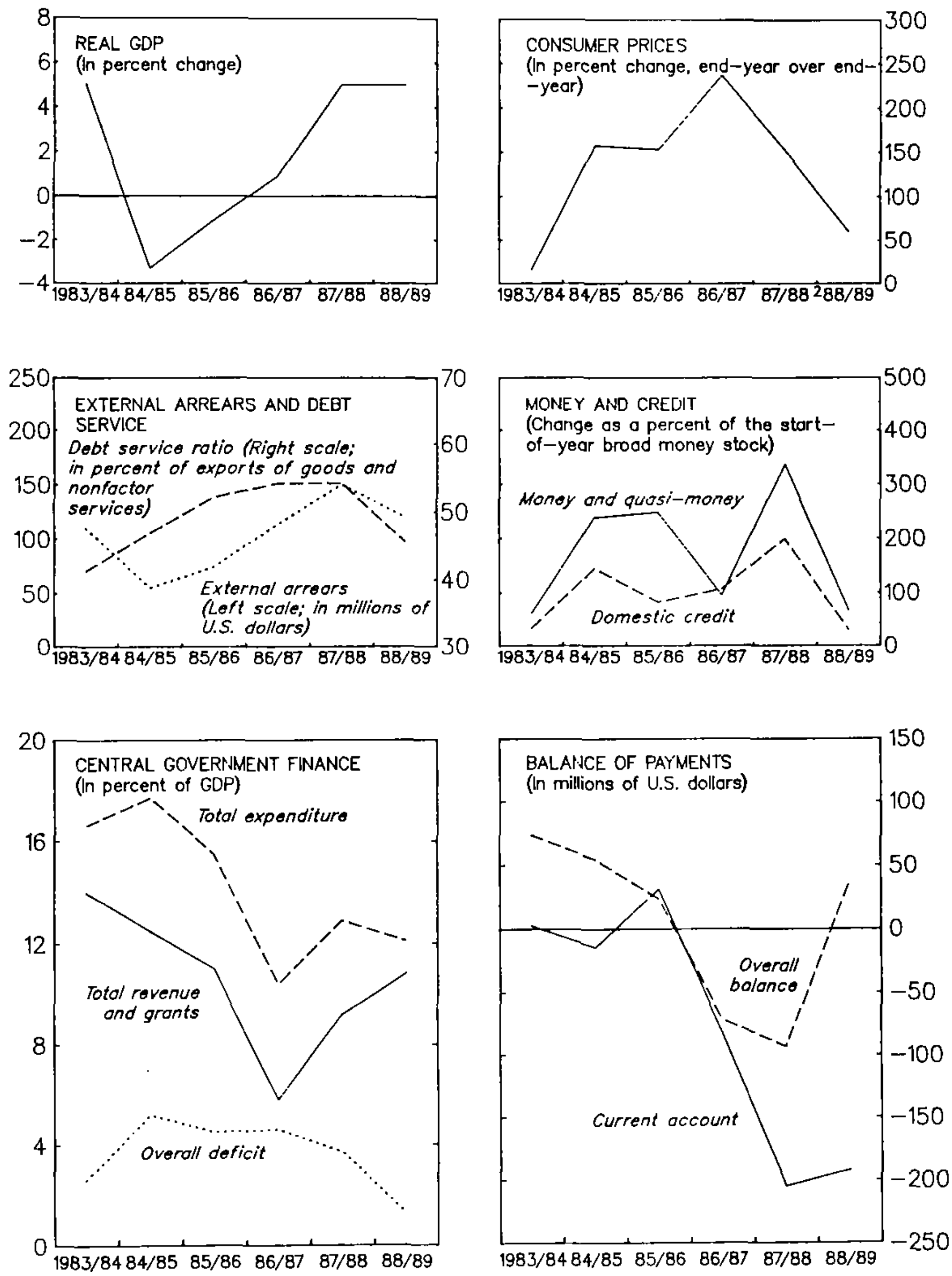
The new Government faced a major task of economic relief and rehabilitation. Civil war had devastated many of the major growing areas, decimated the male population, created widespread homelessness, and disrupted most social services. In addition, Uganda's road network was badly damaged, with many highways largely impassable for commerce. Urban areas were frequently short of foodstuffs, and with imported goods also scarce, the annual inflation rate accelerated to more than 100 percent during the last half of 1985/86 (Table 2 and Chart 1).

During its first year in power the Government concentrated on restoring order and providing relief to areas devastated by the civil conflict, and thus it took time for the authorities to formulate a comprehensive economic strategy. In 1986 the authorities experimented briefly with a dual exchange rate system before unifying the exchange rate for the Uganda shilling at the more appreciated of the rates, U Sh 14 per dollar. Moreover, from early 1986 through mid-1987 the budgetary policies were largely ad hoc, contributing to major overruns in expenditure and a widening of the domestic budget deficit to the equivalent of 4.8 percent of GDP. Domestic budgetary financing increased sharply, and the broad money stock expanded by nearly 150 percent between end-June 1986 and end-June 1987. Domestic inflation in turn accelerated to an annual rate approaching 250 percent.

CHART 1

UGANDA

SELECTED ECONOMIC INDICATORS, 1983/84–1988/89[1]



Source: Data provided by Uganda authorities.

[1] Fiscal year basis (July–June). Data for 1988/89 are projections.

[2] May over May.

Table 2. Uganda: Selected Economic and Financial Indicators, 1984/85-1990/91

	1984/85	1985/86	1986/87	1987/88		1988/89	1989/90	1990/1991
	Actual	Actual	Prel.	Prog.	Proj.	Prog.	Prog.	Prog.
				(Annual percent changes, unless otherwise specified)				
National income and prices								
GDP at constant prices	-3	-1	1	5	5	5	5	5
Consumer prices (annual average)	100	129	256	91	188	123	51	36
Consumer prices (year-end over year-end)	158	153	237	30	239	60	45	30
External sector (on the basis of U.S. dollars)								
Exports, f.o.b.	1	-1	1	13	-21	13	13	14
Imports, c.i.f.	6	-3	30	12	22	11	6	6
Non-oil imports, c.i.f.	14	1	26	17	21	14	8	8
Export volume (coffee) 1/	-18	20	-12	17	15	-5	7	3
Import volume (nonoil)	19	-12	18	8	14	7	3	3
Terms of trade (deterioration -)	11	2	-11	-10	-24	7	—	2
Nominal effective exchange rate (depreciation -)	-40	-46	-43	...	—	-72	...	...
Real effective exchange rate (depreciation -)	-15	-6	-79	...	282	-60	...	...
Government budget 2/								
Total revenue and grants	74	97	192	264	368	172	68	37
Total revenue	74	76	206	236 3/	350 3/	143 3/	79	47
Total expenditure	108	97	142	185	281	118	65	36
Money and credit 4/								
Domestic credit	145	67	107	9	199	26	...	...
Government	73	31	68	-17	85	-7	...	...
Private sector	72	36	39	26	114	33	...	...
Money and quasi-money (M2)	139	148	95	40	231	68	50	33
Velocity (GDP relative to M2)	10	9	16	16	17	14	14	14
Interest rate (annual rate, one-year savings deposit)	22	35	35	35	28	...	...	...
				(In percent of GDP) 5/				
Central government budget deficit								
Commitment basis 6/	-5.2	-4.5	-3.7	-4.5	-3.7	-1.3	-1.1	-1.0
Cash basis	-4.7	-4.5	-3.5	-4.8	-5.1	-2.8	-1.7	-1.5
Domestic bank financing	4.0	1.9	2.4	-0.9	2.2	0.1	-0.1	-0.1
Foreign financing (net)	0.7	1.4	1.1	5.9 7/	2.8	3.6	1.7	1.5
Current account deficit (-) or surplus								
Including official transfers	-0.5	1.1	-1.0	-3.8	-4.0	-4.6	-4.4	-3.9
Excluding official transfers	-3.0	—	-1.6	-5.2	-6.0	-9.0	-7.6	-6.3
				(In percent of exports of goods and nonfactor services)				
Current account deficit or surplus (-)								
Including official transfers	-4	8	-20	-31	-63	-51	-51	-46
Excluding official transfers	-19	—	-30	-42	-96	-102	-87	-72
External debt, including arrears								
Including use of Fund credit	293	308	326	305	480	457	425	376
Excluding use of Fund credit	222	243	263	265	413	405	385	349
Debt service ratio 8/								
Including the Fund	47	52	54	42 8/	54	48	36	27
Excluding the Fund	24	22	27	9 8/	22	25	20	18
				(In millions of U.S. dollars)				
Overall balance of payments surplus or deficit (-)	55	24	-71	23	-93	34	-36 9/	47 9/
External payments arrears (at end of period)	55	74	113	20	150	120	60	--
Gross reserves (end of period)	63	64	31	55	35	55	75	95

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

1/ Based on shipments.
2/ Fiscal year (July-June). For 1988/89, based on budget estimates.
3/ Excluding currency reform levy.
4/ In percent of money stock at the beginning of the period.
5/ The following ratios should be treated with caution owing to the tentative nature of the GDP estimates.
6/ Includes grants.
7/ Including programmed figure for debt relief.
8/ After rescheduling; for 1988/89-1990/91, assumes rescheduling with bilateral creditors on same terms as 1987/88.
9/ Before supplementary loans to cover financing gaps.

In the external sector, the sharp decline in real producer prices depressed the volume of marketed export goods, while continuing domestic transport problems and frequent disruptions of external transport routes inhibited coffee shipments, resulting in lower export earnings. In addition, external assistance remained scarce, influenced in large part by uncertainties about the direction of policies. Accordingly, the provision of foreign exchange for imports through the official foreign exchange market was tightly constrained, and there was a 50 percent increase in external arrears. With rapid inflation, the official exchange rate became increasingly overvalued, and the divergence between the official rate and that in the parallel market widened sharply. Against this background the authorities formulated a comprehensive program for economic adjustment and rehabilitation, which was reflected in a three-year economic and financial policy framework and the specific macroeconomic and structural adjustment program for the 1987/88 fiscal year.

2. The 1987/88 SAF program

Uganda's 1987/88 economic program included a wide range of policy measures encompassing the exchange and trade system, the monetary sector, producer pricing, the government budget, parastatal reforms, and public sector administration. 1/ Major objectives of the program included an increase in real GDP of 5 percent, a decline in the inflation rate to 30 percent, and a substantial strengthening of the balance of payments through higher exports, increased donor assistance and debt restructuring. On May 15, 1987 the Government devalued the Uganda shilling by 77 per cent to U Sh 60 per U.S. dollar, in conjunction with a major reform of the national currency and the imposition of a 30 percent conversion tax on all outstanding currency and bank deposits. Moreover, the authorities agreed to institute an open general licensing (OGL) system for selected industrial firms and commodities as a first step toward liberalizing Uganda's cumbersome foreign exchange allocation system, and to begin extending the coverage of the OGL system on a quarterly basis during 1988. Substantial increases in producer prices were announced, including a 182 percent rise in the critical price of coffee to U Sh 24 per kilogram. In addition, petroleum prices were increased to reflect all landed and distribution costs, plus a margin for required government revenue.

In the fiscal sector, the authorities decided on a budget for 1987/88 that would exert a significant contractionary influence on monetary expansion. Even though the program allowed for a virtual doubling of current expenditure and a quadrupling of development expenditure, total revenue and grants were projected to show a more than threefold increase, while a very large rise in net foreign financing was expected. As a result, it was envisaged that net bank credit to

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1/ For a detailed description of the 1987/88 program, see EBS/87/110 (5/22/87).

government would fall by almost U Sh 2 billion, close to one-quarter of the money stock at start of the fiscal year. There were also plans to prepare for a broadening of the revenue base following a study of import duties and the domestic tax system. Furthermore, the authorities agreed to institute a number of important structural policies, including reforms in tax administration, budget formulation, and expenditure control; measures to dispose of long-standing expropriated properties and improve the efficiency of parastatal enterprises; and programs to increase the productivity of the civil service, including a census of government employees and measures to reduce the number of temporary workers.

In support of this program the Fund approved a three-year SAF arrangement and the first annual arrangement thereunder on June 15, 1987, together with a requested CFF purchase for the equivalent of SDR 25 million (25.1 percent of quota). The World Bank subsequently approved a Structural Adjustment Credit totaling US$105 million, including anticipated cofinancing. Other donors also responded favorably to the Ugandan program at a Consultative Meeting organized by the Bank in early June 1987. In addition, in late June 1987 the Paris Club agreed to a comprehensive rescheduling of Uganda's current debt service obligations and outstanding external arrears.

3. Performance under the program and recent economic developments

Performance under the 1987/88 program was mixed. There were signs of recovery in some key productive sectors but serious slippages occurred in the implementation of financial policies and structural reforms.

Real output increased by 3 percent during calendar year 1987, reflecting improved production in agriculture and the manufacturing sector. Moreover, during the first half of 1988 production increased significantly at a number of establishments included in the OGL system, as the supply of imported inputs and spare parts improved. An important beginning was made in rehabilitating the domestic road and transport system, and negotiations were concluded with Kenya and Tanzania to secure more reliable transport for foreign trade. After mid-year the domestic security situation also improved, allowing the progressive reassimilation of important agricultural areas in the northern and eastern parts of the country.

There was much less progress in achieving the program's stabilization objectives. Although domestic prices fell in June 1987 and remained low during the next two months, they then accelerated rapidly and in May 1988 exceeded the May 1987 level by 152 percent. A variety of exogenous factors contributed to this result, including unanticipated external sector problems that led to shortages of imported consumer goods and a temporary closure of the Kenyan border in December 1987. Domestic policy slippages were, however, chiefly responsible for the persistence of strong inflationary pressures. Budgetary expenditure targets were missed by a wide margin, with the overrun being almost entirely attributable to current expenditure and a reduction in arrears. With external financing falling short of program estimates, the targeted reduction in net bank credit was not realized and instead government reliance on bank credit increased by U Sh 7.5 billion, equivalent to 82 percent of opening money stock (see Table 3). Credit to the private sector, as a percentage of opening broad money stock, which had been expected to increase by the equivalent of 33 percent, rose in fact by 114 percent with the stimuli being provided by agricultural and trade-related credit. In this connection, early in the fiscal year the Bank of Uganda reduced interest rates from levels that were already highly negative in real terms and adopted a passive credit stance. 1/ Furthermore, the contractionary effect of the May 1987 currency levy on private sector liquidity was partly offset by a large-scale reduction in Treasury bill holdings by the nonbank public shortly thereafter. Accordingly, the benchmark on net domestic credit was exceeded by a very large amount, and broad money increased by 231 percent rather than the targeted 40 percent. By the end of the fiscal year, the banking system was becoming increasingly illiquid in the face of rapid loan expansion and the growing reluctance of the public to hold deposits at the current rates of interest.

In the external sector, unanticipated declines in world coffee prices and the imposition of export quotas by the International Coffee Organization severely reduced export receipts. Moreover, although the June 1987 Consultative Group meeting had led to larger-than-expected pledges of external assistance, actual disbursements were slow in arriving, and nonreschedulable debt service obligations proved larger than anticipated. Total debt service obligations, after rescheduling, amounted to 54 percent of receipts from exports of goods and nonfactor services. In addition, there were administrative delays in allocating foreign assistance for available import support. Furthermore, Uganda's imports grew more rapidly than expected, largely because of internal security requirements and the hosting of the annual meeting of the Heads of State of the Preferential Trading Area countries in November 1987. In addition, there were administrative delays in allocating the foreign assistance available under the import support programs. Foreign exchange inflows were further constrained by substantial deliveries of coffee exports under barter arrangements, apparent lags in the remittance of coffee receipts through the banking system, and the continued stagnation of noncoffee exports.

In the circumstances, the Bank of Uganda felt compelled to make sizable forward sales of coffee and provided virtually no official foreign exchange resources for imports of consumer goods. Even so, new external arrears estimated at over US$100 million were accumulated, more than offsetting the reduction secured through debt rescheduling.

1/ Deposit rates were reduced from a range of 10-35 percent to 7-22 percent, while lending rates were set at 25-30 percent.

Table 3. Uganda: Performance Versus the
1987/88 SAF Arrangement Benchmarks

	1987				1988			
	Sept.		Dec.		March		June	
	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Est.
	(In millions of Uganda shillings)							
I. Quantitative benchmarks								
Cumulative change at end of period in								
Net domestic credit	245	371	490	3,492	735	11,898	980	17,568
Net bank credit to Government	-500	-1,781	-1,000	-1,107	-1,460	4,458	-1,910	7,508
	(In billions of Uganda shillings)							
Overall budget deficit on a commitment basis (including grants)	...	...	...	...	...	...	-9.27	-11.96
Tax revenue	4.80	...	8.50	9.45	12.50	14.05	16.79	20.78
Current expenditure	...	...	...	...	...	...	14.16	24.75
	(In millions of U.S. dollars)							
Cumulative change at end of period in new nonconcessional borrowing (1-15 years' maturity)	3.0	...	3.0	...	3.0	...	3.0	...
	(In millions of U.S. dollars; end of period)							
Gross foreign reserves	32.5	23.8	40.0	41.9	47.5	43.2	55.0	34.5
Net foreign assets of Bank of Uganda	-208.6	-241.3	-194.4	-215.2	-180.3	-242.0	-166.1	-224.3
New arrears	—	...	—	39.1	—	...	—	101.8

II. Policy benchmarks	Target	Actual
1. OGL system	Introduction and quarterly enlargements with quantitative limits for eligible firms; not enlarged	Introduction in January 1988
2. Budgetary expenditure monitoring	Introduction of new system	Done, but on ad hoc basis
3. Civil service reform	Census to be performed and streamlining begun for group employees	Census taken but no cuts in group employees.

Sources: EBS/87/110 (SAF benchmarks); data provided by the Ugandan authorities; and staff estimates (end-June 1988 data).

Foreign exchange reserves increased slightly, as a result of some build-up of balances of import support funds from donors. Owing primarily to an expansion of project-related and other donor-financed imports, the current account deficit widened to an estimated US$205 million (4.0 percent of GDP) in 1987/88, compared with US$82 million (1.0 percent of GDP) in 1986/87.

No adjustment was made in the official exchange rate in 1987/88, so that the real effective exchange rate appreciated sharply (Chart 2). 1/ The exchange rate on the parallel market, which had appreciated to U Sh 110 per U.S. dollar in June 1987, subsequently depreciated to about U Sh 425 per U.S. dollar at end-June 1988. Because most consumer goods and many industrial inputs are imported at the parallel market rate, this depreciation was quickly reflected in the domestic price level. In addition, the OGL system did not begin operating until January 1988. In view of the limited amount of resources available for the OGL system at that time, it was necessary to establish ceilings on the amounts available to individual firms through the system. Since then the original coverage has remained unchanged.

III. The Program for 1988/89 and the Medium Term

1. Summary of the medium-term policy framework

Building on the experience of 1987/88, the Government has revised its economic adjustment and rehabilitation program and extended it to cover the period 1988/89-1990/91. The revised program aims at continuing the economic recovery begun in 1987/88 and securing a more stable macroeconomic environment through the reduction in financial imbalances and inflationary pressures and the implementation of supply-side measures designed to increase output. Promoting export diversification is a prime objective, as is the elimination of structural bottlenecks through further improvements in infrastructure, the marketing system, public sector management, the foreign exchange

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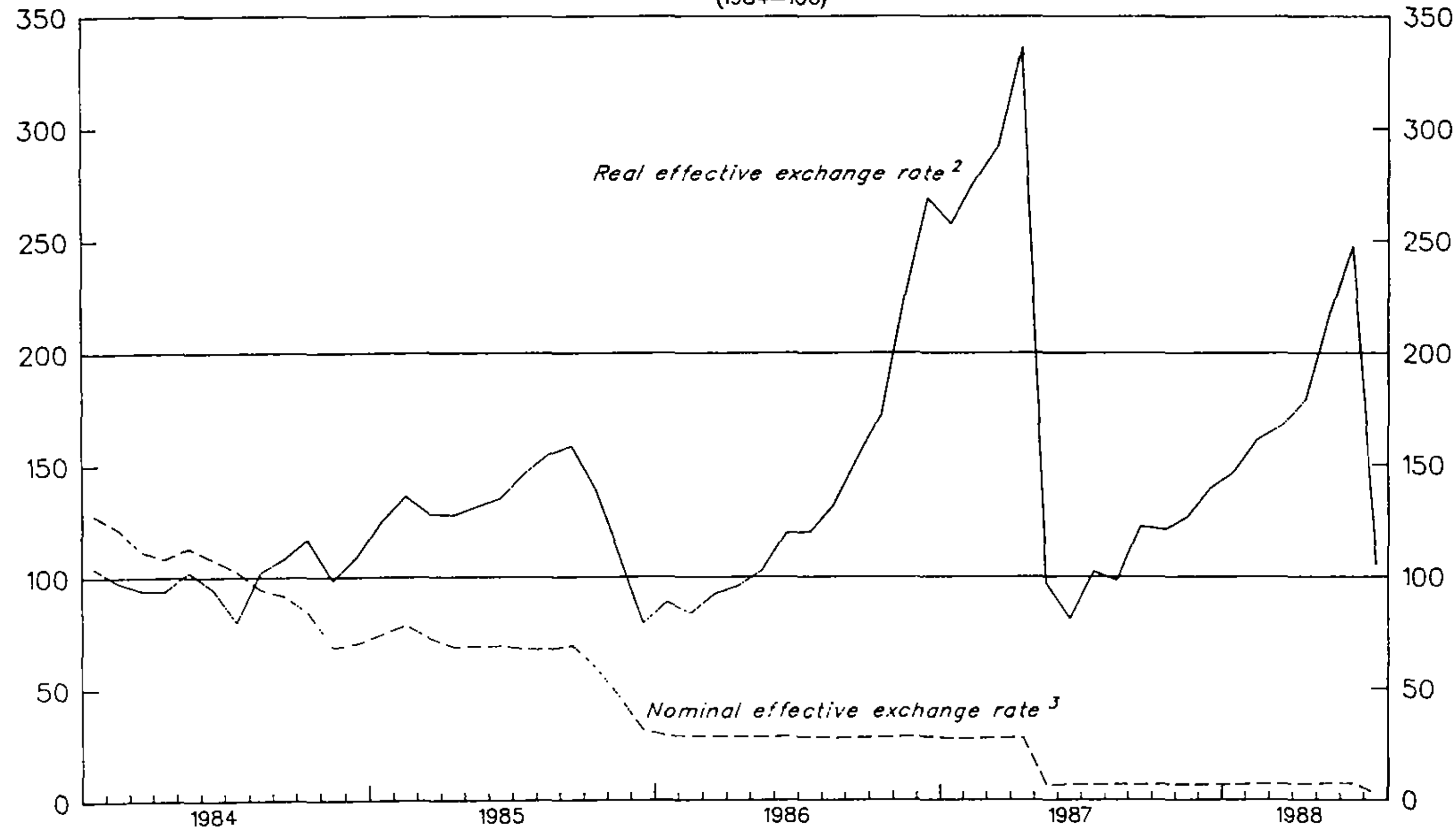
1/ The recent evolution of the real effective exchange rate for the Ugandan shilling as measured by the standard index developed in connection with the information notice system, is set out in Chart 2. Based on this index, as of June 1987 (the last date for which INS calculations are available) the shilling appreciated by more than 10 percent in real effective terms since the last occasion on which Uganda's exchange rate developments were brought to the attention of the Executive Board, in an information notice issued on December 17, 1987. The real effective appreciation is estimated to have amounted to 84 percent. However, staff estimates indicate that the real effective exchange rate has depreciated by 20 percent between December 1987 and July 1988, reflecting the July 1, 1988 depreciation of the shilling. Since exchange rate developments are discussed in this paper, no separate information notice is being issued at this time.

CHART 2

UGANDA

EFFECTIVE EXCHANGE RATE INDICES, JANUARY 1984–JULY 1988[1]

(1984=100)



Sources: Information Notice System, and staff estimates.

[1] Data for June–July 1988 are staff estimates and projections.

[2] *Trade weighted index* of nominal effective exchange rate, deflated by seasonally adjusted consumer prices; increase means appreciation.

[3] Based on the following Ugandan exchange rates: January–June 1984, Window II rate; July 1984–February 1986, auction-determined official rate; March 1986–July 1988, administrativley fixed official rate.

allocation system, and the availability of inputs for agricultural production.

In quantitative terms the program aims at achieving an annual increase in real GDP of 5 percent during 1988/89-1990/91, entailing an annual increase in real GDP per capita of about 2 percent. The annual rate of inflation, measured by the change in consumer prices, is targeted to decline from more than 150 percent during 1987/88 (May to May) to about 30 percent in 1990/91. The overall fiscal deficit on a commitment basis would decrease from the equivalent of about 3.7 percent of GDP in 1987/88 to 1.0 percent of GDP at the end of the program period. For 1988/89, this would permit a substantial reduction in net bank credit to government because of the expected large net inflows of foreign budgetary financing, and the accumulation of domestic counterpart funds earmarked for clearing external arrears. In the external sector, the current account deficit would initially rise from 4.0 percent of GDP in 1987/88 to about 4.6 percent of GDP in 1988/89, reflecting a high level of externally-financed imports and the relative change in the domestic currency valuation of external transactions brought about by the July 1, 1988 exchange rate depreciation. It is anticipated that the deficit would rise further in 1989/90, because of a projected reduction in official transfers, but thereafter it is projected to decline to the equivalent of about 3.9 percent of GDP in 1990/91 and 3.6 percent in 1991/92. By end-1990/91 external arrears would have been eliminated, and external reserves would increase to the equivalent of nearly two months' imports.

To attain these objectives specific measures are being taken in the following areas: (a) external policies, including exchange rate policy and foreign exchange allocation; (b) pricing and marketing policies; (c) specific sectoral policies for agriculture, industry, transportation, the energy sector, and parastatal reform; (d) budget planning and public administration; (e) monetary and credit policies; (e) other structural policies; and (f) program monitoring. The details and timing of policy measures for the entire three year period are presented in the policy framework paper for 1988/89-1990/91 (EBS/88/239). The program for the first year of this period (July 1988-June 1989) is described below.

2. <u>The program for 1988/89</u>

a. <u>External policies</u>

In the external sector, a key objective of the 1988/89 program is to strengthen the balance of payments through export promotion and diversification (Table 4). Accordingly, on July 1, 1988, the exchange rate of the Uganda shilling was depreciated by 60 percent in foreign currency terms to U Sh 150 per U.S. dollar, a rate that restored the real effective exchange rate to about the level achieved by the May 1987

Table 4. Uganda: Summary of the 1988/89 Program

Targets

Real GDP growth (in percent)	5.0
Inflation rate (year-end over year-end in percent)	60.0
Current account deficit (in percent of GDP)	4.6
Increase in gross reserves of the Bank of Uganda (end-period in million US$)	20.0
Reduction in non-Fund external arrears (end-period, in million US$)	10.0

Policy package

1. External policies

a. Exchange rate policy

Initial 60 percent depreciation of Uganda shilling to U Sh 150 per U.S. dollar, to be followed by reviews at least quarterly that will avoid any appreciation in the real effective exchange rate from the July 1, 1988 level.

b. Liberalization of exchange and trade system

As foreign exchange availability improves, expansion of open general licensing (OGL) system to include additional sectors, including agricultural inputs.

c. Other External Sector Policies

Temporary widening of the current account deficit from 4.0 percent of GDP in 1987/88 to 4.6 percent in 1988/89, reflecting much higher externally-financed imports. Increase in gross reserves of US$20 million and reduction in non-Fund external arrears of US$10 million. Nonconcessional external borrowing limited to US$10 million. Progress toward achieving a viable balance of payments.

2. Budgetary policies

Significant reduction of budget deficit on a commitment basis and accumulation of domestic deposits to repay external arrears, to achieve a minimum U Sh 5 billion reduction in net bank credit to Government.

Substantial increase in revenue and grants reflecting the impact of exchange rate adjustment on export and customs revenues, higher deposits toward corporate tax liabilities, increased petroleum duties and sales volume, and higher fees for drivers permits, road taxes, import commissions, and tax-related fines and interest.

Table 4. Uganda: Summary of the 1988/89 Program (continued)

Reductions in expenditure from a 30 percent cut in group employees, disengagement of government ministries from the import and distribution of agricultural and veterinary items, establishment of a central supplies directorate to reduce procurement costs, curbs on travel by government employees, and restrictions on construction of new government housing, renovation of government offices, and purchases of vehicles, office furniture, and equipment.

Implementation of study of customs duties and domestic taxation, to yield proposals for broadening and rationalizing the tax base in time for the 1989/90 budget.

3. Public sector structural measures

With World Bank assistance, commencement of work on an automated system of information exchange covering the income tax, customs and excise, and revenue departments, scheduled for completion by end-1989.

Extension of the civil service review begun in 1987/88 to remainder of Central Government and pursuit of a cautious general recruitment policy. Preparation by end-1988 of a proposal for streamlining and controlling the recruitment of government employees, incorporating the 30 percent reduction planned for 1988/89.

Agreement with the World Bank on size and content of public investment program for 1988/89-1990/91, with subsequent review covering 1989/90-1991/92 be held early in 1989.

Continuation of public enterprise divestiture and rehabilitation program, including strengthening the Uganda Development Corporation's ability to rehabilitate enterprises in its portfolio and selection of ten specific enterprises for diagnostic study. Establishment of an audit corporation to monitor financial activities of public enterprises.

4. Monetary and credit policy

Increase in net domestic credit limited to U Sh 8.6 billion, consistent with the program's growth and inflation objectives, which allows a virtual doubling of credit to the private sector after accounting for the targeted U Sh 5 billion reduction in net bank credit to government. Pursuit of an active monetary policy, with regular monitoring of developments and the use of monetary and credit instruments. Broad money to expand by 68 percent.

Initial increase in interest rates of 10 percentage points, with rates to be kept under review in light of inflationary trends, to encourage savings and improve efficiency in credit allocation.

Table 4. Uganda: Summary of the 1988/89 Program (concluded)

5. Monetary sector structural measures

Review of existing and alternative instruments for monetary and credit control, to be completed by end-1988.

Study of the adequacy of the commercial banking system's capital base, managerial and accounting practices, and provisions for bank supervision and regulation, with the aim of establishing new supervisory and regulating procedures by end-June 1989.

Extension of current programs to strengthen the financial accountability of agricultural cooperative unions, and review of on-lending operations of the Coffee Marketing Board. Preparation of an Agricultural Credit Strategy Paper to review recent trends in noncrop finances-related agricultural credit and study mechanisms for rationalizing crop financing, particularly for export crops.

6. Pricing policies

As supply constraints ease, relaxation of temporary price controls on items other than petroleum products, public utility tariffs, and producer prices for key crops. Continuation of current strategy of adjusting petroleum prices to reflect overall landed and distribution costs, plus required duties. Periodic adjustment of public utility tariffs to reflect prevailing foreign and domestic costs.

Maintenance of incentives for agricultural production through twice-yearly announcements of producer prices, after consultation with the World Bank. Initial 107 percent increase in (kiboko) robusta coffee price to U Sh 60 per kilogram with comparable or larger increases for tea, cotton, and other leading crops.

7. Program monitoring and donor coordination

Establishment of interministerial Monitoring Committee to review economic developments and report monthly to Minister of Finance for appropriate action. Designation of Economic Analysis Unit in the Ministry of Finance to prepare monthly reports on economic activity and program implementation for the Monitoring Committee. Strengthening of the donor coordination unit in the Ministry of Planning to track development expenditure and liaise with donors on development projects and the public investment program.

Source: Memorandum of Understanding on Economic Policy (Annex I).

depreciation and that provided scope for an improvement in incentives for the production of coffee and other export crops. The authorities will review this rate at least quarterly, taking into account the effects on production in agriculture and industry, the budget, inflation, and social welfare. The thrust of these reviews will be to prevent any real appreciation of the Uganda shilling from the July 1, 1988 level.

To further strengthen Uganda's foreign exchange position, the authorities intend to increase external reserves by US$20 million during 1988/89 and to reduce external arrears through debt rescheduling by an estimated US$10 million. 1/ In addition, the authorities will work to reinforce the OCL system established in late 1987. Given the wide internal and external disequilibria and constraints on the availability of foreign exchange, the authorities will place primary emphasis on meeting the needs of currently eligible firms. Early in 1988/89 the administrative procedures for the processing of applications under the OCL system will be streamlined so as to permit requests for eligible transactions to be met expeditiously, and the system's coverage will be expanded as soon as feasible to include some agricultural inputs. Subsequently, as the availability of foreign exchange permits, the coverage of the system will be extended with the objective of including all industrial and agricultural inputs, basic necessities, and incentive goods by end-June 1991.

Measures to strengthen the balance of payments and improve growth prospects are also being taken or planned in the areas of import duties, export marketing, producer pricing, and transportation, as described below.

b. Fiscal policies

A major reduction in the fiscal deficit and improvements in public sector management are cornerstones of the 1988/89 adjustment program. The overall budget deficit for 1988/89, measured on a commitment basis, is projected at U Sh 9.8 billion, equivalent to 1.3 percent of GDP, compared with an estimated 3.7 percent of GDP during 1987/88 (Table 5). Total revenue and grants are projected at U Sh 81.7 billion, equivalent to 10.8 percent of GDP, with tax revenue accounting for U Sh 50.3 billion. Total expenditure is budgeted at U Sh 91.5 billion, equivalent to 12.1 percent of GDP, comprising current expenditure of U Sh 50.1 billion and development expenditure of U Sh 41.4 billion.

The budget provides for revenue-boosting measures. New receipts of U Sh 3 billion are projected from a 400 percent rise in deposits

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1/ The balance of payments projections for 1988/89 show a reduction in arrears of US$30 million, including nearly US$20 million of overdue obligations to the Fund as of June 30, 1988.

Table 5. Uganda: Summary of Central Government Operations, 1983/84-1987/88

Fiscal Year Ending June 30	1983/84	1984/85	1985/86	1986/87 Prov.	1987/88 Prog.	1987/88 Est.	1988/89 Budget
				(In billions of Uganda Shillings)			
Revenue and grants	0.97	1.70	3.35	6.43	22.00	30.09	81.71
Revenue	0.93	1.62	2.85	5.87	19.18	24.87	55.68
Tax	0.87	1.59	2.79	5.66	16.79	20.78	50.30
Of which: coffee	(0.41)	(0.94)	(1.89)	(2.00)	(10.89)	(5.55)	(18.92)
Nontax	0.06	0.03	0.06	0.21	2.39	2.01	5.38
Currency reform levy	--	--	--	0.79	--	2.00	--
Grants	0.05	0.08	0.50	0.56	2.83	5.22	26.03
Total expenditure 1/	1.15	2.40	4.72	11.43	31.28	42.05	91.54
Current expenditure	0.70	1.57	3.52	7.29	14.16	24.75	50.13
Wages and salaries	0.13	0.44	0.54	1.16	...	3.70	6.38
Interest 2/ 3/	0.17	0.26	0.38	0.51	...	2.31	4.47
Other	0.40	0.87	2.42	5.62	...	18.74	39.28
Development 4/	0.13	0.35	1.21	4.14	17.11	17.30	41.41
Externally supported capital outlays 5/	0.13	0.35	1.21	4.14	...	12.05	33.12
External	(0.10)	(0.26)	(0.50)	(2.31)	(...)	(9.55)	(30.68)
Domestic counterpart	(0.03)	(0.09)	(0.71)	(1.84)	(...)	(2.50)	(2.43)
Other capital outlays	--	--	--	--	--	5.25	8.29
Unallocated expenditures 6/	0.33	0.48	--	--	--	--	--
Overall deficit (commitment basis)	-0.18	-0.70	-1.37	-4.06	-9.27	-11.96	-9.83
Changes in expenditure-related arrears (reduction -) 7/	-0.08	0.06	--	0.19	-0.63	-4.49	-11.28
Overall cash deficit	-0.26	-0.64	-1.37	-3.87	-9.90	-16.45	-21.11
Total financing	0.26	0.64	1.37	3.87	9.90	16.45	21.11
Foreign financing (net)	0.03	0.10	0.43	1.19	2.44	9.22	25.61
Drawings	(0.18)	(0.49)	(1.14)	(1.75)	(12.25)	(9.38)	(33.47)
Amortization (-)	(-0.15)	(-0.39)	(-0.70)	(0.56)	(-9.81)	(-4.76)	(-10.56)
Principal due (-)	(...)	(...)	(-0.83)	(...)	(-4.21)	(-4.76)	(...)
Change in arrears on principal (reduction -)	(...)	(...)	(0.13)	(...)	(-5.60)	(...)	...)
Moratorium interest (-)	(--)	(--)	(--)	(--)	(...)	(0.63)	(...)
Debt relief	(--)	(--)	(--)	(--)	(8.47)	(5.24)	(2.70)
Domestic financing	0.02	0.54	0.94	2.68	-1.01	7.23	-4.50
Bank 8/	(-0.01)	(0.56)	(0.57)	(3.08)	(-1.91)	(7.51)	(-5.00) 8/
Nonbank	(0.03)	(-0.02)	(0.37)	(-0.39)	(0.90)	(0.28)	(0.50)
Memorandum items:							
GDP at current market prices	6.98	13.55	30.41	110.41	205.88	325.61	754.27
				(In percent of GDP)			
Revenue and grants	14.0	12.5	11.0	5.8	9.3	9.2	10.8
Tax revenue	12.5	11.8	9.2	5.1	10.7	6.4	6.7
Total expenditure	16.6	17.7	15.5	10.4	15.2	12.9	12.1
Current expenditure 9/	14.8	15.1	11.5	6.6	6.9	7.6	6.6
Development expenditure	1.8	2.6	4.0	3.8	8.3	5.3	5.5
Overall deficit							
(commitment basis)	-2.6	-5.2	-5.6	-3.7	-4.5	-3.7	-1.3
(cash basis)	-3.8	-4.7	-4.5	-3.5	-4.8	-5.1	-2.8

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

1/ On a commitment basis.

2/ Includes IMF charges, which have been reclassified as domestic payments to the Bank of Uganda for onward payments in foreign currency to the Fund.

3/ Includes moratorium interest payments for 1987/88.

4/ Local capital outlays are mainly self-help schemes and projects for reconstruction and maintenance of assets in local areas financed solely from domestic resources. Capital outlays are, in contrast, large projects financed from both external and domestic sources.

5/ Includes lending, mainly to parastatals.

6/ Includes changes in the balance of the Treasury Main Clearance Account (excluding IMF charges), other government accounts with Bank of Uganda, and checks outstanding; derived residually.

7/ Apart from small payments of domestic arrears in 1986/87 and 1987/88, this item relates exclusively to changes in external arrears of interest or principal.

8/ Excludes anticipated increase of U Sh 4.0 billion in government deposits at Bank of Uganda held in reserve toward the payment of external arrears.

9/ Including unallocated expenditure.

required toward corporate income tax liabilities, an extension of deposit requirements to new industries, and increases in tax-related fines and interest charges. A further gain of U Sh 1.2 billion is projected from large increases in retail petroleum prices and an anticipated rise in the volume of petroleum sales. The commercial transactions levy has been extended to most urban restaurants and eating places, for a projected revenue gain of U Sh 0.2 billion. In addition, the commission on imports has been doubled to 1 percent, and fees for road and drivers' permits have increased, for a projected gain of U Sh 0.4 billion. Also boosting revenues is the large increase in the domestic currency value of coffee exports, only part of which will be offset through higher producer prices and anticipated increases in intermediate costs. At a constant exchange rate of U Sh 150 per U.S. dollar, the authorities project coffee receipts at U Sh 18.9 billion, about three times the estimated revenue from coffee during 1987/88.

On the expenditure side of the budget, the authorities have implemented a number of measures to reduce outlays. These include a 30 percent decrease in the number of temporary group employees; a decision to eliminate certain ministries from importing and distributing agricultural and veterinary items, estimated to save U Sh 6 billion; the establishment of a Central Supplies Directorate to help centralize government purchases, for a projected saving of U Sh 1 billion yearly; curbs on travel by government employees; and restraints on purchases of vehicles and other equipment, the construction of housing, and the renovation of government offices. Nevertheless, current expenditure is budgeted at double the 1987/88 level. This largely reflects the sharp rise in domestic costs and prices over the past year and the anticipated effect of the July 1, 1988 devaluation. It also reflects the decision to increase civil service salaries by 120 percent as a partial offset to the erosion of real wages experienced in 1987/88. Where capital expenditures are concerned, the Government has agreed with the World Bank on the size and context of its public investment program for the period 1988/89-1990/91. Within this framework, domestically financed development expenditure for 1988/89 has been budgeted to increase only slightly from the projected level for 1987/88.

The budget also provides domestic resources of U Sh 11.3 billion for the clearance of external payments arrears, thereby raising the overall deficit on a cash basis to U Sh 21.1 billion, which will be more than covered by external financing of U Sh 25.6 billion. Taking this factor into account and also the budgetary provision for a reduction of U Sh 1 billion in Ways and Means Advances (i.e., short-term central bank accommodation), the program envisages a reduction of at least U Sh 5 billion in the Government's indebtedness to the banking system.

In addition to the above measures, the Government is undertaking a range of administrative measures designed to strengthen budget formulation and monitoring, revenue collection, and expenditure control. During the preparation of the 1988/89 budget important steps were taken to computerize major elements of the budgetary process, to permit more careful reviews of ministerial requests and allow for better budget monitoring during the year. On the revenue side, the Government intends to conduct a comprehensive review of customs tariffs and the tax system, with a view toward broadening the tax base (and ultimately reducing the present overwhelming reliance on coffee export duties) and rationalizing the system of import duties. This review was originally planned for 1987/88, but discussions with the World Bank to identify a team of experts proved lengthy. Recommendations are now to be available for incorporation in the budget for 1989/90. In addition, with World Bank support, the Government is to put in place an automated system of information exchange among the income tax, customs and excise, and inland revenue departments, particularly regarding import, with implementation targeted for end-1989. On the expenditure side of the budget, the review of the civil service begun in 1987/88 is being extended to the rest of the Central Government, to permit a rationalization of employment while identifying staffing and training needs. While this project is underway, the Government will follow a cautious recruitment policy. In addition, by end-1988, the Government will prepare a proposal for streamlining and controlling the recruitment of temporary employees, to supplement the 30 percent reduction programmed for 1988/89.

The Government is continuing its program of public enterprise divestiture and rehabilitation and is strengthening the capacity of the Uganda Development Corporation (UDC) to rehabilitate those enterprises remaining in the portfolio. The Government has also selected ten specific public sector enterprises for diagnostic study and is establishing an audit corporation to monitor parastatal enterprises.

c. Monetary and credit policies

To further its objective of reducing inflation and promoting a more stable economic environment, the Government is committed to pursuing a prudent monetary and credit policy aimed at curbing overall credit expansion while providing sufficient financing for productive activities. In addition to restraining net bank credit to Government, the Bank of Uganda is pledged to limit the expansion of credit to the nongovernment sector to levels consistent with the program's overall target of a 29 percent rise in net domestic credit during 1988/89 (Table 6). Private credit is expected to rise in line with the enhanced availability of externally-financed imports, increased producer prices and a further recovery in overall economic activity. Occurring at a time when government operations are programmed to exert a contractionary monetary impact, the ability of the commercial banks to meet these credit needs will be severely constrained. Already the commercial banks face an extremely tight liquidity position, and the authorities have moved to encourage savings and attract funds into the banking system. On July 1, 1988 interest rates were increased by 10 percentage points across the board. This entailed setting rates on short-term lending at 40 percent, and in the range of 28-32 percent for deposits. The mission argued for a significantly larger increase, or preferably the decontrol

Table 6. Uganda: Monetary Survey, June 1984-June 1989

(In billions of Uganda shillings; end of period)

	1984	1985	1986	1987		1988	1989
	June	June	June	June	Dec.	June Proj.	June Proj.
Net foreign assets	-0.80	-1.32	-2.43	-13.48	-11.45	-12.09	-31.88
Bank of Uganda	-0.88	-1.39	-2.68	-13.92	-12.91	-13.46	-36.86
Of which:							
Use of Fund credit	(-1.17)	(-1.73)	(-3.53)	(-15.13)	(-15.43)	(-13.72)	(-44.38)
Commercial banks	0.08	0.08	0.25	0.44	1.46	1.37	4.98
Domestic credit	0.85	1.95	3.44	8.27	11.76	25.84	34.43
Claims on Governmetn (net)	0.42	0.97	1.54	4.62	3.51	12.13	7.13
Claims on rest of economy 1/	0.43	0.98	1.90	3.65	8.25	13.71	27.31
Of which: crop finance	(0.21)	(0.52)	(1.13)	(1.52)	(3.71)	(4.83)	(...)
Broad money	0.76	1.82	4.51	8.82	18.54	29.21	49.09
Money	0.62	1.57	3.92	7.80	16.52	...	...
Quasi-money	0.14	0.25	0.59	1.02	2.01	...	...
Other items (net)	-0.71	-1.18	-3.78	-14.03	-18.23	-15.46	-46.53
Of which:							
Currency revaluation	(-0.64)	(-1.36)	(-3.37)	(-14.06)	(-14.06)	(-14.06)	(-45.14)

Source: Data provided by the authorities; and staff estimates.

1/ Including parastatals.

of interest rates, but the authorities were concerned that these actions could jeopardize the reconstruction and recovery effort. They agreed, however, to keep these rates under review in light of the trend of inflation and the objectives of increasing savings and improving the efficiency of credit allocation. In addition, the Bank of Uganda has been closely monitoring monetary and credit developments and is committed to pursuing an active monetary and credit policy. To strengthen its ability to conduct monetary policy, the Bank of Uganda is also reviewing the existing instruments for monetary and credit control and will examine alternative credit control measures by end-1988.

In response to the large variance in loan to deposit ratios among Uganda's commercial banks and the substantial rise in private sector credit during 1987/88, the Government is undertaking a major study of the commercial banking system, to assess the adequacy of the capital base, managerial, and accounting practices, and the provisions for bank supervision and regulation. This study is scheduled for completion early in 1989, to enable the implementation of new supervisory and regulatory procedures by end-June 1989. In addition, the Government is undertaking several measures to strengthen and rationalize credit to the agricultural sector. These include the expansion of the the current program to strengthen the financial accountability of the cooperative unions, and a review of the on-lending operations of the Coffee Marketing Board to ensure their consistency with overall credit targets and with a rationalization of credit to the agricultural sector. In collaboration with the World Bank, the Government is also preparing an Agricultural Credit Strategy Paper to help develop a more comprehensive framework for agricultural credit operations. This study will include a review of trends in agricultural credit apart from crop financing, and an examination of various measures available for restraining and rationalizing credit among the various parties involved in the production and marketing of export crops.

d. Pricing and marketing policies

The Government is committed to the principle of allowing domestic prices to be determined by market forces. Exceptions to this principle are petroleum products, public utility tariffs, and producer prices for certain export and food crops, for which prices have traditionally been regulated. Controls also apply to a few other products, primarily beer, cigarettes, soft drinks and soap, which will be eased as supply constraints such as production capacity become less intense. Regarding petroleum products, the Government is continuing its policy of having prices reflect overall landed and distribution costs, plus a duty element to mobilize government revenue. On this basis petroleum prices were increased by amounts ranging from 84 percent to 185 percent on July 1, 1988, and prices will be adjusted regularly to reflect charges in foreign and domestic costs. Public utility tariffs will likewise be adjusted periodically to reflect prevailing foreign and domestic costs.

As regards agricultural producer prices, the Government is committed to maintaining adequate incentives for producers. Accordingly, new prices for a wide range of crops were announced on July 1, 1988, including increases of 107 percent, to U Sh 60 per kg, for (kiboko) robusta coffee; 100 percent, to U Sh 100 per kg, for (parchment) arabica coffee; 150 percent, to U Sh 80 per kg, for (AR) cotton; and 100 percent, to U Sh 20 per kg, for green leaf tea. The Government will continue to review these prices regularly and will announce prices twice a year, after consultation with the World Bank.

The process of opening up export marketing to the private sector, which was begun in 1987/88, will be extended to encompass most non-coffee exports. The authorities will undertake a review of barter arrangements with particular emphasis on barter of coffee to countries covered by coffee export quotas under the International Coffee Agreement. Plans to rationalize processing capacity for coffee and cotton are to be completed by end-1988, and implementation is to begin in 1988/89. (Other measures to improve export marketing are described in paragraphs 36-41 of the PFP.)

e. Other sectoral policies

Other measures to improve the supply capability of the economy are being undertaken in the areas of industrial policy, transportation, and energy. Among these are: a simplification of industrial licensing and foreign investment regulations; the probable launching of a Special Credit Facility to improve the availability of credit to firms eligible for OCL; and improved road maintenance and construction.

f. Program monitoring

To facilitate program implementation and improve the resources available for formulating and managing economic policy, the Government has established a Monitoring Committee comprising representatives of the Ministries of Finance and Planning and of the Bank of Uganda. This committee will review developments on a monthly basis and report to the Minister of Finance to request appropriate action. To provide technical assistance to the Monitoring Committee, the Economic Analysis Unit (EAU) of the Finance Ministry has been strengthened and designated as the Committee's Secretariat. In this connection, the EAU will prepare brief monthly reports on the implementation of the 1988/89 economic program, incorporating information on government finance, and developments in prices, exports, and the exchange rate. These reports will also summarize monetary and credit developments and analyze the Bank of Uganda's foreign exchange budget.

The Government has also strengthened the existing donor coordination unit in the Ministry of Planning to assist in tracking development activities. Since end-July 1988 this unit has reported regularly to the Planning Ministry on the receipt and use of foreign assistance in Uganda and coordinates with the EAU and the budget monitoring units in the Ministry of Finance. It also serves as a clearinghouse for donors regarding existing development projects and assist in coordinating information on the public investment program.

g. Balance of Payments

1. The 1988/89 program

Reflecting the continued availability of substantial foreign grants, the current account deficit is projected to remain at about US$190 million in 1988/89 (4.5 percent of GDP), compared with an estimated US$205 million (4.0 percent of GDP) in 1987/88 (Table 7). Both exports and imports are expected to grow rapidly in 1988/89: the former because of an anticipated recovery of coffee prices, and the latter mainly because of the increased availability of foreign assistance.

For coffee exports, expectations are that a recovery in world market prices will outweigh a quota-determined reduction in export volume, and coffee receipts are projected to grow by about 11 percent, provided there is no recurrence of the lags in remittances experienced in 1987/88. Cotton and tea exports are expected to begin their long-delayed recovery as problems are addressed relating to ownership of land and production facilities, the provision of labor and other inputs, and the re-establishment of security in producing regions. The recent devaluation of the currency and the attendant increase in producer prices is expected to benefit coffee and other exports. Total export growth is projected at 13 percent, to US$343 million.

Imports are projected to grow by 11 percent, to US$671 million, despite a US$80 million reduction in cash expenditures for imports. Achieving this reduction will require that allocations of official foreign exchange for government imports fall by about one third and that other cash allocations be limited to petroleum. Import support funds, consisting of some US$100 million of credits from IDA and the African Development Bank and US$60 million of grants from bilateral donors and the European Communities, are to be used for all other imports administered by the Bank of Uganda and will also cover a portion of petroleum imports. Overall, externally financed imports--including those related to projects, commodity aid, and emergency assistance--are projected to grow by US$194 million. Imports without officially allocated foreign exchange, whose counterpart is recorded as an unrequited private transfer, are projected to decline by about US$20 million, reflecting the increased availability of import support funds for private sector transactions.

Assuming the maintenance of the June 1988 level of advance sales contracts for coffee, net capital inflows are projected to reach US$224 million in 1988/89, sufficient to generate a modest overall balance of

Table 7. Uganda: Balance of Payments, 1983/84-1988/89

(*In millions of U.S. dollars*)

	1983/84	1984/85	1985/86	1986/87	1987/88 Prog.	1987/88 Est.	1988/89 Proj.
Current account	3	-15	31	-82	-130	-205	-188
Trade balance	11	-8	1	-111	-153	-303	-327
Exports, f.o.b.	378	383	379	383	407	303	343
Of which: Coffee	(342)	(353)	(360)	(365)	(358)	(290)	(323)
Imports, c.i.f.	-368	-391	-379	-494	-560	-606	-671
Externally-financed	(128)	(170)	(118)	(151)	(...)	(232)	(426)
Nonfactor services (net)	-58	-59	-57	-64	-84	-71	-84
Net interest	-47	-53	-44	-47	-84	-58	-64
Private transfers	26	40	101	100	107	120	100
Official transfers	71	64	31	40	107	108	187
Capital account	71	69	-8	11	153	111	224
Official medium- and long-term (net)	-5	38	12	35	163	55	104
Of which: disbursements	(81)	(115)	(88)	(125)	(204)	(132)	(176)
Import support credits	--	5	--	--	--	49	100
Kenya compensation	--	30	29	28	28	19	20
Short-term (net)	64	-15	1	-32	-38	-2	--
Counterpart to IMF valuation adjustment	12	12	-49	-20	--	-10	--
Overall balance	73	55	24	-71	23	-93	36
Financing	-73	-55	-24	71	-23	93	-36
Monetary authorities	-52	-48	-38	21	-77	-31	-44
Gross reserve change	-81	32	-1	33	-30	-4	-20
IMF (net)	39	-70	-35	-3	-47	-35	-24
Of which: Purchases & SAF	69	--	--	57	25	34	39
Other (net)	-10	-10	-3	-8	--	7	--
Commercial banks (net)	0	0	-5	10	-5	-17	5
External arrears	-63	-59	19	39	-103	37	-30
Of which: Fund	(--)	(--)	(--)	(--)	(--)	(20)	(-20)
Exceptional financing	42	53	--	--	169	105	33
Rescheduling	42	0	--	--	169	105	33
Debt cancellation	0	53	--	--	--	--	--
Memorandum items:							
Outstanding Arrears	110	55	74	113	20	150	120
Foreign exchange reserves (end period)	95	63	64	31	55	35	55
Reserves/imports (months coverage)	3.1	1.9	2.0	0.8	1.2	0.7	1.0
			(In percent)				
Current account/GDP	0.1	-0.5	1.1	-1.0	-3.0	-4.0	-4.6
Debt service ratio: Total 1/	41.3	46.9	52.1	54.2	42.3	65.7	54.3
After rescheduling	41.3	46.9	52.1	54.2	...	53.5	48.4
Of which: IMF 2/	11.6	22.6	29.8	26.7	23.2	31.4	23.4
External debt ratio 3/	339.5	292.9	308.4	321.6	...	479.6	457.0

Sources: IMF staff estimates based on data from Bank of Uganda, Ministries of Commerce, Finance, and Planning, World Bank, and IMF Treasurer's Department.

1/ Amortization and interest due on medium- and long-term debt plus interest on short-term debt; in percent of exports of goods and nonfinancial services.

2/ Historical estimates reflect only payments actually made; overdue obligations are included in the year in which they were settled.

3/ Including external arrears, in percent of exports of goods and nonfactor services.

payments surplus. With debt rescheduling estimated at US$33 million, 1/ a second-year SAF disbursement equivalent to US$39 million, and Fund repurchase obligations of US$63 million, however, only limited progress can be expected in reducing external payments arrears and accumulating more adequate foreign exchange reserves. After the settlement of arrears to the Fund (which occurred on August 25, 1988), the program envisages a US$10 million reduction in other external arrears and a US$20 million increase in gross official reserves. In 1988/89 the authorities plan to limit to US$10 million new contracting or disbursements of nonconcessional borrowing, excluding loans with a maturity of greater than 15 years, loans contracted in the context of rescheduling, advance sales of coffee, and normal import financing with a maturity of less than one year. The authorities plan to seek a rescheduling of external debt service obligations for 1988/89.

The Fund and World Bank staffs will assist the authorities in their contacts with the international donor community to confirm, and if possible increase, the financial assistance assumed in the program. Because the program already entails maximum feasible use of import support funds to displace cash imports, to further alleviate Uganda's severe cash flow constraint additional assistance should preferably be in the form of cash grants or flexible and highly concessional loans. The Bank will work with the Ugandan authorities and the donor community to identify programs to benefit the social groups most vulnerable to the transitional costs of the adjustment effort, particularly in the areas of low-income housing, health care, and education.

2. Medium-term scenario

Over the medium term, Uganda's balance of payments situation will improve only gradually, and substantial need for exceptional financing is envisaged through 1991/92 (Table 8). In part, this reflects the expected timing of disbursements from various quick-disbursing import support credits from IDA and the African Development Bank. It also reflects the projected improvement in Uganda's net international reserve position over the program period. This consists of a US$60 million accumulation of gross international reserves, a reduction in liabilities through US$146 million of Fund repurchase obligations (partly offset by SAF loans of US$57 million), and the repayment of US$150 million of external arrears.

During the program period, resolute and vigilant implementation of the planned improvements in foreign exchange management will be necessary to assure timely servicing of obligations to the Fund. By the end of 1991/92, Uganda would have almost no remaining obligations to the Fund other than SAF loan repayments, and the IMF share in Uganda's total

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1/ This estimate assumes rescheduling of eligible official and commercial obligations on the same terms as the 1987/88 Paris Club rescheduling.

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

(In millions of U.S. dollars)

	1987/88	1988/89	1989/90	1990/91	1991/92
Current account	-205	-188	-212	-215	-222
Trade balance	-303	-327	-321	-308	-314
Exports, f.o.b.	303	343	390	446	486
Of which: coffee	(290)	(323)	(358)	(387)	(403)
Imports, c.i.f.	-606	-671	-711	-761	-813
Nonfactor services (net)	-71	-84	-81	-83	-88
Net interest	-58	-64	-60	-48	-43
Private transfers	120	100	100	100	100
Official transfers	108	185	150	131	137
Capital account	111	224	176	168	186
Official medium- and long-term (net)	55	104	93	92	116
of which: disbursements	(132)	(176)	(157)	(151)	(166)
Import support credits	49	100	115	76	70
Short-term (net)	-2	--	-33	--	--
Other 1/	9	20	--	--	--
Overall balance	-93	36	-36	-47	-36
Financing	93	-36	36	47	36
Monetary authorities	-31	-44	-50	-55	-53
Gross reserve change	-4	-20	-20	-20	-20
IMF (net)	-37	-24	-30	-35	-33
Of which: purchases and SAF	34	39	18	--	--
Commercial banks (net)	-17	5	--	--	--
External arrears	37	-30	-60	-60	--
Exceptional financing	105	35	146	162	89
Rescheduling	105	33	23	20	--
Financing gap	--	--	123	142	89
Memorandum items:					
Outstanding arrears	150	120	60	--	--
Foreign exchange reserves(end period)	35	55	75	95	115
Foreign exchange reserves/imports (months coverage)	0.7	1.0	1.3	1.5	1.7
Debt-service obligations 2/	215	200	174	147	133
Of which: moratorium, gap, and short-term interest	13	24	26	28	28
IMF obligations 3/	103	86	65	43	38
			(In percent)		
Current account/GDP:					
Including official transfers	-4.0	-4.6	-5.2	-4.1	-3.6
Excluding official transfers	-5.9	-9.0	-7.6	-6.3	-6.0
Debt service ratio (total) 4/	65.7	54.3	41.8	30.7	25.5
After rescheduling	53.5	48.4	36.2	26.6	25.5
Of which: IMF	31.4	23.4	15.7	9.1	7.3
External debt ratio 4/ 5/	479.6	457.0	424.5	376.3	369.4

Sources: IMF staff estimates based on data from Bank of Uganda, Ministries of Commerce, Finance, and Planning; World Bank; and IMF Treasurer's Department.

1/ Kenya compensation payments and counterpart to valuation adjustment in obligations to IMF.
2/ Amortization and interest due on medium- and long-term debt plus interest on short-term debt.
3/ Including Trust Fund payments.
4/ In percent of exports of goods and nonfactor services.
5/ Including external arrears.

debt service obligations will have dropped sharply. This should provide scope for the repayment of SAF loans, which will not begin until December 1992. On the assumption of disbursements totaling 63.5 percent of quota by 1989/90, SAF obligations would entail annual amortization and interest payments equivalent to about 2 percent of receipts from exports of goods and nonfactor services in 1992/93-1998/99.

The current account deficit is now projected to increase somewhat as a percentage of GDP in 1988/89-1989/90 and to decline gradually thereafter. 1/ The balance of payments scenario is significantly weaker than the one discussed in the staff report for the 1987 Article IV consulation, primarily due to the downturn in export revenues during 1987/88 and a reassessment of medium-term export growth prospects. 2/ Coffee export volume is still expected to grow somewhat over the medium term (from an estimated 2.58 million bags in 1987/88 to 2.7 million bags in 1990/91), owing mainly to an expansion of sales to non-quota markets, but prices are now expected to be about 5 percent lower in 1990/91 than was projected a year ago. In view of the structural difficulties still being experienced with most other export crops, a more cautious recovery is forecast. Exports of these commodities are now projected to rise from a record-low US$13 million in 1987/88 to US$60 million in 1990/91 (compared with US$120 million for 1990/91 in the previous medium-term scenario).

The projections for both debt-service obligations and new disbursements of external financing are now higher than those made a year ago, although the net impact is positive. Debt service obligations for the entire 1988/89-1990/91 period are now projected at US$520 million, 35 percent more than a year earlier, mainly as a result of larger obligations to the Fund (reflecting valuation adjustments and additional use of Fund resources under the CFF) and higher payments of short-term obligations and moratorium interest. On the financing side, new disbursements of external loans and official grants (exclusive of those to be sought to meet residual financing gaps) are now projected at US$1.2 billion, about US$ 400 million higher than previously, an increase that is due largely to disbursements that were originally expected during 1987/88.

By 1990/91, the total debt-service ratio is projected to decline from the current 54 percent of receipts from exports of goods and nonfactor services (after rescheduling) to 27 percent. The latter figure is still quite high for a low-income country, however, underscoring the necessity of a sustained effort to increase both traditional and nontraditional exports and to keep firm control over all external borrowing (particularly that on nonconcessional terms). The authorities

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1/ These figures include official transfers. Excluding official transfers, the current account deficit is projected to increase sharply in 1988/89 and to decline continuously thereafter.

2/ See EBS/87/110, pages 19-22.

intend to continue to limit strictly the utilization of both short-term and nonconcessional borrowing over the medium term.

h. Benchmarks under the second annual SAF arrangement

To monitor credit and monetary developments quarterly benchmarks have been established for net domestic credit and net bank credit to Government (Table 9). The expansion in net domestic credit of the banking system from end-June 1988 will be limited to U Sh 3.5 billion through end-September 1988, U Sh 5.5 billion through end-December 1988, to U Sh 7.5 billion through end-March 1989, and to U Sh 8.6 billion through end-June 1989. In addition, relative to the position at end-June 1988, net credit to Government from the domestic banking system is to record a cumulative decrease of U Sh 1.0 billion at end-September 1988, U Sh 2.0 billion at end-December 1988, U Sh 3.0 billion at end-March 1989, and U Sh 5.0 billion at end-June 1989. Also as a benchmark, gross international reserves of the Bank of Uganda from end-June 1988 are to increase by US$10 million as of end-March 1989 and by US$20 million at end-June 1989. Relative to the position at end-June 1988, non-Fund external arrears are to decrease by US$10 million by end-September 1988 and remain at or below the end-September 1988 level as of end-December 1988, end-March 1989, and end-June 1989. Broad money, which is not a benchmark, is projected to increase by 68 percent between end-June 1988 and end-June 1989, which is essentially in line with the 60 percent rise in consumer prices and 5 percent real growth in GDP envisaged during the year.

A limit of U Sh 9.8 billion has been set on the 1988/89 government budget deficit, as measured on a commitment basis and including grants. In addition, benchmarks have been established for central government tax receipts and current expenditure, as indicated in Table 8.

New concessional foreign borrowing by the public sector will be limited as follows: The Government and the Bank of Uganda will neither contract, guarantee, nor receive disbursements of an aggregate amount of external borrowing on nonconcessional terms (DAC definition) in excess of US$10 million with an initial maturity of up to and including 15 years. This restriction excludes advance sales of export products, normal trade credits with a maturity of less than one year, and obligations undertaken as a result of debt rescheduling.

Policy implementation will also be followed closely, with the following considered as policy benchmarks: (1) periodic reviews of the exchange rate; (2) completion of the comprehensive review of customs duties and the domestic tax system; (3) implementation and maintenance of the interest rate policies as described in paragraph 12 of Annex I; and (4) semiannual reviews in agricultural producer prices.

Table 9. Uganda: Quantitative Benchmarks for the Second-Year Arrangement Under the Structural Adjustment Facility
September 1988-June 1989

	1988		1989	
	Sept.	Dec.	Mar.	June
	(In billions of Uganda shillings; end of period)			
Cumulative change at end of period in				
Net domestic credit	3.5	5.5	7.5	8.6
Net bank credit to Government	-1.0	-2.0	-3.0	-5.0
Overall budget deficit on a commitment basis and including grants	...	...	...	9.8
Tax revenue	...	...	...	50.9
Current expenditure 1/	...	...	...	50.1
	(In millions of U.S. dollars)			
Cumulative change at end of period in				
New nonconcessional borrowing, excluding advance coffee sales, short-term trade credits, and borrowing under debt rescheduling	5	5	10	10
External payments arrears	-10	-10	-10	-10
Gross foreign reserves	--	--	10	20

1/ Fund staff classification.

h. Financial obligations to the Fund

Uganda has large but diminishing obligations due to the Fund in the next few years. In addition to the overdue obligations that totaled SDR 13.5 million as of June 30, 1988, current obligations in 1988/89 (July-June) are estimated at SDR 65.7 million, declining to SDR 49.4 million in 1989/90, SDR 32.4 million in 1990/91, SDR 28.4 million in 1991/92, and SDR 11.3 million in 1992/93. All repurchase obligations and Trust Fund loan repayments are scheduled to have been made by early 1993. Therefore, assuming Uganda remains current in its financial obligations, all repurchases and Trust Fund loan repayments will have been effected before repayments of SAF loans begin to fall due. On that basis, it is reasonable to assume that it will become progressively less difficult for Uganda to remain current in its obligations to the Fund. This assessment is, however, based, inter alia, on continued large inflows of non-project external assistance.

Probably the most difficult year for the servicing of financial obligations to the Fund is 1988/89, when they will total SDR 79.2 million. In any assessment of Uganda's ability to meet these obligations, it should be pointed out that import support is not a completely fungible resource. In particular, it is not usable for financing most government and petroleum imports and service payments, nor can it be used for servicing nonreschedulable debts. For the most part, these payments can be met only from Uganda's own external resources. Nevertheless, the staff has concluded on the basis of a careful examination of the foreign exchange cash flow of the Bank of Uganda that it should be possible for Uganda to meet its financial obligations vis-à-vis the Fund and to service nonreschedulable debts. This may well entail, however, a continuation of the practice of advance coffee sales and preclude building up foreign exchange reserves to more comfortable levels. It will also entail paying much closer attention to foreign exchange management and particularly making provision for upcoming financial obligations to the Fund.

IV. Staff Appraisal

The performance of the Ugandan economy during the first annual SAF arrangement fell short of program objectives. There were, however, some positive accomplishments. The process of reconstruction and reintegration moved forward encouragingly, even in the face of adverse circumstances. Among these was lingering guerilla activity that retarded the recovery of agricultural production and marketing in the northern and eastern parts of the country. It also entailed a drainage of scarce budgetary and foreign exchange resources. In addition, the flow of international trade was disrupted during the first half of the year by border tensions. Export receipts were adversely affected by a fall in coffee prices and the reintroduction of sales quotas, and the promises of large amounts of external assistance were not immediately translated into increased inflows of goods. Finally, domestic transportation bottlenecks, though less severe than before, still inhibited growth.

In the face of these developments, the attainment of the envisaged reduction in demand pressures would have called for a substantial scaling down of spending plans, particularly in the public sector, and the adoption of a restrictive credit stance. Some effort was made in this direction in the form of a supplementary budget that raised certain taxes and attempted to cut back expenditures. Despite this, the overall thrust of policies remained strongly expansionary. Indeed, interest rates that were already substantially negative in real terms were reduced, and the predominant objective of the Government's monetary policy was to ensure that the growth of output was not hindered by a scarcity of credit. Given the resource constraints, it was inevitable that inflationary pressure remained intense. Moreover, there was strong evidence of growing financial disintermediation, with the share of money held with banks having fallen significantly in each of the past three years.

The issues facing Uganda in the period ahead remain essentially those to which the 1987/88 program were addressed, namely, reconstruction and stabilization. The authorities are correct in placing greater emphasis on reducing inflationary pressures. The cornerstone of this effort is the government budget, which, if executed as planned, will result in a large reduction in the Government's outstanding indebtedness to the banking system. Revenues are likely to show a strong increase, reflecting a combination of the effects of the adjustment of the exchange rate and new tax measures. On the expenditure side, the vetting of requests during the process of budget preparation was thorough and stringent, monitoring and control mechanisms have been strengthened, and important cost-cutting measures have been taken, e.g., cutbacks in the number of temporary workers and the privatization of purchasing of a range of agricultural inputs. Above all, external financing is expected to cover a much larger proportion of total expenditure than in 1987/88, mainly because the domestic counterpart of a sizable volume of import support accrues to the budget. Thus, the budget is poised to contribute appreciably to a significant slowdown in monetary expansion. The extent of the dependence of the budget on coffee export revenues and on external financing is worrisome, however, making it urgent for Uganda to adopt structural fiscal measures that will broaden the tax base. In addition, the authorities must intensify their current programs for reducing public employment, improving public administration, and reforming and privatizing public enterprises.

Attaining the stabilization objectives will also require the pursuit of a more active monetary policy, and especially the restraint of credit expansion to levels consistent with the program targets. The authorities' intentions in this regard are welcome, and the recent increase in interest rates is a step in the right direction. However, interest rates remain highly negative in real terms, and at current levels they are unlikely to play a significant role in restraining credit demand or mobilizing savings. The latter point is of particular concern, because the overall liquidity situation of the banks is now extremely tight, reflecting the growth of financial disintermediation, and the ability of commercial banks to meet the credit needs of the private sector without recourse to borrowing from the Central Bank will depend on their ability to attract funds now held outside the banking system. This will call for a more aggressive interest rate policy. It is in this context that the commitment of the authorities to review interest rates in light of the trend in inflation is noted and welcomed. At the same time, the Bank of Uganda must closely monitor credit developments. In this respect, the creation of a high-level program Monitoring Committee can play a key role in ensuring timely responses to such deviations from program targets as may occur.

The loss of external competitiveness during the course of 1987/88 was jeopardizing the attainment of Uganda's growth and balance of payments objectives. Against this background, the recent depreciation of the exchange rate should help recover lost ground. Despite this depreciation and some appreciation of the exchange rate in the parallel market, the gap between the official and parallel market rates remains large. Moreover, the foreign exchange scarcity is such that the official exchange rate will play only a limited allocative role. It is all the more important, therefore, that the official rate be adjusted periodically in a timely and resolute fashion so as to maintain and, where possible, improve Uganda's competitiveness and the profitability of its nontraditional export crops.

In view of Uganda's strong dependence on external financial assistance, adequate and timely inflows of donor aid will be critical for successful implementation of the program. The planned strengthening of Uganda's facilities for donor coordination is thus very important. Program implementation would also be facilitated by greater levels of quick-disbursing assistance, such as that envisaged under the World Bank's Special Program for Africa, and by greater flexibility in traditional aid programs, to reduce the demands on Uganda's own foreign exchange resources.

Uganda's external position will remain extremely difficult over the next few years because of its weak export base and its large outstanding debt obligations, particularly to the Fund and other international organizations. Meeting these obligations in a timely fashion will entail paying even closer attention to the conservation and management of external resources. As these obligations are reduced, Uganda should be able to accelerate the liberalization of its exchange and trade system and the accumulation of foreign exchange reserves. In the meantime, highest priority must be accorded to export promotion and diversification.

Uganda has the potential for considerable economic growth, in view of its rich agricultural resources and strong educational traditions.

Achieving this potential will require both the restoration of macroeconomic stability and the elimination of structural barriers to economic growth. Actions will be needed to improve the transportation and marketing of agricultural products; rationalize processing facilities; reduce government constraints on the pricing, marketing, and distribution of goods; and improve access to foreign exchange, domestic credit, and essential inputs. The authorities' plans for gradual improvement in all of these areas appear realistic, and the staff hopes that the timetable envisaged for specific actions can be observed. While the adjustment program will, on balance, have a positive distributional impact, it is also hoped that Uganda will benefit from the growing experience in designing special programs to assist social groups most severely affected by the transitional costs of the adjustment process.

Uganda's economic situation remains difficult and, as already noted above, close attention will need to be given in future reviews to ensure that policies are flexibly adjusted in response to developments. The staff, however, believes that the Government's policy framework for 1988/89-1990/91 and its program for 1988/89, despite some shortcomings, represent a serious effort to address Uganda's problems.

Uganda maintains restrictions subject to approval under Article VIII, Section 2(a) arising from its comprehensive system of foreign exchange allocation and as evidenced by external payments arrears. In recent years, Uganda has also made increasing use of 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 have undertaken to eliminate the outstanding external payments arrears by the end of the pogram 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 1989 Article IV consultation, or December 31, 1989, whichever is earlier.

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

V. Proposed Decisions

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

A. 1988 Consultation

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, as amended, conducted under Decision No. 5392-(77/63), adopted April 29, 1977 ("Surveillance over Exchange Rate Policies").

2. Uganda maintains the exchange restrictions on payments and transfers for current international transactions described in SM/87/--, in accordance with Article XIV, Section 2, except for 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 restriction by Uganda until the completion of the 1989 Article IV consultation, or December 31, 1989, whichever is earlier.

B. Second Annual Arrangement Under the Structural Adjustment Facility

1. The Government of Uganda has requested the second annual arrangement under the structural adjustment facility.

2. The Fund has appraised the progress of Uganda in implementing the policies and reaching the objectives of the program supported by the first annual arrangement, and notes the updated policy framework paper (EBD/88/239).

3. The Fund approves the arrangement set forth in EBS/88/184.

UGANDA - Second Annual Arrangement Under
the Structural Adjustment Facility

Attached hereto is a letter, with an annexed Memorandum of Economic Policies, dated August 25, 1988 from the Minister of Finance of Uganda requesting from the Fund the second annual arrangement under the three-year structural adjustment arrangement, and setting forth the objectives and policies of the program to be supported by the second annual arrangement.

To support these objectives and policies, the Fund grants the requested arrangement in accordance with the following provisions and subject to the Regulations for Administration of the structural adjustment facility:

1. The second loan in the amount equivalent to SDR 29.9 million is available for disbursement at the request of Uganda.

2. Before approving the third annual arrangement, the Fund will appraise the progress of Uganda in implementing the policies and reaching the objectives of the program supported by the second annual arrangement, taking into account primarily:

(a) the indicators specified in paragraphs 19 and 20 of the letter attached to the Memorandum of Economic and Financial Policies,

(b) the imposition of restrictions on payments and transfers for current international transactions,

(c) introduction of multiple-currency practices,

(d) conclusion of bilateral payments agreements which are inconsistent with Article VIII,

(e) imposition or intensification of import restrictions for balance of payments reasons.

3. In accordance with the attached letter, Uganda will provide the Fund with such information as the Fund requests in connection with the progress of Uganda in implementing the policies and reaching the objectives supported by the second annual arrangement.

4. In accordance with the attached letter, Uganda will consult with the Managing Director on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing

Director requests consultation because of deviations from any of the indicators under paragraph 2 above or because he considers that consultation on the program is desirable. These consultations may include correspondence and visits of officials of the Fund to Uganda or of representatives of Uganda to the Fund.

Attachments

Kampala, August 25, 1988

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

Dear Mr. Camdessus:

1. During the three-year period from July 1, 1988 to June 30, 1991, the Government of Uganda is implementing a program of economic rehabilitation and development aimed at achieving a rapid overall economic recovery and setting the basis for sustainable economic development through export diversification, attaining a viable balance of payments position, increased capacity utilization, and promoting efficient import-substitution activities. This program updates and extends the three-year program for the period July 1, 1987-June 30, 1990 described in the policy framework paper (PFP) prepared in 1987.

2. In support of the objectives and policies for the three-year program (July 1, 1988-June 30, 1991) and the objectives and policies for the one-year program (July 1, 1988-June 30, 1989) described in the attached memorandum, Uganda hereby requests from the Fund the second annual arrangement under the three-year structural adjustment facility (SAF) approved by the Fund on June 15, 1987, in the amount available to Uganda.

3. The principal economic problems facing Uganda, and the objectives of the economic rehabilitation and structural adjustment program that will be followed during the three-year period ending June 30, 1991, are described in more detail in the updated policy framework paper for this period, prepared during February-July 1988 in collaboration with the staffs of the Fund and the World Bank.

4. The Government will remain in close contact with the staffs of the Fund and the Bank on developments and progress in implementing these policies, and the policy framework paper will continue to be updated annually as the three-year program is implemented. Uganda will provide the Fund with such information as the Fund requests in connection with its progress in implementing the policies and achieving the objectives of the program.

5. The Government believes that the policies set out in the attached Memorandum of Economic and Financial Policies are adequate to achieve the objectives of its program but will take any further measures that may become appropriate for this purpose. Uganda will consult with the Managing Director on the adoption of any measures that might be appropriate, at the initiative of the Government of Uganda or whenever the Managing Director requests such a consultation.

Yours sincerely,

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

Attachment

Memorandum on Economic and Financial Policies of the Government of the Republic of Uganda for the Period July 1, 1988-March 31, 1989

1. During the three-year period from July 1, 1988 to June 30, 1991 the Government of Uganda will implement a program of economic adjustment and rehabilitation aimed at continuing the economic recovery begun during the July-June fiscal year 1987/88, laying the foundation for sustained economic development through export diversification and an active stabilization policy, and reducing structural obstacles to improved economic performance. The principal economic problems facing Uganda and the objectives of the economic adjustment and rehabilitation program to be followed during this three-year period are described in the paper on medium-term economic and financial policy (PFP) prepared in collaboration with the staffs of the Fund and the World Bank. This memorandum provides a more detailed description of the macroeconomic and structural adjustment policies contained in the program, with emphasis on the second-year program covering the period July 1, 1988-June 30, 1989 (1988/89).

2. The proposed program for the three years 1988/89-1990/91 aims at achieving an annual growth rate for real GDP of about 5 percent, entailing an annual increase in real GDP per capita of about 2 percent. The annual rate of inflation, as measured by the average of the low- and middle-income consumer price indices, is expected to decline from an estimated 152 percent (May to May) during 1987/88 to about 60 percent in 1988/89, 45 percent in 1989/90, and 30 percent during 1990/91. Reflecting the large initial devaluation of the Uganda shilling in July 1988 the external current account deficit (excluding official transfers) would initially widen from an estimated 6.0 percent of GDP in 1987/88 to 9.0 percent of GDP in 1988/89, and contract subsequently to about 6.5 percent of GDP in 1991/92. On the whole the balance of payments would strengthen through some recovery in coffee export earnings, the expansion of other exports, the continuing rehabilitation of efficient import-substitution industries, and the restructuring of foreign debt. During 1988/89 Uganda's heavy debt service burden (excluding arrears), projected at about 50 percent of exports of goods and nonfactor services, will limit the expected reduction in external arrears and constrain the ability to increase gross reserves. Thereafter, as Uganda's debt service burden declines to 36 percent of exports of goods and nonfactor services in 1989/90 and to 27 percent in 1990/91, it should be possible to make further progress in these areas. By end-1990/91 Uganda would have eliminated its external payments arrears and increased its gross foreign reserves to about seven weeks' imports from the equivalent of four weeks of imports in June 1989.

3. These objectives will be pursued through the following policy and institutional measures: (1) the re-establishment and subsequent maintenance of an exchange rate that provides strong incentives for increased production and export diversification and is also consistent

with attaining budgetary objectives, a sustainable balance of payments, and an adequate reserve position over the medium term; (2) a budgetary policy that ensures a significant fiscal adjustment and a substantial reduction in the Government's net indebtedness to the domestic banking system over the three-year period 1988/89-1990/91; (3) improvements in tax administration and expenditure control aimed at facilitating the achievement of budgetary targets; (4) a reform of the civil service aimed at increasing productivity and allowing higher real salaries through a reduction in total employment; (5) a more effective monetary policy that includes periodic reviews of interest rates, in accordance with any revisions of the expected rate of inflation, other economic objectives, and control over private sector credit within program objectives; (6) reforms in the agricultural marketing system; (7) improved efficiency in the parastatal sector; (8) a carefully designed public investment program consistent with overall budgetary targets and aimed principally at economic rehabilitation; and (9) strengthened procedures for monitoring economic performance and coordinating information with the donor community. The following specific policy measures and institutional reforms have already been implemented or will be implemented during the period of the second-year program, July 1988-June 1989.

4. On July 1, 1988 the exchange rate of the Uganda shilling was depreciated from USh60 per U.S. dollar to USh 150 per U.S. dollar, a rate that is judged to have restored the competitiveness achieved by the May 1987 depreciation and improved the incentives for the production of export crops. To preserve the production incentives arising from this depreciation, the exchange rate will be reviewed at least quarterly, taking into account the effect on production in agriculture and industry, the budget, inflation, and social welfare. The thrust of these reviews would be, barring temporary unforeseen aberrations, to prevent an appreciation of the real effective exchange rate of the Uganda shilling from the July 1, 1988 level.

5. The Government intends to further improve the functioning of the open general licensing (OGL) system established in 1987/88 by streamlining the administrative procedures for processing applications. As the availability of foreign exchange improves, the Government will expand the coverage of the OGL system to include additional sectors and goods, including agricultural inputs. The pursuit of appropriate exchange rate, fiscal, and monetary policies will permit the Government, inter alia, to support the OGL system.

6. A major reduction in the fiscal deficit and improvement in public sector management are critical components of the Government's adjustment program. In particular, the budget provides for a reduction of ways and means advances by USh 1 billion during the financial year. In addition, the Government will deposit with the Bank of Uganda the local currency counterpart of all of its current foreign debt obligations and the bulk of its accumulated external arrears. Given the tightness of the foreign exchange cash flow, a significant reduction in external arrears is

unlikely, and accordingly a large part of the counterpart deposits will remain in the Bank of Uganda in the form of deposits awaiting externalization. Based on present estimates of foreign grants and loans, the 1988/89 budget deficit, measured on a commitment basis and including grants, will be USh 9.8 billion, equivalent to 1.3 percent of GDP, compared with an estimate of 3.7 percent of GDP during 1987/88. Total revenue and grants are budgeted at USh 81.7 billion, equivalent to 10.8 percent of GDP, of which tax revenue accounts for USh 50.9 billion. Among the major revenue measures are a 400 percent increase in the deposits toward corporate income tax required from a number of private firms and the extension of tax deposits to important classes of taxpayers, including tour operators and manufacturers' representatives, which together with higher tax-related fines and penalties is projected to increase budgetary revenues by about USh 3 billion. Retail prices for petroleum products have been increased by 84 percent for premium, 181 percent for kerosene, and 85 percent for diesel fuel, which in combination with an envisaged rise in sales is estimated to increase petroleum duties by USh 1.2 billion. The commercial transactions levy has been extended to all restaurants and eating places in Kampala and other municipalities at a rate of 10 percent, contributing to a projected revenue gain of USh 0.2 billion. In addition, a number of nontax items, including road fees and licenses, driver's permits, and the commission on imports have been raised, contributing to an expected revenue increase of USh 0.4 billion for these items. Total expenditure is budgeted at USh 91.5 billion, representing current expenditure of USh 50.1 billion and development expenditure of USh 41.4 billion. The expenditures budgeted reflect decisive actions in a number of areas. These include a 30 percent reduction in the number of casual workers; the decision by the Government to disengage the Ministries of Agriculture and Animal Industry from the importation and distribution of a range of agricultural and veterinary items (a saving of USh 6 billion); the establishment of a Central Supplies Directorate to curb excessive decentralization of Government purchases (a saving of USh 1.0 billion); curbs on both internal and external travel by government employees; and curbs on purchases of new vehicles, office furniture and equipment, construction of new houses by Government, renovation of office buildings, and curbs on purchases of certain other materials and supplies. After taking into account the planned reduction in budgetary arrears, the overall budget deficit on a cash basis and including grants will be USh 25.1 billion, equivalent to 3.3 percent of GDP. Net foreign financing is estimated at USh 25.6 billion, comprising disbursements of USh 33.5 billion and debt relief from the Paris Club of USh 2.7 billion, less amortization payments of U Sh 10.6 billion.

7. Much of the improvement in revenue performance during 1988/89 will result from the favorable effect of exchange rate action on coffee export tax receipts. Tax revenues from petroleum products, beer, cigarettes, and soft drinks remain important components of revenue. To assess the scope for broadening the tax base and to rationalize the existing tax structure, however, during 1988/89 the Government is undertaking a comprehensive review of the present import tariffs and

domestic tax system. This review, to be conducted by a team of tax experts, will be completed in time for its recommendations to be incorporated into the 1989/90 budget.

8. Because the present scale of government expenditure exceeds Uganda's current revenue capacity, the Government has undertaken a careful review of current expenditure in preparing the 1988/89 budget, to curb overall expenditure. This is in spite of the very heavy demands of the ongoing rehabilitation activities and the need to continue relief activities in the North and East of the Country. In addition, the Government would be ready to make further adjustments in current expenditure should budgetary financing be falling short of the currently envisaged level. As regards development expenditure, the Government has agreed with the World Bank on the size and composition of the public investment program for the period 1988/89-1990/91. In coordination with the World Bank the Government will review and update this program early in 1989 to cover the period 1989/90-1991/92.

9. The Government attaches great importance to its administrative system as a way of ensuring that budgetary performance is consistent with its economic program. Accordingly, the improvements already made in tax administration and expenditure control during 1987/88 will be continued. To supplement these achievements the Government, with World Bank support, will institute by end-1989 an automated system of information exchange covering the income tax, customs and excise, and inland revenue departments, so that one department can benefit from the information made available to another, particularly as regards imports, including imports made with "own" foreign exchange. In addition, each month the Ministry of Finance will report on trends in revenue and expenditure and update the budgetary forecast.

10. In addition to the above measures, the Government has moved to rationalize procurement operations by establishing a Central Supplies Directorate. The Government is also extending to the remainder of the Central Government the review of the civil service initiated in 1987/88, with a view to rationalizing government employment and identifying staffing and training needs. While this project is underway the Government intends to follow a cautious recruitment policy, concentrating its recruitment to areas where critical shortages exist. In addition, by end-1988 the Government will prepare a proposal for streamlining and controlling the recruitment of group employees. An action plan for reducing the number of these employees by 30 percent in 1988/89 has been adopted.

11. The Government is continuing its program of public enterprise divestiture and rehabilitation and is strengthening the capacity of the Uganda Development Corporation (UDC) to rehabilitate the enterprises retained in its portfolio. In addition, to strengthen the remaining enterprises in the sector the Government has decided to select ten enterprises for diagnostic study, to provide a framework for enterprise rehabilitation and reform. Furthermore, the Government has decided to

establish an audit corporation for monitoring the financial activities of parastatal enterprises.

12. To reduce inflation and create an economic environment conducive to long-term rehabilitation and economic growth, the Government is committed to pursuing a prudent monetary and credit policy that contains the overall expansion of domestic credit while providing sufficient financing for productive activities. In addition to restraining bank borrowing by the Government, the Bank of Uganda is committed to keeping the expansion of private sector credit within program targets. To this end, to encourage savings and to attract funds into the banking system, interest rates were, effective July 1, 1988, increased across-the-board by 10 percentage points. These rates will be kept under review in light of the trend of inflation, with the objective of encouraging savings and improving efficiency in credit allocation. The successful pursuit of the monetary objective of the program will call for active monitoring of monetary and credit developments and the use of monetary and credit instruments throughout the program period. The Bank of Uganda is now reviewing existing instruments for monetary and credit control and will examine alternative credit control measures by end-1988.

13. In view of the large variance in loan-to-deposit ratios among the various banks and the large increase in private sector credit during 1987/88, the Government is undertaking a study of the commercial banking system, including an assessment of the adequacy of the capital base, managerial and accounting practices, and provisions for bank supervision and regulation. This study is scheduled to be completed early in 1989, with the aim of establishing new supervisory and regulatory procedures by end-June 1989.

14. Regarding sectoral credit issues, during 1988/89 the Government intends to intensify and broaden its program for strengthening the financial accountability of the agricultural cooperative unions, many of which remain unable to borrow directly from the commercial banks. The Government will also review the on-lending operations of the Coffee Marketing Board, to ensure that they are consistent both with overall credit targets and with a rationalization of credit to the agricultural sector. In collaboration with the World Bank, the Government will prepare an Agricultural Credit Strategy Paper as a background for establishing a more comprehensive institutional and policy framework for agricultural credit operations. This study will include, among other items, a review and assessment of recent trends in noncrop-finance-related agricultural credit during 1987/88 and mechanisms for rationalizing and restraining the growth of agricultural credit among the various parties involved in the production and marketing of export crops.

15. With the exception of petroleum products, public utility tariffs, and producer prices for a limited range of export and food crops, the Government's general policy is to allow domestic prices to be freely determined by the market. Because of supply constraints, however,

controls also apply to a few other products, for which pricing decisions are subject to the approval of the Ministries of Finance, Industry, and Commerce. The Government intends to gradually remove these other price controls as supply constraints ease. As regards petroleum products, the Government will continue its present pricing strategy, whereby, without ruling out cross-subsidization among products, prices reflect overall landed and distribution costs, plus a duty element to mobilize government revenue. These prices will be adjusted regularly to reflect changes in foreign exchange and domestic costs. Public utility tariffs will likewise be adjusted periodically to reflect the prevailing domestic and foreign exchange costs.

16. The Government is committed to maintaining adequate incentives for agricultural producers and will continue to review regularly prices for export crops, following a procedure whereby prices are announced twice yearly, after consultation with the World Bank. To this end, on July 1, 1988 the following producer prices were introduced for unprocessed crops: for (kiboko) robusta coffee, USh 60 per kg, an increase from USh 29 per kg; for tea, USh 20 per kg, an increase from USh 10 per kg; and for (AR) cotton, USh 80 per kg, an increase from USh 32 per kg.

17. To facilitate program implementation and improve the Government's resources for formulating and managing economic policy, a monitoring committee composed of representatives of the Ministries of Finance and Planning and the Bank of Uganda has been established, to review developments on a monthly basis and make a report to the Minister of Finance for appropriate action. The Economic Analysis Unit (EAU) in the Ministry of Finance, which is being strengthened, will serve as a Secretariat to the Monitoring Committee. In this connection beginning end-July 1988 the EAU will prepare for the Monitoring Committee a brief monthly report on the status of implementation of the Government's 1988/89 economic program. This report will incorporate information on government revenue, expenditure, and budgetary financing, as well as developments in prices, exports, and the exchange rate; provide a synopsis of monetary and credit developments; and include an analysis of the Bank of Uganda's foreign exchange budget. In addition to the work of the EAU, the Government has strengthened the existing donor coordination unit in the Ministry of Planning. Beginning end-July 1988 this unit will provide the Ministry of Planning with regular reports containing the latest available information on the receipt and use of foreign assistance in Uganda. It will also coordinate with the EAU and the budget monitoring units in the Ministry of Finance in tracking development expenditure. Beginning in July 1988 this unit will also serve as a clearinghouse for donors regarding existing development projects and assist in coordinating information on the public investment program.

18. The program for 1988/89 is estimated to require an import level of US$675 million, while exports are projected at US$343 million. The overall balance of payments is projected to be in surplus by some US$35 million. Taking into account the objective of increasing the gross

foreign exchange reserves of the Bank of Uganda by about US$20 million, a US$10 million reduction of the stock of external arrears (estimated at US$130 million after the payment of overdue Fund obligations on August 25, 1988), and financial obligations to the Fund, the external financing gap for 1988/89 is projected to be about US$75 million. The Government will seek to fill this gap through rescheduling and the use of the second loan under the SAF. In addition, approaches will be made to donors for assistance not yet committed firmly enough to be included in the present estimates of external financing, in order to facilitate a possible strengthening of import capacity and the reserve position.

19. During 1988/89 progress will be monitored via the following quantitative benchmarks (see attached table):

a. To monitor credit and monetary developments quarterly benchmarks have been established for net domestic credit and net bank credit to Government. The expansion in net domestic credit of the banking system from end-June 1988 will be limited to U Sh 3.5 billion through end-September 1988, to U Sh 5.5 billion through end-December 1988, to U Sh 7.5 billion through end-March 1989, and to U Sh 8.6 billion through end-June 1989. In addition, relative to the position at end-June 1988 net credit to Government from the domestic banking system is to record a cumulative decrease of U Sh 1.0 billion at end-September 1988, U Sh 2.0 billion at end-December 1988, U Sh 3.0 billion at end-March 1989, and U Sh 5.0 billion at end-June 1989. Also as a benchmark, gross international reserves of the Bank of Uganda from end-June 1988 are to increase by US$10 million by end-March 1989 and US$20 million by end-June 1989. In addition, relative to the position at end-June 1988 external arrears are, as a result of debt rescheduling, to decrease by US$10 million by end-September 1988 and remain at or below the end-September 1988 level as of end-December 1988, end-March 1989, and end-June 1989. Broad money, which is not a program benchmark, is expected to increase by 68 percent from end-June 1988 to end-June 1989, which is broadly in line with the 60 percent rise in consumer prices and 5 percent real growth in GDP envisaged during the year.

b. A limit of USh 9.8 billion has been set on the 1988/89 government budget deficit, as measured on a commitment basis and including grants. In addition, benchmarks have been established for central government tax receipts and current expenditure, as indicated in the attached table.

c. New nonconcessional foreign borrowing by the public sector will be limited as follows: the Government and the Bank of Uganda will neither contract, guarantee, nor receive disbursements of an aggregate amount of external borrowing on nonconcessional terms (DAC definition) in excess of US$10 million with an initial maturity of up to and including 15 years. This restriction excludes advance sales of export products, normal trade credits with a maturity of less than 1 year, and obligations undertaken as a result of debt rescheduling.

20. Policy implementation will also be followed closely, with the following considered as policy benchmarks: (1) the periodic reviews of the exchange rate described in paragraph 4; (2) completion of the comprehensive review of customs duties and the domestic tax system described in paragraph 7; (3) implementation and maintenance of the interest rate policies described in paragraph 12; and (4) the reviews in agricultural producer prices called for in paragraph 16.

21. 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.

Table 9. Uganda: Quantitative Benchmarks for the Second-Year Arrangement Under the Structural Adjustment Facility
September 1988-June 1989

	1988		1989	
	Sept.	Dec.	Mar.	June
	(In billions of Uganda shillings; end of period)			
Cumulative change at end of period in				
Net domestic credit	3.5	5.5	7.5	8.6
Net bank credit to Government	-1.0	-2.0	-3.0	-5.0
Overall budget deficit on a commitment basis and including grants	...	...	...	9.8
Tax revenue	...	...	...	50.9
Current expenditure 1/	...	...	...	50.1
	(In millions of U.S. dollars)			
Cumulative change at end of period in				
New nonconcessional borrowing, excluding advance coffee sales, short-term trade credits, and borrowing under debt rescheduling	5	5	10	10
External payments arrears	-10	-10	-10	-10
Gross foreign reserves	--	--	10	20

1/ Fund staff classification.

UGANDA - Relations with the Fund
(As of July 31, 1988)

I. Membership Status

(a) Date of membership:	September 27, 1963
(b) Status:	Article XIV

A. Financial Relations

II. General Department (General Resources Account)

(a) Quota:	SDR 99.6 million
(b) Total Fund holdings:	SDR 258.0 million (259.1 percent of quota)
(c) Fund credit:	SDR 158.4 million (159.1 percent of quota)
Of which:	
Credit tranches	None
Enlarged access	SDR 108.6 million (109.1 percent of quota)
Compensatory Financing Facility (exports)	SDR 49.8 million (50.0 percent of quota)
(d) Reserve tranche position:	--

III. Financial Arrangements and Special Facilities

(a) Current arrangement:
Arrangements under the structural adjustment facility

(i) Duration	June 15, 1987-June 14, 1990
(ii) Amount	SDR 63.246 million
(iii) Utilization	SDR 19.92 million

(b) 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	--

UGANDA - Relations with the Fund (continued)
(As of July 31, 1988)

(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	--

(c) 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:	None
(c) Current designation plan:	None

V. Administered Accounts

(a) Trust Fund	
(i) Disbursed:	SDR 22.5 million
(ii) Outstanding:	SDR 9.8 million

VI. Overdue Obligations to the Fund:

(As of July 31, 1988)	SDR 20.0 million

B. Nonfinancial Relations

VII. Exchange Rate Arrangement:

Since July 1, 1988, the Uganda shilling has been pegged to the U.S. dollar at the rate of U Sh 150 per U.S. dollar.

UGANDA - Relations with the Fund (continued)
(As of June 30, 1988)

VIII. (a) Last Article IV consultation discussions (standard 12-month cycle) were conducted in March 1987, and concluded on June 15, 1987. 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 3, and in concluding the 1987 Article XIV consultation with Uganda and in the light of the 1987 Article IV consultation with Uganda under Decision No. 5392-(77/63), adopted April 29, 1977 ("Surveillance over Exchange Rate Policies").

2. Uganda maintains the restrictive exchange measures described in SM/87/127, in accordance with Article XIV, Section 2, except that the restrictions evidenced by the allocation of foreign exchange and by the accumulation of new external payments arrears are subject to approval by the Fund under Article VIII, Section 2(a). The Fund notes the intention of Uganda to liberalize these restrictions, encourages the authorities to remove them as soon as possible, and, in the meantime, grants approval for their retention until December 31, 1987.

(b) Last staff visit, to discuss performance under the first-year SAF arrangement and assess the case for a CFF purchase, was held during October 14-28, 1987.

IX. Consultation Cycle

A consultation cycle of 12 months was indicated in the summing up of the 1986 and 1987 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:

(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);

UGANDA - Relations with the Fund (continued)
(As of June 30, 1988)

(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);

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

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

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

UGANDA - Relations with the Fund (continued)
(As of June 30, 1988)

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, FAD missions have visited Uganda as under:

(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).

(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 BOP statistics (January 10-24, 1983);

UGANDA - Relations with the Fund (continued)
(As of June 30, 1988)

(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)

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.

Uganda--Statistical Issues

1. Outstanding statistical issues

a. Real sector

With technical assistance from the World Bank the Ugandan authorities began compiling data on gross domestic product at current market prices in early 1988. Data for real GDP are still based on 1966 prices. A recent general economic data mission from the Bureau of Statistics recommended that the constant price series should be rebased at the prices of a recent year, and that the consumer price indices should be revised following the completion of an updated household expenditure survey.

So far as customs-based trade data are concerned, these are available in computer printouts up to 1984, and the 1985 data are being processed. There is a need to systematize procedures for the verification of the data. Despite incompleteness of coverage, the Statistics Department could make use of these data, particularly in compiling unit value indices.

b. Government finance

The 1987 Government Finance Statistics Yearbook includes data in the statistical and derivation tables for the budgetary central government through 1984 and provisional data for 1985 and 1986. It also includes data on revenue and expenditure for local governments for the years 1980 through 1983. There is a need to expand the coverage of the central government data by including data for the extrabudgetary units and the Social Security Fund. It is also important to include central government data on the economic classification of expenditure in order to improve the presentation for Uganda in the Yearbook. The annual time series in IFS correspond with the data in the GFS Yearbook. Monthly and quarterly data are not reported.

c. Monetary accounts

During the past year, the authorities have reported only limited statistical data in the money and banking area other than on exchange rates and interest rates to the Bureau of Statistics. Data on the deposit money banks accounts were recently reported for the months of July 1987 through March 1988.

(i) Outstanding issues

A technical assistance mission visited Uganda in October 1987 and a report on the findings of this mission has been sent to the authorities. The report notes that two major problems inhibit the derivation of accurate and current money and banking statistics; these

UGANDA - Relations with the Fund (continued)
(As of June 30, 1988)

(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);

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(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)

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

UGANDA - Relations with the Fund (concluded)
(As of June 30, 1988)

(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. He was preceded by another staff member, Mr. Z. Ebrahim-zadeh, who served as resident representative during September 1984-November 1987.

Uganda: Outstanding IDA Credits by Sector 1/

(As of May 30, 1988; in millions of U.S. dollars)

	Total	Disbursed	Undisbursed
Agriculture	133.37	51.44	81.88
Education	32.00	31.76	0.24
Water supply and sanitation	28.00	17.69	10.31
Transport and communications	76.00	6.14	69.86
Power and energy	47.89	4.59	43.30
Industry	35.00	20.01	14.99
Reconstruction 2/	89.00	39.01	49.99
Technical assistance	15.00	7.28	7.72
Total 3/	456.26	177.97	278.29

Source: Data provided by the World Bank.

1/ Uganda's IBRD loans have all been fully disbursed.
2/ Includes economic recovery credits.
3/ Excludes completed IDA credits of US$283.45 million.

Uganda--Statistical Issues

1. Outstanding statistical issues

a. Real sector

With technical assistance from the World Bank the Ugandan authorities began compiling data on gross domestic product at current market prices in early 1988. Data for real GDP are still based on 1966 prices. A recent general economic data mission from the Bureau of Statistics recommended that the constant price series should be rebased at the prices of a recent year, and that the consumer price indices should be revised following the completion of an updated household expenditure survey.

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The 1987 Government Finance Statistics Yearbook includes data in the statistical and derivation tables for the budgetary central government through 1984 and provisional data for 1985 and 1986. It also includes data on revenue and expenditure for local governments for the years 1980 through 1983. There is a need to expand the coverage of the central government data by including data for the extrabudgetary units and the Social Security Fund. It is also important to include central government data on the economic classification of expenditure in order to improve the presentation for Uganda in the Yearbook. The annual time series in IFS correspond with the data in the GFS Yearbook. Monthly and quarterly data are not reported.

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During the past year, the authorities have reported only limited statistical data in the money and banking area other than on exchange rates and interest rates to the Bureau of Statistics. Data on the deposit money banks accounts were recently reported for the months of July 1987 through March 1988.

(i) Outstanding issues

A technical assistance mission visited Uganda in October 1987 and a report on the findings of this mission has been sent to the authorities. The report notes that two major problems inhibit the derivation of accurate and current money and banking statistics; these are: (1) the inability of the staff of the Accounts Department of the Bank of Uganda to prepare current monthly balance sheets for that institution; and (2) the consequent reliance on Foreign Exchange Operations Department records to derive estimates of the Bank of Uganda's net foreign assets. The report contains proposals to overcome these difficulties. Data on the Bank of Uganda's accounts have not been reported to the Bureau of Statistics beyond December 1986. Data on the net foreign assets of the Bank of Uganda used in the report have been compiled by the staff.

d. Balance of payments and external debt

A report on the technical assistance mission to Uganda was sent to the Director, Research Department, Bank of Uganda in June 1987. No comments have so far been received on the report. The External Debt Management Office (EDMO) of the Bank of Uganda maintains comprehensive data on debt service obligations and external payments arrears although the latter are frequently available only with a lag of several months.

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 July 1988 issue of *IFS*. Real sector and other financial data have been provided primarily via the Fund's African Department, since the data provided by the Bank of Uganda have generally been limited to information on exchange rates and interest rates. Balance of payments data are based on reports sent to the Fund's Bureau of Statistics by the Bank of Uganda, which during the past year have been provided on an infrequent basis.

Status of IFS Data

		Latest Data in July 1988 IFS
Real Sector	-National Accounts	1985 (constant prices)
	-Prices	April 1988
	-Production	n.a.
	-Employment	n.a.
	-Earnings	n.a.
Government Finance	-Deficit/Surplus	1986 1/
	-Financing	1986 1/
	-Debt: Domestic	1986 1/
	Foreign	1982 1/
Monetary Accounts	-Monetary Authorities	Dec. 1986
	-Deposit Money Banks	July 1987 2/
	-Other Financial Institutions	n.a.
Interest Rates	-Discount Rate	March 1987
	-Bank Lending/ Deposit Rate	March 1987
	-Government Bond Yield	June 1987
External Sector	-Merchandise Trade:	
	Values: Exports	1984
	coffee	Q2 1986
	Imports	1980
	Unit value of exports:	
	coffee	Q1 1985
	-Balance of payments	1986
	-International Reserves	Dec. 1987
	-Exchange Rates	March 1988

1/ Provisional data. Fiscal year ending June 30.
2/ The August 1988 issue will carry data for the deposit money banks through March 1988.

UGANDA--Basic Data

Area, population, and GDP per capita

Area:	241,139 square kilometers
Population (1987):	
Total	16.0 million
Growth rate	3.0 percent (1973 to 1985)
GDP per capita (1987):	US$225

	1983	1984	1985	1986	1987
National Accounts	(In millions of Uganda shillings)				
GDP at factor cost (at 1966 prices)	7,171	6,787	6,715	6,643	6,838
Agriculture, forestry, and fishing	4,050	3,619	3,486	3,318	3,413
Manufacturing	290	300	267	235	248
Construction	32	34	39	43	49
Commerce	575	533	574	551	576
Government	909	923	932	941	950
	(In percent)				
Annual real rate of growth	4.3	-5.4	-1.0	-1.1	-2.9

	1983/84	1984/85	1985/86	1986/87	1987/88 Est.
Price movements	(Percentage change from the previous year) 1/				
Cost of living:					
GDP deflator 2/	40	107	127	260	181
Cost of living index	29	100	130	256	189

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 Staff Est.
Central government finance			(In millions of Uganda shillings)		
Revenue and grants	974	1,689	3,350	6,433	19,326
Of which: revenue	(929)	(1,621)	(2,846)	(5,871)	(15,413)
Expenditure	1,154	2,397	4,723	11,433	27,768
Current	(695)	(1,568)	(3,517)	(7,290)	(14,967)
Development	(129)	(349)	(1,206)	(4,143)	(11,505)
Unallocated	(330)	(480)	(--)	(--)	(1,296)
Overall deficit (commitment basis)	-180	-698	-1,690	-4,065	-8,442
Change in arrears	-84	63	317	193	-744
Overall deficit (cash basis)	-264	-635	-1,373	-3,872	-9,186
Financing	264	635	1,373	3,872	9,186
Foreign (net)	(30)	(96)	(432)	(1,184)	(4,838)
Domestic (net)	(234)	(539)	(94)	(2,684)	(4,348)
Of which: banking system	[-27]	[556]	[572]	[3,077]	[4,458]
			(In percent of GDP)		
Revenue and grants	14.0	12.5	11.0	5.8	6.2
Expenditure	16.6	17.7	15.5	10.4	9.0
Overall deficit (commitment basis)	-2.6	-5.2	-5.6	-3.7	-2.7
			(Annual percentage change) 3/		
Money and credit					
Domestic credit (net)	34	145	82	107	135
Government (net)	(-4)	(72)	(31)	(68)	(51)
Nongovernment	(38)	(73)	(51)	(39)	(84)
Money plus quasi-money	62	139	148	96	167

1/ Fiscal year (July-June)
2/ Data for fist nine months.
3/ As percent of broad money at the beginning of the period.

UGANDA--Basic Data (continued)

Balance of payments	1983/84	1984/85	1985/86	1986/87	1987/88 1/
	(In millions of U.S. dollars)				
Exports, f.o.b.	378	383	379	383	303
Imports, c.i.f.	-368	-391	-379	-494	-606
Trade balance	10	-8	1	-111	-303
Services (net)	-105	-112	-101	-111	-129
Unrequited transfers (net)	97	104	132	140	228
Current account balance	3	-15	31	-82	-205
Capital account balance	71	69	-8	11	142
Overall balance	73	55	24	71	48
Financing	-73	-55	-24	-71	-48
Of which:					
Monetary authorities (net)	-52	-48	-38	21	-31
Exceptional financing	42	53	--	--	105
External arrears (reduction -)	-63	-59	19	39	37
Current account balance as percent of GDP	0.1	-0.5	1.1	-1.0	-4.0
Gross foreign reserves					
(end of period)	95	63	64	31	35
(in months of imports)	3.1	1.9	2.0	0.8	0.7
External public debt					
Disbursed and outstanding (end of period) 1/	1,257.9	1,140.6	1,127.1	1,206.0	1,416.8
Debt service ratio (as percent of exports of goods and nonfactor services)	41.3	46.9	52.1	54.2	53.5 2/
Excluding the Fund	29.7	24.3	22.3	27.5	22.1
IMF	11.6	22.6	29.8	26.7	31.4

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

UGANDA - Basic Data (concluded)

Social and demographic indicators

Population density (1987)	66 per square km
Population characteristics (1986)	
Life expectancy at birth (years)	48
Infant mortality (per 1,000 births)	105
Health	
Population per physican (1981)	21,270
Population per nurse -----	2,000
Daily calorie supply (1985)	2,483
Education (1965)	
Primary school enrollment (percent)	67
Secondary school enrollment (percent)	4