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January 14, 1985

To: Members of the Executive Board

From: The Secretary

Subject: Uganda - Staff Report for the 1984 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1984 Article IV consultation with Uganda. A draft decision appears on page 25.

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

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Basu (ext. 6511) or Mr. Faria (ext. 6515).

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UGANDA

Staff Report for the 1984 Article IV Consultation

Prepared by the Staff Representatives for the 1984
Consultation with Uganda

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

Approved by A. Ouattara and W.A. Beveridge

January 14, 1985

I. Introduction

The 1984 Article IV consultation discussions with Uganda were held in Kampala during the period October 22-November 3, 1984. The Ugandan representatives included Ambassador E. Kamuntu of the Ministry of Finance; Mr. L. Kibirango, Governor of the Bank of Uganda (BOU); and other senior officials of ministries and agencies concerned with economic and financial matters. The staff team consisted of Messrs. A. Basu (head-AFR), E. Martey (AFR), A Faria (AFR), O. Pettersen (FAD), J. Guzman (ETR), and Miss E. Whitely (secretary-RES). The mission was assisted by Mr. Z. Ebrahim-zadeh, the Fund's Resident Representative in Uganda.

The last one-year stand-by arrangement (SDR 95 million or 95.4 percent of quota), which was the third since May 1981, supported a financial program that covered the fiscal year 1983/84 (July-June). The Fund's holdings of Ugandan currency subject to repurchase, excluding those resulting from purchases under the special facilities, amounted to SDR 284.52 million (285.58 percent of quota) by end-December 1984.

Since the adjustment effort was begun in May 1981, the World Bank group has assisted Uganda with three successive IDA reconstruction credits (of US$95 million, US$75 million, and US$50 million, respectively). These credits were granted for the importation of essential inputs, spare parts, and equipment. Under the most recent IDA reconstruction credit, the World Bank will also be assisting the Ugandan authorities with periodic reviews of agricultural producer price policies and with financial studies and the formulation of appropriate reform measures in the parastatal sector. In addition, the World Bank has various sectoral lending operations in Uganda in such key areas as transportation, agriculture, and industry.

Uganda has benefited from extensive technical assistance from the Fund in several areas. Currently, five CBD experts are attached to the Bank of Uganda in various managerial and/or advisory capacities. Since

August 1983 several FAD technical assistance missions have visited Uganda to recommend ways of improving the tax system.

Uganda continues to avail itself of the transitional arrangements of Article XIV. A summary of Uganda's relations with the Fund is presented in Appendix I. A summary of Uganda's relations with the World Bank and economic and financial data are contained in Appendix II.

II. Recent Economic Developments

After almost a decade of continuous deterioration, Uganda's economic and financial situation improved during the two fiscal years 1981/82-1982/83 (July-June). Reflecting increases in both agricultural and industrial production, real gross domestic product (GDP) grew at an average annual rate of 7 percent (Table 1). On a commitment basis, the deficit in central government operations 1/ declined from over 8 percent of GDP in 1980/81 to 4.2 percent in 1982/83. Largely reflecting a sharp rise in real exports (nearly 34 percent annually), the imbalance in the external current account decreased from US$227 million (4.6 percent of GDP) in 1980/81 to US$98 million (2.6 percent of GDP) in 1982/83. With reductions in the overall balance of payments deficit and the use of Fund resources under two successive stand-by arrangements, Uganda was able to reduce its outstanding external arrears from US$163 million in June 1981 to US$120 million in June 1983.

During 1981/82-1982/83, along with efforts to improve domestic security conditions, the Ugandan authorities implemented two successive financial programs to establish an environment more conducive to economic recovery. The adjustment effort was begun at a time when parallel markets for goods and foreign exchange were widespread, and most official prices were much lower than the corresponding free market prices. In these circumstances, the exchange rate was devalued by 90 percent in June 1981 to U Sh 77 per U.S. dollar, and subsequently depreciated further to U Sh 96 per U.S. dollar by end June 1982. 2/ In real terms, the import-weighted effective depreciation was 76 percent during this period. Although the size of the parallel market and the differential between the parallel and official exchange rates narrowed, 3/ in August 1982 a temporary dual exchange rate system was introduced to improve the mechanism for foreign exchange allocation and to facilitate the determination of an unified equilibrium exchange rate. During 1982/83 on the basis of a weighted average of the dual rates, the import-weighted effective exchange rate index depreciated further by 37 percent in nominal terms and by 25 percent in real terms.

1/ Including expenditures financed by identified domestic arrears.

2/ All exchange rate depreciations are expressed in foreign currency terms.

3/ The ratio between the parallel and official exchange rates is reported to have declined from 30 to 3.6.

Table 1. Uganda: Selected Economic and Financial Indicators, 1981/82-1983/84

	1981/82	1982/83	1983/84	
	Actual	Actual	Program	Actual
	(Annual percent changes, unless otherwise specified)			
National income and prices				
GDP at constant prices	6	8	5-7	6
Consumer prices (annual average)	106	27	20-25	20
External sector (on the basis of U.S. dollars)				
Exports, f.o.b.	38	20	15	8
Imports, c.i.f.	-2	7	30	-5
Non-oil imports, c.i.f.	14	14	32	-
Export volume	52	15	10	-12
Import volume	-3	12	16	-4
Terms of trade (deterioration -)	-3	11	...	22
Nominal effective exchange rate (depreciation -) 1/	-86	-37	...	-40
Real effective exchange rate (depreciation -)	-72	-25	...	-33
Government budget				
Revenue (excluding grants)	796	116	46	77
Revenue (including grants)	746	91	60	83
Total expenditure	284	39	38	57
Money and credit				
Domestic credit	83	48	28	18
Government	65	34	11	-7
Private sector	143	80	54	60
Money and quasi-money (M2)	60	47	24	61
Velocity (GDP relative to M2)	9	10	13	8
Interest rate (annual rate, one-year savings deposit)	12	13	15	17
	(In percent of GDP) 2/			
Central government budget deficit 3/	8.2	4.2	2.8	2.8
Domestic bank financing	4.4	2.4	-0.4	-0.5
Foreign financing (net)	0.3	0.8	2.4	0.5
Current account deficit 4/ (-) or surplus	-2.8	-2.6	-5.7	-1.2
External debt				
Exclusive of use of Fund credit	13.8	16.8	29.7	21.5
Debt service ratio 5/	27.0	28.6	34.0	38.2
Interest payments 5/	7.1	10.6	9.2	25.1
	(In millions of U.S. dollars)			
Overall balance of payments	-154	-83	-19	44
External payments arrears (at end of period)	157	120	30	62
Gross reserves (end of period)	34	34	75	96

1/ Data on exchange rate indices are shown in Appendix Table IV.
2/ The following ratios should be treated with caution owing to the tentative nature of the GDP estimates.
3/ On commitment basis.
4/ Includes grants.
5/ In percent of exports of goods and services and including debt services to IMF.

With the exchange rate depreciations, most ex-factory prices were freed from controls, and substantial increases were implemented for agricultural producer prices, retail prices of petroleum products, and public utility tariffs. The higher producer prices helped to stimulate export production and reduce unofficial exports. The adjustments in the retail prices of petroleum products also reduced smuggling and increased their availability in the country. With the increases in their tariffs, the public utilities improved their financial position. Flexible exchange rate and price policies contributed importantly to improving fiscal performance, mainly by boosting revenues from foreign trade and containing growth in subsidy payments. These developments and periodic increases in interest rates helped to achieve the programmed domestic credit and monetary targets; although the Government built up arrears as it was not able to restrain sufficiently expenditure commitments.

While there was some further recovery of output and exports and a continued improvement in the balance of payments, during 1983/84 and the early months of 1984/85 the domestic security situation worsened, fiscal performance deteriorated and expansionary financial policies led to a marked increase in the inflation rate and to a more rapid depreciation of the auction-determined exchange rate. The expansionary fiscal and monetary pressures apparent during 1983/84, and exacerbated subsequently by large wage increases granted under the 1984/85 budget, were manifested in several ways. In an attempt to keep within the overall government credit ceilings the Government resorted in 1983/84 to unprogrammed domestic borrowing from the public enterprise sector (which in turn borrowed short term from abroad), and accumulated new domestic arrears. The target for total domestic credit was exceeded by end-June 1984, and subsequently in the first quarter of 1984/85, as fiscal performance deteriorated markedly, and domestic credit and broad money increased very sharply. Though the nominal interest rates and the retail prices of petroleum products were raised in June 1984, in subsequent months, with more rapid rates of inflation and exchange rate depreciation, interest rates turned substantially negative in real terms, and most officially controlled prices 1/ were overtaken by increases in costs. Moreover, in June and November of 1984, new restrictions were introduced on the auction-determined exchange system.

The continuation of expansionary policies, the new restrictions on the exchange system, and delays in adjusting official prices were the major reasons why the 1983/84 program could not be set back on track and the end-June mandatory review could therefore not be completed. Hence, under the 1983/84 stand-by arrangement, Uganda made only three purchases totaling SDR 65 million. The absence of corrective action has so far delayed the implementation of a program for 1984/85 which could be supported by Fund resources.

1/ Including petroleum prices and public utility tariffs.

a. Developments and performance under the 1983/84 program

During 1983/84, the growth rate of real GDP dropped from 8 percent to 6 percent. Moreover, despite the past three years of output growth, the production levels in agriculture remained well below the peak levels of the early 1970s, and the rate of capacity utilization in industry averaged only about 22 percent.

Under the 1983/84 program the Ugandan authorities continued to rely on flexible exchange rate policies. Over the fiscal year the auction-determined second window rate depreciated by 12.5 percent to U Sh 320 per U.S. dollar, and concurrently, the first window rate was depreciated by 53.7 percent to achieve unification on June 15, 1984. The effective exchange rate is estimated to have depreciated by 40 percent in nominal terms and by 33 percent in real terms. The ratio of the parallel market and official exchange rates narrowed further from 1.6 to 1.3, and transactions through the parallel market were reduced mainly to capital outflows.

Several measures were taken during the year to reduce the Government's share of, and increase the nongovernment sector's access to, the second window foreign exchange sales. Steps were taken to simplify and reduce delays in import licensing procedures. Nevertheless, Uganda continued to maintain restrictions on payments and transfers for current international transactions. Arrears on current transactions were reduced. Uganda maintained no bilateral payments agreements; and no new restrictions were introduced until the day of the unification (June 15, 1984), when a new measure was implemented requiring after each auction, bidders whose bid rates are above the auction-clearing rate to be refunded the difference in the form of nonrediscountable 91-day Treasury bills, instead of, as previously, in cash.

Along with the changes in the exchange rate system, during 1983/84 periodic adjustments were made in domestic pricing policies. To strengthen agricultural production incentives, the minimum producer prices of the major export crops were raised on three occasions; the cumulative increases ranged between 200-225 percent for tea and cocoa, and between 75-189 percent for coffee, cotton and tobacco. To cover import costs and provide a targeted amount of budgetary revenues, the retail prices of petroleum products were also increased on three occasions; the cumulative increases ranged between 27-88 percent for kerosene, diesel fuel, and premium and regular gasoline. Finally, the tariffs of the major public utilities (including those for railways, road transport, airlines, electricity, and posts and telecommumications) were increased to reflect further increases in import and other operating costs. However, despite the periodic adjustments, during the second half of 1983/84 the prices of petroleum products and public utility tariffs were overtaken by rising unit costs.

On a commitment basis, in 1983/84 the preliminary estimate of the overall fiscal deficit (U Sh 17.5 billion or 2.8 percent of GDP) was close to the program target. While identified domestic arrears accumulated in previous years were reduced by more than programmed (by U Sh 8.4 billion), there were new domestic arrears for which firm figures are in the process of being compiled and which are thus not included in the above deficit estimate. Overall, the growth in revenue and grants (83 percent) was higher than programmed, mainly because the rapid depreciation of the first window exchange rate led to a sharp increase in coffee tax revenues. However, notwithstanding some improvements in tax administration, problems remained with the collection of other tax revenues, especially customs and excise duties. On the expenditure side, excluding the expenditure arrears incurred, the overall level was some 8 percent higher than programmed; and while identifiable development outlays were less than half the programmed amount, the recurrent and unclassified expenditures were well above program targets.

As budgetary net foreign borrowing was lower than the original estimate, to finance the overall fiscal deficit and a somewhat higher-than-programmed reduction (U Sh 3.2 billion) in the Government's net indebtedness to the domestic banking system, the Government relied on a substantially higher-than-programmed amount of domestic nonbank financing (mainly sales of Treasury bills and stocks). The latter was possible only because the state-owned Coffee Marketing Board (CMB) was able to buy the Treasury bills by obtaining short-term loans in the form of advances from foreign buyers against future deliveries of coffee. 1/ This was not in conformity with the program's foreign borrowing ceilings.

The rate of overall domestic credit expansion decelerated sharply in 1983/84, down from nearly 48 percent in 1982/83 to about 18 percent in 1983/84, entirely due to a 7 percent reduction in the banking system's net claims on Government. However, with an overall balance of payments outturn much better than programmed, the growth in broad money (61 percent) was much higher than programmed (24 percent). Although domestic interest rates were increased by about 2 percentage points at the start and the middle of the fiscal year, they remained negative in real terms throughout the period.

The external current account deficit was much smaller (US$32 million) than programmed (US$125 million), because exports and net unrequited transfers rose sharply, and imports were much less than programmed (and 5 percent lower than in 1982/83). The improved current account position and a sizeable unprogrammed net recourse to short-term foreign borrowing (US$54 million) by the public sector (mainly the CMB) contributed to an overall balance of payments surplus of US$44 million (as compared with a programmed deficit of US$19 million and a recorded deficit of US$83 million in 1982/83). With the overall surplus and net purchases from

1/ The short-term advances mobilized by the CMB totalled US$37.25 million, as compared with a program ceiling of US$10 million for loans of 0-1 year maturity.

the Fund (US$51 million), the external reserve position improved substantially, from less than one month of imports to somewhat more than three months of imports.

At end-June 1984 total public and publicly guaranteed external debt (including arrears on long- and medium-term debt, but excluding debt to Tanzania) totaled US$951 million, of which US$361 million represented the outstanding net use of Fund credit. It is estimated that as of June 1984, about US$553 million of existing loan commitments remained to be disbursed. External arrears totaled US$120 million at end-June 1983, of which US$101 million represented arrears on medium- and long-term official debt. By end-June 1984 outstanding arrears had been reduced to US$62 million through a combination of a net cash reduction of US$23 million and of rescheduling of US$35 million. In 1983/84 the external debt service burden, excluding payments of arrears, is estimated to have increased by about 64 percent to the equivalent of 38 percent of exports of goods and services; the increase reflected in part the higher repurchases and charges due to the Fund.

The 1983/84 program's performance criteria for various financial aggregates and the corresponding actual outturn are shown in Table 2. Up to the quarter ending December 1983, all performance criteria were observed fully. For the quarter ending March 1984, the ceilings on public and publicly guaranteed foreign borrowing were exceeded, but all other performance criteria were observed. 1/ In the final quarter ending June 1984, the indicative ceiling on the banking system's net domestic credit was exceeded, mainly because of a larger-than-programmed increase in bank credit to the nongovernment sectors. The program also called for the completion of a satisfactory review of exchange rate policy with the Fund before end-June 1984. This review could not be completed.

b. The 1984/85 budget

The broad objective of the 1984/85 budget was to consolidate and strengthen past policy initiatives within the context of overall budgetary constraints. Thus, the budget, as revised in August 1984, envisioned a sharp increase in development outlays with strict control over recurrent and extrabudgetary expenditures to contain the overall deficit on a commitment basis to U Sh 26 billion (3.1 percent of GDP). 2/ To achieve these objectives determined efforts were envisioned to upgrade the Government's administrative capacity to implement development projects and to control and monitor expenditures. Since the Government planned to liquidate U Sh 2 billion of outstanding domestic arrears, the overall cash

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1/ The credit ceilings were observed for end-March 1984, mainly because short-term foreign borrowing was above the program ceiling.

2/ The 1984/85 budget announced in June 1984 was revised in August. The August budget, which was based on the assumption of an average exchange rate of U Sh 350 per US$ and an inflation rate in the range of 20-25 percent, incorporated both technical revisions and policy measures to strengthen the fiscal position.

Table 2. Uganda: Indicators of Performance Under the Program, September 1981-June 1984

	1981/82		1982/83		1983/84	
	Program 1/	Actual	Program 1/	Actual	Program	Actual
			(In millions of U.S. dollars)			
Balance of payments						
Current account deficit (-)	-232.0	-117.0	-201.0	-98.0	-125.1	-32.1
Overall deficit (-)	-142.0	-154.0	-82.0	-88.0	-18.7	43.7
Debt service ratio (in percent of exports of goods and services)	47.0	45.5	26.0	31.7	38.2	38.2
			(In billions of U Sh)			
Ceiling on net domestic credit						
September	34.8	34.4	57.9	49.3	70.0 2/	67.3
December	...	40.7	62.6	55.7	76.8 2/	76.1
March	46.9	43.6	64.2	61.5	81.1 2/	78.2
June	51.6	48.5	65.6 3/	70.6	84.1 3/	85.1
Ceiling on net credit to Government						
September	27.2	25.9	36.0	32.0	41.1 2/	39.1
December	...	29.2	36.0	34.2	41.6 2/	40.9
March	31.0	30.2	38.0	37.2	42.1 2/	42.5
June	33.7	33.6	38.5 3/	45.3	42.6 3/	41.8
Cash reduction in domestic arrears						
July-March	--	--	--	--	0.50	0.95
July-June	--	--	--	--	0.65 3/	0.95
			(In millions of U.S. dollars)			
Net external borrowing						
Of which:						
0-12 years maturities						
September	70.0	--	120.0	--	30.0	20.0
December	70.0	--	120.0	--	30.0	30.0
March	70.0	--	120.0	30.0	30.0	30.0
June	80.0	--	150.0	50.0	30.0 3/	30.0
0-6 years maturities 4/						
September	34.4	--	54.0	--	30.0 5/	20.0
December	34.9	--	54.7	--	20.0 5/	20.0
March	33.7	--	54.3	20.0	10.0	30.0
June	33.1	--	65.0	40.0	10.0 3/	30.0
Net cumulative reduction in arrears						
September	12.6 6/	24.2	5.5 7/	11.2 8/	...	...
December	... 6/	24.7	11.0 7/	16.9 8/	10.0 8/	12.3
March	1.1 6/	4.8	12.0 8/	27.3 8/	...	22.2
June	3.3 6/	22.2	15.0 8/	16.5 8/	20.0 8/	22.8
Cumulative sales at second window						
September	...	...	10.0	6.1	39.0	41.9
December	...	...	24.0	27.3	78.0	78.8
March	...	...	53.0	60.5	117.0	120.2
June	...	...	99.0	100.5	156.0 3/	166.5

1/ Revised program targets.
2/ The ceilings for September 30 and December 31 of 1983 were to be reduced (raised) by the excess (shortfall) of the cumulative profits from the operations of the second window from July 1, 1983 above (below) the projected U Sh 3.6 billion and U Sh 5.3 billion, respectively. For March 31 and June 30 of 1984, the corresponding figures are U Sh 9.7 billion and U Sh 10.4 billion, respectively.
3/ Indicative ceilings.
4/ Of which no more than SDR 20 million of maturities within the range of 0-6 years contracted in 1981/82 and 1982/83 will carry an interest rate equal to or in excess of LIBOR.
5/ Only through cash borrowing by the Bank of Uganda.
6/ Quarterly reductions through cash payments and rescheduling.
7/ Of which half through cash payments and rescheduling
8/ Reduction through cash payments. For other external performance criteria, see Appendix Table VI.

deficit was projected at U Sh 28 billion, of which U Sh 19 billion was to be financed externally. Recourse to the domestic banking system would be limited to U Sh 4 billion, equivalent to about 5 percent of the money stock at the beginning of the fiscal year.

Total revenues and grants were estimated to increase by 71 percent, largely on the strength of higher tax revenue, although the largest percentage increases were projected for nontax revenues and grants. More than three-fourths of the anticipated increase in nontax revenues was due to payments from Kenya arising from the settlement of the East African Community assets (signed in May 1984). 1/ Reflecting a more active participation of donor countries and agencies in the aid disbursement process, the receipts of grants were expected to quadruple to U Sh 18.5 billion. While further progress was envisioned in broadening the tax system, the projected 54 percent increase in tax revenue would again arise largely from export taxes on coffee, which were forecast to rise 91 percent to comprise nearly three-fifths of total tax receipts. To some extent, the higher export duties would be offset by the elimination of the profit tax on the sale of foreign exchange at Window II caused by the unification of the exchange rate in June 1984. Receipts from customs duties and sales tax on imported goods were projected to increase significantly with the depreciation of the shilling and a higher volume of imports. Income taxes and excise duties were expected to benefit from continued increases in production and profits in the enterprise sector.

Total expenditure was budgeted to rise 68 percent, with recurrent outlays rising 48 percent and development outlays more than quintupling. In regard to recurrent expenditures, the most significant development was a budgeted increase of 160 percent in wages and salaries. Outlays for wages and salaries had been restrained for a decade, and as the increases actually granted fell far short of past increases in the cost-of-living, real wages of the average government worker fell to about one-tenth their former level. Recognizing the adverse effects of this precipitous decline on worker productivity, the Government took a substantial step to reduce public-private sector wage differentials to more normal levels by granting government employees wage increases ranging from 250 percent to 500 percent, with more senior employees receiving the larger increases. However, to stay within the targeted wage bill, the Government planned to undertake a census of its employees with a view to affecting the necessary reductions in government employment.

The development budget focused mainly on various rehabilitation projects that would be financed by international development institutions and foreign governments. Local cover requirements for externally financed projects were only about 7 percent of the total project costs. More than

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1/ Kenya is expected to pay Uganda a total of US$145 million, with initial installments of US$14.8 million to be paid biannually during the next three years.

one-third of the budgeted development outlays represented on-lending of external funds. Major projects included those for rehabilitation of the sugar, tea, and cotton industries, new equipment for the posts and telecommunications and railways industries, completion and maintenance of roads, and rehabilitation of water and sewer systems.

c. Developments in the first quarter of 1984/85

At the start of the 1984/85 fiscal year a new round of increases were implemented in producer prices for coffee, tea, cotton, cocoa and tobacco (27-62 percent), and in retail prices of petroleum products (13-17 percent). As the inflation rate was targeted to be contained in the range of 20-25 percent, the domestic interest rates were raised to that range. In July 1984, the tariffs of selected public utilities (namely, the railways, road transport, and electricity) were also adjusted to reflect increases in operating costs.

In the first three months (July-September) of 1984/85, financial policies were markedly expansionary. The overall cash deficit in central government operations was U Sh 12.3 billion in the first quarter compared with a target deficit of U Sh 28.0 billion for the whole fiscal year. As the Government's net recourse to domestic bank credit rose sharply to finance this deficit, broad money increased at an annual rate of 62 percent during the first quarter (compared with 61 percent in 1983/84). These developments led to both a more depreciated exchange rate (U Sh 495 per U.S. dollar by end-October) and a higher inflation rate (90 percent annually) than initially targeted. With these trends, most officially controlled prices were no longer adequate to cover costs and real interest rates became substantially negative. Moreover, as most of the short-term foreign loans mobilized in earlier months fell due, gross official reserves declined by a large amount (US$33.5 million). 1/

The weak fiscal performance during the first quarter of the fiscal year reflected a combination of expenditure overruns and revenue shortfalls. In particular, the wage bill (at U Sh 11.0 billion) was one-third higher than planned, as employment reductions were delayed until such a time as the public service employment census (which was only begun in October 1984) was completed. Other expenditure overruns are difficult to analyze, because of the large share of transactions channeled outside normal budgetary accounts, but were in part related to the faster-than-expected depreciation of the shilling and the sharp upswing in the inflation rate. On the revenue side, while export duties on coffee were broadly on target, petroleum duties fell substantially short of the budget estimate as retail prices were not adjusted to reflect the higher shilling cost of petroleum imports.

1/ The stock of outstanding public and publicly guaranteed short-term debt declined from US$57.3 million to US$10 million by end-September 1984. A further US$1.7 million, in respect of prepayments for coffee exports, fell due in October 1984.

Faced with a decline in gross official reserves and prospects of further exchange rate depreciation, on November 9, 1984, the Ugandan authorities introduced several new measures to discourage what they viewed as excessively high bids for foreign exchange. The new regulations require large potential bidders in excess of US$20,000 to support their bids with three proforma invoices from the suppliers of the imports, and all importers to make a prior payment of customs and sales taxes before the actual release of foreign exchange, by purchasing tax reserve certificates bearing an interest rate similar to that for Treasury bills of comparable maturity (about 21-22 percent for maturities of 65-91 days).

III. Report on the Discussions

Given the fragility of the domestic security situation, the large increase in public service wages appeared irreversible, and the prospects for substantial cutbacks in civil service employment appeared unlikely. It was clear that in the changed setting, the short-term outlook for output growth remained weak, and further depreciation of the exchange rate and increases in the domestic price level were probably inevitable. Concurrrently, it was recognized that although progress had been made, the process of external adjustment remains incomplete.

In trying to cope with the present difficult situation, the staff urged the authorities to maintain their commitment to flexible exchange rate, pricing, and interest rate policies, and achieve as much restraint as possible in the area of financial policies. As the Ugandan representatives broadly agreed with this approach, the discussions primarily focused upon the policies required to progress toward medium-term balance of payments viability, accelerate the recovery of production and shift to a more restrained stance of financial policies.

1. External prospects and policies

In looking ahead at the medium-term, the Ugandan representatives foresaw a need to achieve substantial surpluses in the balance of payments the next five years, to meet sizable repurchase obligations to the over Fund (annually averaging US$65 million), to maintain gross official reserves at roughly the equivalent of 2.5 months of imports, and to eliminate the remaining external arrears (about US$34 million) (Table 3). Moreover, they recognized that the overall burden of external debt service payments is projected to remain large almost up to the end of the current decade. These payments (including Fund repurchases and charges) are forecast to increase from US$157.4 million (almost 35 percent) in 1984 to US$168.7 million (34 percent) in 1986, and thereafter, to decline to US$131.5 million (22.1 percent) by 1989 (Appendix Table II). 1/

1/ The debt service ratios are defined with exports of goods and services in the denominator.

Table 3. Uganda: Balance of Payments, 1981-90

(In millions of U.S. dollars)

	Revised actual		Prel.							
	1981/82	1982/83	1983/84	1984	1985	1986	1987	1988	1989	1990
Current account	-117	-98	-32	3	-50	-65	-67	-67	-77	-95
Trade balance	-120	-90	-41	-7	-78	-103	-114	-127	-150	-177
Exports, f.o.b.	(294)	(354)	(382)	(424)	(452)	(465)	(494)	(524)	(557)	(594)
Imports, c.i.f.	(-414)	(-444)	(-423)	(-431)	(-530)	(-568)	(-608)	(-651)	(-707)	(-771)
Services (net)	-116	-116	-99	-100	-91	-91	-91	-88	-88	-91
Unrequited transfers	119	108	108	110	119	129	138	148	161	173
Debt cancellation	69	--	--	--	--	--	--	--	--	--
Capital account	-106	15	76	14	118	134	138	134	126	125
Official inflows	108	136	142	145	184	177	180	178	162	163
Of which:										
Rescheduled amortization	(17)	(18)	(2)	(--)	(--)	(--)	(--)	(--)	(--)	(--)
Rescheduled arrears	(47)	(20)	(35)	(11)	(19)	(--)	(--)	(--)	(--)	(--)
Official outflows	-188	-99	-120	-83	-68	-48	-58	-61	-49	-47
Private & official short term	-26	-22	54	-48	2	5	16	17	13	9
SDR allocation	--	--	--	--	--	--	--	--	--	--
Overall balance	-154	-83	44	17	68	69	71	67	49	30
Financing	154	83	-44	-17	-68	-69	-71	-67	-49	-30
External arrears 1/	41	-17	-23	-26	-15	--	--	--	--	--
Monetary authorities	113	100	-21	9	-53	-69	-71	-67	-49	-30
Gross reserves change	(53)	(--)	(-62)	(27)	(-34)	(-11)	(-7)	(13)	(-5)	(-5)
IMF (net)	(74)	(118)	(51)	(-17)	(-65)	(-73)	(-64)	(-54)	(-44)	(-25)
Other (net)	(-14)	(-18)	(-10)	(-1)	(--)	(--)	(--)	(--)	(--)	(--)
Financing gap	--	--	--	--	(46) 2/	(15) 2/	--	--	--	--

Sources: Bank of Uganda; and staff estimates.
1/ Minus sign denotes cash reduction on medium- and long-term official debt, and on guaranteed letters of credit.
2/ Assumes no further use of Fund resources. If no financing is made available, adjustment would most likely fall on reserves or imports of goods and services through the auction.

In the medium term, export earnings are expected to grow at an annual rate of 6-7 percent. Reflecting the current outlook for world commodity prices, average export prices are forecast to rise annually by only about 2-3 percent. Based on prospects of an unchanged international quota limit on coffee exports (which account for about 92 percent of Uganda's exports) and the continued recovery in the production of the relatively minor export crops (cotton, tea, tobacco and cocoa), the growth in overall export volume is projected to be about 4 percent annually. The Ugandan representatives stated that the utilization of existing aid commitments would be speeded up to accelerate the recovery of agriculture and industry. Taking this into account, inflows of official capital and foreign grants are projected to rise at a compound annual rate of about 5 percent. Reflecting these considerations and the prospects for export growth, the authorities hoped to achieve an annual import growth rate of 10 percent in nominal terms (5-6 percent in real terms).

The staff pointed out that based on the above prospects, the external current account would record increasing deficits, rising from about US$50 million in 1985 to US$95 million by 1990. Moreover, even if inflows of grants and net capital increased as projected, the forecast surpluses in the overall balance of payments during the three years 1985-87 would not be sufficient to cover further arrears reduction, Fund repurchases, and the official reserve needs. The Ugandan representatives stated that notwithstanding continuing strains in the balance of payments, the Government would continue to operate the foreign exchange auction system in such a way as to achieve an overall balance in the external accounts. This balance would be achieved by setting aside sufficient amounts of the foreign exchange earnings to cover oil imports, arrears reduction, debt service payments and the official reserve needs before deciding on the amount of the foreign exchange to be auctioned for all discretionary payments. 1/ Nevertheless, the authorities were concerned that an inadequate availability of foreign resources would lead to an insufficient level of imports and further depreciation of the exchange rate, with adverse effects on both economic growth and the domestic inflation rate.

The Ugandan authorities plan to continue monitoring balance of payments developments within the framework of quarterly foreign exchange cash flow forecasts (Appendix Table III). In 1985, on a cash basis, export earnings are projected to increase by 8 percent to US$445.8 million, due to both higher coffee and noncoffee exports. At the same time, due to a significant drop in short- as well as longer-term debt repayments, the net payments on the capital account are forecast to decrease sharply from US$110 million to only about US$12.5 million. Reflecting these forecasts, the Ugandan authorities plan to increase the foreign exchange sales for imports of goods and net services at the auction by 23 percent to US$365.4 million, and generate a cash surplus of about US$68.0 million in 1985 (compared with US$7 million in 1984). They felt that the higher foreign exchange sales were necessary to support the rehabilitation needs

1/ Outside the auction, tied imports are assumed to be matched by the related aid inflows.

of the economy and to contain the excessive pressures on the exchange rate. However, they recognized that as they also plan to make cash reductions of arrears of US$15.3 million and make Fund repurchases of US$55.5 million, gross official reserves would have to be drawn down for the third successive quarter by about US$12-13 million. In that event, the gross official reserves would reach a level that would cover only about six weeks of annual imports. The quarterly breakdown of the projected cash flow situation shows that the official reserves position is likely to weaken mainly in the first quarter of 1985, primarily because in that quarter debt service payments would be higher and export receipts lower than in the later quarters.

The Ugandan authorities complained about the extent to which foreign exchange resources at the auction were financing nonproductive imports. They inquired about the feasibility of introducing an administrative mechanism of allocating foreign exchange into the auction system in order to divert resources into specific areas of the economy. The Fund staff, however, while acknowledging the need for essential imports, was of the view that, in the Ugandan situation, an auction system that was as free as possible was the most effective means of allocating scarce foreign exchange efficiently. The staff contended that an allocation system would introduce distortions inimical to economic recovery and would create increased incentives for parallel market activities. Moreover, it would constitute a restrictive practice. In the short run, improvements in the tax and tariff system and its administration would contribute significantly to shifting demand away from nonproductive imports. It will be noted in paragraph 3(d) of Appendix II that the World Bank staff support fully the Fund staff's position on these policy prescriptions as well as the foreign exchange regime in Uganda.

The current regulations of requiring bidders at the foreign exchange auction who bid at rates higher than the clearing rate to hold the difference in Treasury bills constitutes a new exchange restriction. The mission took the position that the introduction of restrictions on the bidding process at a time when financial policies were markedly expansionary was likely to have had adverse effects. It could well have caused bidders to move out of the official into the parallel market for foreign exchange to engage in both current and capital transactions. This would explain a reported increase in the ratio between the parallel and official exchange rates, from 1.3 in mid-1983 to about 1.5 at end-October 1984. 1/ The staff stressed that further depreciation of the exchange rate should be contained through restraints on expenditure and domestic credit policies, the enforcement of existing taxes on imports, inducements to expand exports, and an interest rate policy that is designed to increase the attractiveness of domestic financial assets. It advised the avoidance of any intensification of import or exchange restrictions to avoid, in turn, the relative price distortions that would result from such actions. In this context, the authorities were urged

1/ The exchange rates were U Sh 495 per U.S. dollar in the official market and about U Sh 750 per U.S. dollar in the parallel market.

to hold firm to their earlier commitment to eliminate before end-December 1984 the present practice of selling Treasury bills through the weekly foreign exchange auctions.

With regard to the existing foreign exchange restrictions on services and all remittances abroad, excepting profit, dividend and interest payments, it is the authorities' intention to relax them as the balance of payments situation improves. Furthermore, the restriction evidenced by arrears on external payments will continue to be reduced through combinations of cash payments (US$15.3 million in 1985) and rescheduling. All of these restrictions are subject to approval under Article VIII, Section 2(a).

As the external debt service burden was projected to remain sizable in the medium-term, unless exceptional circumstances arise, the Ugandan authorities plan to strictly avoid new recourse to nonconcessional and/or short-term foreign loans. They intend to increase efforts to use the substantial amounts of unutilized bilateral foreign aid commitments for various urgently needed rehabilitation projects. To improve debt management, a technical borrowing committee (comprising technicians from the Bank of Uganda and various Ministries) has been set up to advise the Government on new loans. The Ugandan representatives stated that the Government intends to ensure that foreign loans are contracted only for productive projects that have the potential of generating a net saving of foreign exchange.

2. Production and price policies

Over the past three years, the Ugandan authorities have followed a policy of improving agricultural production incentives through timely and adequate increases in the minimum producer prices of major export crops. Concurrently, the producer prices of food crops were maintained unregulated. As further progress needs to be made to restore agricultural output to past peak levels, the Ugandan representatives indicated that the Government was firmly committed to continuing these policies. Based on a (IDA-supported) study undertaken by the Agricultural Price Secretariat, in October 1984 the minimum producer prices were raised for the five major export crops: coffee (61.5 percent), tea (55.6 percent), cotton (50 percent), tobacco (50 percent), and cocoa (46.2 percent). These price adjustments were primarily designed to compensate the producers for increases in input costs, and to protect their real returns from the higher domestic inflation rate that has prevailed since June 1984. 1/ The Ugandan representatives stated that agricultural producer prices would be reviewed semi-annually, to ensure that adjustments can be made once before the planting/growing season and again prior to the procurement/ marketing period.

In addition to the increased producer price incentives, the recovery of agricultural output during 1981/82-1982/83 reflected an increased

1/ From end-June to end-October the exchange rate depreciated by 55 percent in domestic currency terms.

availability of inputs and early improvements in transportation and marketing. The staff inquired whether the recovery of agricultural production was being hampered by technical and institutional constraints. The Ugandan representatives explained that the implementation of agricultural projects under the ongoing Revised Recovery Program needs to be accelerated, and that concurrently, ongoing activities aimed at promoting the use of suitable farm implements, high-yield seeds and other inputs would have to be strengthened. Secondly, the existing system of crop financing (especially the process of channeling bank credit to the farmers and the eventual repayment record of crop credit) needs to be improved. To move in this direction, the Government is encouraging farmers' unions to negotiate directly their credit requirements with the banks, instead of indirectly through the official marketing boards (which currently guarantee the crop credit). It plans to introduce eventually a system that would minimize the role of the official marketing boards. At the level of the official marketing boards also, there is a need to improve financial management and increase the efficiency of their processing and marketing operations. The authorities have recently completed a preliminary study of the accounts of the coffee and lint marketing boards, and further work is underway to formulate policy recommendations for these institutions.

The Ugandan representatives were concerned about the slow recovery of output and the low levels of capacity utilization in the industrial sector. Although in 1981, most ex-factory prices were liberalized with a view to restoring the financial viability of industrial enterprises, many enterprises are still engulfed in serious financial difficulties. The Ugandan representatives stated that the problems of the industrial sector are of a structural nature, and as such, were not likely to be solved within a short period. After almost a decade of neglect, in most enterprises the needs for rehabilitating productive equipment are still enormous. Moreover, the infrastructure needed to support industry is still weak because the public utilities providing power, water, and transportation services are still in the process of being rehabilitated. Under these circumstances, the Government has decided to move first toward a structural reorganization of the entire enterprise sector.

In reorganizing the enterprise sector, the Government has decided to follow a mixed economy strategy. Within the framework of the third IDA reconstruction credit, it plans to divest itself of 33 entities and has indicated the list of parastatals which will either be retained under its direct supervision (29 entities), transferred to the state-owned Uganda Development Corporation (34 entities), or converted into joint ventures (24 entities). The parastatals of which the Government will be divesting itself will be either returned to the private sector or closed down. Under the Expropriated Properties Act (of February 1983), the Government has set up a verification committee to examine the claims of former owners of expropriated properties, and acting upon the advice of this committee, has already returned some properties to their former owners. The Ugandan authorities intend to speed up this process. With regard to the parastatals that the Government proposes to either retain or sell to the private sector, an important question that is being studied is how they should be financially restructured. Several alternative possibilities, including new capital injections, revaluation of assets, and better pricing policies, would have to be considered. To facilitate rational decisions on these issues, the authorities completed a preliminary study of ten parastatals in August 1984. Under the terms of the third IDA reconstruction credit, the Government will be undertaking further in-depth studies with the World Bank with a view to deciding on the measures that need to be taken.

The Ugandan representatives stated that flexible pricing and tariff policies would be continued, to ensure that enterprises are able to cover their unit production and/or import costs and contribute positively to the reduction of domestic financial imbalances. In the case of imported petroleum products, the staff pointed out that there is a need to adjust the retail prices substantially, both to cover increased import costs and to restore the tax revenues derived from these products to their originally budgeted levels. In the case of the major public utilities, the Ugandan representatives stated that substantial increases in tariffs are required primarily because of the sharp depreciation of the exchange rate and the large increase in public service wages since June 1984. The staff urged the Ugandan authorities to act soon to implement the necessary increases in both petroleum prices and public utility tariffs, as otherwise, these adjustments would be larger and more difficult to implement the longer the delay, and the financial imbalances in the public sector would increase to worrisome magnitudes.

Over the past two years, the rate of investment implementation under the Revised Recovery Program (1982-84) has been slow, as less than one half of the planned outlays are reported to have been implemented. The program's broad objective is mainly to rehabilitate the economy rather than create new capacity. It emphasizes the expansion of output in the export- and import-substitution sectors. In the planned allocation of the investments, the major shares are earmarked for the productive sectors, namely, agriculture (25 percent), and industry and tourism (32 percent). In view of the urgent need to rehabilitate the country's existing infrastructure, the program also includes sizable allocations for economic (23 percent) and social (20 percent) infrastructure. The program was strongly endorsed by the World Bank and other major donors at a Consultative Group Meeting in January 1984. The staff pointed out that one of the major reasons for the program's slow implementation rate was bottlenecks and delays in the utilization of existing aid commitments. The Ugandan representatives stated that they would make strong efforts to increase aid utilization, by improving coordination with donors and by strengthening the current procedures for the budgeting and follow-up of investment projects in the planning ministry.

3. Financial policies

At the time of the discussions, tentative staff projections indicated that on the basis of existing policies, the overall fiscal cash deficit might reach U Sh 60 billion compared to the budgeted U Sh 28 billion, with domestic bank financing of as much as U Sh 20 billion as against the U Sh 4.0 billion previously envisioned (Table 4). As the recent acceleration in the domestic inflation rate and the accompanying substantial depreciation of the exchange rate were attributable mainly to a substantial deterioration in fiscal performance and lax monetary policies, the Ugandan representatives acknowledged an urgent need to tighten financial policies. However, since the rehabilitation of key sectors remained largely incomplete, they stated that financial policies would have to be both adequately restrictive and supportive of the process of recovery. Against this background, the staff discussed with the authorities the type of measures that should be implemented to halt the deterioration in the fiscal accounts and the consequent rapid expansion in domestic liquidity.

The staff pointed out that while revenue collections, especially from coffee exports, would benefit from the present pace in the depreciation of the shilling, there were three worrisome aspects of the revenue situation. First, there was a danger of a considerable revenue shortfall and subsidization of petroleum consumption, if there were further delays in raising retail prices. Secondly, the tax base was narrow and overly dependent on coffee exports, and could be eroded as further increases in coffee producer prices became necessary with continued inflation. Thirdly, the last FAD technical assistance study of the tax system suggested that there was a need to improve tax administration (particularly in the customs area), and to revise the income tax law to rationalize the related tax structure and limit the scope for evasion. Moreover, as the last wage increase was large, there remained little justification for maintaining a zero-rate of PAYE income tax for civil servants.

In their response the Ugandan representatives stated that the Government is expected to act soon on adjusting petroleum prices, to avoid any subsidization and achieve a significant revenue contribution. They planned to continue working with the Fund staff on an appropriate revision of the income tax law. In general, the Ugandan representatives noted that the development of a broader tax base would depend crucially upon the recovery of the economy; at the present stage, the enterprise sector is financially weak and is not in a position to provide revenues comparable to those derived from foreign trade and commerce. They also explained that since June 1984 several measures had been taken to improve tax administration and rationalize the tax structure. First, the Government had taken steps to strengthen customs tax administration in border posts by requiring imports to enter the country in containers and/or sealed vehicles at designated customs points; this is designed to prevent goods being released by customs before the taxes are collected. Moreover, under the current foreign exchange auction system, importers are required to prepay import and sales taxes on imports soon after they are notified that their bids have been successful. Secondly, the tax department personnel have been provided with more intensive training programs and with additional resources (such as office equipment and vehicles) to enable them to perform their functions more effectively. Thirdly, measures have been taken to rationalize the structure of certain indirect taxes,

Table 4. Uganda: Government Budget, 1981/82-1984/85

	1981/82	1982/83	1983/84 Revised budget	1983/84 Prel. actuals	1984/85 Revised budget 1/	1984/85 July-Sept. Prel. Acts.
	(In billions of Uganda shillings)					
Revenue and grants	27.9	53.2	88.1	97.4	166.9	35.0
Revenue	24.4	52.6	80.5	92.9	148.4	33.7
Tax	(23.7)	(50.3)	(73.4)	(86.9)	(135.7)	(33.2)
Nontax	(0.7)	(2.3)	(7.1)	(6.0)	(12.7)	(0.5)
Grants	3.5	0.6	7.6	4.5	18.5	1.3
Expenditure 2/	52.6	73.0	106.2	114.9	192.9	45.1
Recurrent outlays 3/	28.3	47.9	69.6	80.9	120.1	33.8
Wages and salaries	(6.4)	(7.0)	(10.5)	(12.6)	(33.0)	(11.0)
Interest payments 4/	(1.1)	(7.2)	(11.1)	(16.5)	(23.0)	(7.1)
Other	(20.8)	(33.7)	(48.0)	(51.8)	(64.1)	(15.7)
Development outlays 3/	7.1	9.2	36.6	14.0	72.8	8.3
Expenditures financed through domestic arrears 5/	9.3	4.1	--	--	--	--
Treasury Main Clearance Account (increase in debit balance +) 6/	9.3	3.4	--	14.7	--	7.0
Other (net) 7/	-1.4	8.4	--	5.3	--	-4.0
Overall deficit (-) on a commitments basis	-24.7	-19.8	-18.1	-17.5	-26.0	-10.1
Change in identified domestic arrears (decrease -)	9.3	3.3	-4.0	-8.4	-2.0	-2.2
Overall deficit (-) on a cash basis	-15.4	-16.5	-22.1	-25.9	-28.0	-12.3
Financing	15.4	16.5	22.1	25.9	28.0	12.3
External	1.0	3.7	15.3	3.0	19.0	6.4
Borrowings	(4.5)	(5.9)	(25.3)	(17.9)	(44.5)	(13.1)
Repayments (-)	(-3.5)	(-2.2)	(-10.0)	(-14.9)	(-25.5)	(-6.7)
Domestic	14.4	12.8	6.8	22.9	9.0	5.9
Bank	(13.3)	(11.3)	(-2.5)	(-3.2)	(4.0)	(3.9)
Nonbank	(1.1)	(1.5)	(9.3)	(26.1)	(5.0)	(2.0)
Memorandum items:						
Domestic arrears paid	--	0.8	4.0	8.4	2.0	2.2
Cash	(--)	(0.8)	(0.7)	(0.9)	(1.0)	(--)
Stock issue	(--)	(--)	(3.3)	(7.5)	(1.0)	(2.2)
	(In percent of GDP)					
Revenue and grants	9.3	11.2	13.9	15.3	19.6	...
Expenditure	17.5	15.4	16.7	18.1	22.7	...
Overall deficit (-) on a commitments basis	-8.2	-4.2	-2.8	-2.8	-3.1	...

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

1/ Authorities' revised budget as of August 1984.
2/ On a commitment basis.
3/ Defense expenditures in the development budget are included in recurrent outlays.
4/ Inclusive of IMF charges for 1982/83-1984/85.
5/ Reflects only verified arrears.
6/ Net of IMF charges debited to the Treasury Main Clearance Account, but included in interest payments above.
7/ Includes the change in the balance of other government accounts at the Bank of Uganda, and the difference between checks issued and checks cashed in the same fiscal year.

mainly to prevent taxes on domestically produced goods from exceeding those on imports, and to raise customs duties on liquor and spirits to levels higher than those on beer.

The staff reviewed with the Ugandan representatives the areas of discretionary outlays where actions and extreme vigilance were needed to reduce expenditure growth. Priority should be given to completing the public service employment census with a view to formulating a target for the budgetary wage bill and the necessary reduction in civil service employment. The Ugandan representatives explained that the large increase in wages became necessary, because real wages were exceptionally low, providing an inducement to corruption and contributing to low morale. They also were uncertain about the feasibility of achieving large employment reductions in an election year. Nevertheless, the Government planned to complete the public service employment census by early November, to identify the areas of employment reduction and to put in place a monthly monitoring system for the control of budgetary wage payments. The staff pointed out that economies should be made in other nonwage recurrent outlays (excluding interest payments). The Ugandan representatives agreed to consider ways of reducing the expenditures on employee allowances and fringe benefits, official travel and petroleum consumption. Moreover, they plan to review the tariffs of public utilities to avoid any subsidy payments. The staff urged the monitoring of all recurrent outlays on a monthly basis to insure the avoidance of further overruns and the accumulation of new arrears. To end a past practice, the Government plans to avoid extrabudgetary expenditure such as those incurred through the Treasury Main Clearance Account. As regards domestic arrears, the staff was assured that a complete inventory of these was being compiled; furthermore, the Government had taken various measures to prevent the emergence of new unauthorized obligations including a directive from the Secretary of the Treasury to all ministerial accounting officers that they are personally responsible for any obligations not given the Treasury's express approval.

The mission inquired about the feasibility of realizing the planned large increase in development expenditure and the kind of projects that would be implemented. The Ugandan representatives stated that to improve aid coordination and the monitoring and follow-up of projects, a detailed list of the projects and their foreign financing has been drawn up, and that an adequate provision has been made for the supporting local counterpart funds (Appendix Table V). However, to avoid any increase in the overall fiscal deficit, the Government will be implementing the budgeted development projects only if the foreign funds were disbursed.

As there was already a large overhang of liquidity in the economy, the staff urged that over the remainder of 1984/85, in addition to taking substantial fiscal action as noted above, bank credit to the nongovernment sectors should be tightly restrained. Such restraint was warranted because of two reasons. First, with early adjustments in the tariffs of public utilities, the public sector's need for bank credit could be reduced. Secondly, an adequate restraint on credit expansion would contain both further exchange rate depreciation and domestic inflationary pressures. The Ugandan representatives agreed to take these factors into account and adopt a cautious stance with regard to further credit expansion.

The Ugandan representatives recognized that currently the real levels of domestic interest rates are markedly negative. However, they stated that to eliminate negative rates, interest rates had been increased substantially in June 1984, and that the current rate of inflation was at a temporary peak that does not provide a sound basis for further immediate increases. The staff explained that a further increase in interest rates to raise them to the range of the inflation rate would be appropriate, because it would limit the incentives for capital outflows, stimulate domestic financial savings, and encourage a more productive use of domestic financial resources.

IV. Staff Appraisal

During the two fiscal years 1981/82-1982/83 Uganda implemented two financial programs and was able to achieve a resumption of output and export growth, a reduction in the domestic inflation rate, and an improvement in the overall balance of payments position. Over this period, the deficits in central government operations 1/ and in the external current account declined as a ratio to GDP.

In fiscal year 1983/84, the growth rate of real GDP remained fairly high (6 percent), the domestic inflation rate declined (to 20 percent), and there was a substantial improvement in the external current account. The overall deficit in central government operations 1/ decreased and was close to the program target. However, although the Government was able to identify and repay a large part of past domestic arrears, new domestic arrears were accumulated.

Notwithstanding the overall improvement in the government finances, there were some serious weaknesses in the past year's fiscal performance. Total government expenditure was about 8 percent higher than programmed, and while identifiable development outlays were less than half the programmed amount, recurrent and unclassified expenditures were much higher than the program targets. The shortfalls in development expenditure and related foreign financing resulted from slow rates of project implementation and utilization of existing aid commitments. The fiscal deficit was financed by a higher than programmed amount of sales of Treasury bills to the state-owned coffee marketing board, which entailed a higher-than-programmed level of short-term foreign borrowing.

1/ On a commitment basis, but not including the expenditure counterpart to unidentified arrears.

In the first quarter 1/ of the current fiscal year, fiscal performance deteriorated markedly. This deterioration occurred mainly because public service wages were increased by a multiple of four and a half times, before the implementation of reductions in employment. Government revenue collections also lagged behind budgetary targets due partly to delays in adjusting retail prices of petroleum products and to weaknesses in tax administration. The poor fiscal peformance was accompanied by a substantial increase in domestic bank credit to Government and in broad money.

The recent slippage in financial policies has contributed concurrently to a marked acceleration in the domestic inflation rate and in exchange rate depreciation. As a result of these factors and the large increase in public service wages, the administered prices of petroleum products and public utilities are now substantially below the corresponding unit costs of production and/or import. Moreover, the domestic interest rates have become substantially negative in real terms. On the other hand, the official minimum producer prices of export crops have been adjusted periodically by large amounts, these incentives appear at least temporarily to be adequate.

The current situation is worrisome, both because it points to the fragility of the progress previously achieved and because in most respects the process of economic and financial recovery is still largely incomplete. Uganda needs to generate substantial surpluses in the balance of payments in the coming 3-5 years to meet large repurchase obligations to the Fund, eliminate the remaining external arrears, and eventually strengthen the gross official reserve position. The existing levels of agricultural and industrial production are still well below the peak levels attained in the 1970s. Also, with the recent upsurge in domestic prices, the inflation rate has moved closer to the high levels that prevailed in the period preceding the recent adjustment effort.

In these circumstances, the authorities need to strengthen financial policies substantially, to accelerate the rehabilitation of the productive sectors, sustain external adjustment, and contain inflationary pressures. During 1981/82-1983/84 the Ugandan authorities had moved decisively to a new policy framework, which required restrictive demand management policies to be combined with flexible exchange rate, pricing and interest rate policies. Within that framework the exchange rate and administered prices were allowed to adjust to achieve the domestic relative price changes necessary for encouraging production, eliminating distortions in resource allocation, and reducing the economy's financial imbalances. In the period ahead, the authorities urgently need to renew their commitment to this course of economic policies.

Following the unification of the dual exchange rate system in mid-1984, several new regulations were introduced to mop up excess liquidity,

1/ July to September of 1984.

enforce compliance with tax regulations, and discourage high exchange rate bids at the weekly auctions. The staff feels that these new regulations constitute undue restrictions on the bidding process, which encourage bidders to move out from the official to the parallel market and contribute to increasing the parallel market premium over the official exchange rate. For these reasons, it would be advisable to remove them and revert to adequately tight financial policies to contain the further depreciation of the exchange rate. As regards the remaining restrictions on current international transactions, the staff would urge the elimination of the remaining external arrears in 1985. In the meantime the staff would not recommend approval of the restrictions.

At present the authorities are faced with a worrisome trade-off in the area of government finance. Clearly, a substantial reduction in the fiscal deficit is needed to contain further depreciation of the exchange rate and inflationary pressures. However, given the large increase in public service wages, a substantial weakening of fiscal performance could be contained mainly through large cutbacks in employment. The staff recognizes the authorities' concern about having to make cutbacks in employment in an election year and in an environment of unsettled domestic security conditions. Nevertheless, the authorities should take a number of steps to minimize the deterioration in fiscal performance. The public service employment census should be thoroughly completed and used to eliminate redundant employees and reduce nonwage allowances and fringe benefits. Economies should be achieved in government outlays for travel and petroleum consumption. Official prices and tariffs should be adjusted sufficiently to avoid budgetary subsidies, and (where appropriate) erosion of the revenue base. Moreover, along with determined steps to eliminate existing domestic arrears, to avoid new arrears and keep within budgetary targets, an improved system of control and monthly monitoring should be established for wage payments, other recurrent outlays, and development expenditure. On the revenue side, determined efforts are necessary to improve tax administration and introduce a rational income tax system. As civil service wages were raised substantially, early action should be taken to reintroduce the PAYE income tax for government employees.

A much greater degree of restraint is needed in the area of domestic credit and monetary policy. Given the existing overhang of domestic liquidity, the authorities should tightly restrain domestic credit, and take immediate steps to raise the level of domestic interest rates to positive real levels. This would help to discourage capital flight, improve the incentives for financial savings, and contribute to a more efficient use of financial resources.

While efforts to tighten financial policies will help to contain inflationary pressures, the staff feels that without the prospects of a substantial increase in output, the recent public service wage increase is likely to be rapidly eroded by a rise in the domestic price level. In the circumstances, the authorities are rightly concerned about the largely incomplete state of recovery in key sectors of production.

Over the past three years, rising producer prices for export crops, the absence of regulation for food crop prices, and the decontrol of most ex-factory prices helped to establish an environment conducive to the recovery of production. The authorities will need to continue these policies. However, to achieve a more rapid and broad-based expansion in production, the authorities would have to act decisively in a number of other areas. First, the utilization of existing aid commitments and project implementation would have to be speeded up, with a focus on rehabilitating the productive capacities in agriculture and industry. Secondly, given the enormous financial problems and rehabilitation needs of the enterprise sector, the highest priority should be attached to appropriate structural reform measures. Steps should be taken at the level of the (export) crop marketing boards to improve financial management and the effectiveness of their processing and marketing operations. The system of crop finance should also be improved to provide farmers' unions with direct access to bank credit and to ensure a better repayment record. In the rest of the enterprise sector, the Government's decision to limit its involvement and widen the scope of private sector participation is an encouraging development. The financial studies of enterprises, which the authorities are presently undertaking with IDA assistance, should be completed on a priority basis, so that urgent structural reform measures can be implemented. Finally, notwithstanding the substantial need for resource mobilization, the authorities should be cautious in selecting projects and mobilizing the related foreign financing, so that decisions in these areas do not lead to a worsening of the external debt service burden, but to external adjustment and higher output.

However, the sharp deterioration in economic policy performance since mid-1984 raises a question which Directors may want to address regarding how the international community, including the Fund, should respond to encourage Uganda to return to its earlier adjustment efforts.

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

V. Proposed Decision

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

Article IV Consultation

1. The Fund takes this decision relating to Uganda's exchange measures subject to Article VIII, Section 2(a), in concluding the 1984 Article XIV consultation with Uganda and in the light of the 1984 Article IV consultation with Uganda conducted under Decision No. 5392-(77/63), adopted April 29, 1977 ("Surveillance over Exchange Rate Policies").

2. As described in SM/85/14, Uganda continues to maintain exchange restrictions on payments and transfers for current international transactions, including restrictions evidenced by external payments arrears. The Fund urges Uganda to undertake the early elimination of these restrictions.

Uganda - Fund Relations
(As of end-December 1984)

I. Membership Status

(a) Date of membership:	9/27/63
(b) Status:	Article XIV

A. Financial Relations

II. General Department (General Resources Accounts)	SDR million 1/
(a) Quota:	99.60
(b) Total Fund holdings of member's currency:	417.40
(percent of quota)	(419.07)
(c) Fund credit:	321.40
	(322.60)
Of which:	
credit tranches (including SBA):	65.60
(percent of quota)	(65.41)
compensatory financing - exports:	36.88
(percent of quota)	(37.02)
enlarged access under stand-by:	219.28
(percent of quota)	(220.15)
(d) Reserve tranche position:	3.52

III. Current Stand-By and Special Facilities

(a) Previous stand-by arrangement	
(i) In 1983/84	
(1) Duration:	From 9.16.1983 to 9.15.1984
(2) Amount:	95
(3) Utilization:	65
(4) Undrawn balance:	30
(ii) In 1982/83	
(1) Duration:	From 8.10.1982 to 8.10.1983
(2) Amount:	112.5
(3) Utilization:	112.5
(4) Undrawn balance:	--

1/ Figures in parentheses are percentages.

Uganda - Fund Relations (continued)
(As of end-December 1984)

(iii) In 1981/82	
(1) Duration:	From 6.5.1981 to 6.5.1982
(2) Amount:	112.5
(3) Utilization:	112.5
(4) Undrawn balance:	--

(c) Special facilities	
Compensatory financing:	
Date approved:	6.5.1981
Amount:	45

IV. SDR Department

(a) Net cumulative allocation:	29.4
(b) Holdings:	0.16
(per cent of net cumulative allocation)	0.53

V. Administered Accounts

(a) Trust Fund	
(i) Disbursed:	22.51
(ii) Outstanding:	22.51

B. Nonfinancial Relations

VI. Exchange rate arrangement: dual exchange rate unified on June 15, 1984. Rate determined by weekly auctions. Excess bids returned in form of nonrediscountable Treasury bills.

VII. (a) Last Article IV consultation discussions (standard 12-month cycle) and the review of the stand-by arrangement were conducted in November 1983.

(b) Existing exchange restrictions on payments and transfers for current international transactions are maintained.

Uganda - Fund Relations (continued)
(As of end-December 1984)

VIII. Technical Assistance

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

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

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

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

(iii) Advisor to the Governor, to assist the Bank in its operations of foreign exchange (Mr. Niehues, September 1981 through 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 through 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 through March 1983);

(vi) Advisor to the Governor, to assist the Bank in strengthening its Accounts Department (Mr. Lindsay, September 1982 through October 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 through August 1985);

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

Uganda - Fund Relations (continued)
(As of end-December 1984)

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

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

(x) Advisor to the Governor, on Bank Supervision and Development Finance (Mr. Bhagavat, December 1983 through December 1985).

Two CBD technical assistance missions have visited Uganda since 1981; the first mission (December 2-16, 1981) examined the structure and functions of the Central Bank, reviewed the banking and financial system, 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.

(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); and

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

In addition, FAD missions have visited Uganda as under:

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

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

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

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

Uganda - Fund Relations (concluded)
(As of end-December 1984)

(ii) To give a seminar on the system of reporting Government Financial Statistics and to update the data (August 15-23, 1983); and

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

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

IX. Resident Representative

The Fund has maintained a resident representative in Uganda since July 1982. A staff member, Mr. Z. Ebrahim-zadeh, has been the Fund resident representative since September 1984.

Relations with the World Bank Group and its Economic Assessment 1/

1. Relations. The objective of Bank strategy in Uganda is to help the Government restore the economy to a fully-functioning level. This is to be done by rehabilitating the basic infrastructure and productive capacity, by building up the country's technical and administrative capacity, and implementing appropriate economic and sector policies. To meet the urgent rehabilitation needs of the country, the Bank has provided fast-disbursing funds through two reconstruction credits and rehabilitation credits for the industrial, agricultural, education, highways and telecommunication sectors (Appendix Table I). It is providing technical assistance to key institutions through technical assistance projects as well as other projects with large technical assistance components. The Bank has also intensified its economic and sector work program to enable it to deepen its understanding of economic and sector issues and thereby strengthen its ability to offer sound policy advice to the Government.

2. The Economic Assessment. The general picture which is emerging, is of continued recovery, but with performance uneven between sectors. Real GDP has grown at an annual average of 7.8 percent over the last two years, government revenues have risen sharply and inflation has been reduced from an estimated 100 percent in 1980 to a current rate of around 30 percent. The balance of payments estimate for 1983/84 shows a substantial improvement over 1982/83, with the overall balance swinging from a negative $92 million to a positive $32 million. These developments are encouraging, but to what extent they represents the beginning of a longer-term improvement is uncertain. The external balance has been improved by favorable factors which may not recur, such as the rise in coffee prices, the appreciation of the U.S. dollar, and a forward sales of coffee exports. Economic growth over the last two years has been relatively high (8 percent), but this was from an exceptionally low base, and involved some of the easier catching-up policies. Over the next few years, it is likely to prove more difficult to grow at this rate, as the emphasis shifts away from recovery and more to restructuring and development.

3. The main areas of concern are as follows:

(a) Budgetary issues - *a serious over-shoot of the budgeted deficit* looks likely this year, primarily because of the quantum wage increases, and the mission recommended that early offsetting action be taken.

(b) Private savings - substantial efforts need to be made to attract the liquidity currently in the rural areas into the banking system.

1/ These are the preliminary findings of the economic mission which visited Uganda in September 1984.

(c) Crop finance - the proposed new scheme could be a major potential improvement, provided adequate training is first provided to the cooperatives.

(d) Foreign exchange regime - since June 1984 Uganda has operated a unified exchange system, with the rate determined at a weekly auction. The mission looked into several concerns voiced by the authorities, in particular, that the system is being abused by traders from neighboring countries where foreign exchange is not so easily available, and that because of the high demand for imported consumer goods, the share used for productive imports is small. The mission is still analyzing information collected, and it is difficult to be clear about the distribution of foreign exchange without data on aid-financed and government imports. Its preliminary recommendations are to increase the effective demand for foreign exchange of productive enterprises through specific measures. The mission recommends: (a) speeding up the transfer of enterprises to the private sector; (b) strengthening of management; (c) improvements in the financial sector to facilitate access to local cover; and (d) a temporary and highly conditional increase in the level of protection for selected import-dependent enterprises.

(e) Aid coordination and debt management - while there has been some progress in aid coordination, the objectives and staff functions need to be clearly defined within the Aid coordination units of the Ministries of Finance and Planning. Specific training needs were identified by the mission.

(f) Agriculture - the recovery in agricultural production over the last four years has been due to appropriate pricing policies and to quick-disbursing program credits for the provision of essential inputs which were easily disbursed. The projects outlined in the Revised Recovery Programme (RRP) have made only a small contribution. Over the medium term, the agricultural potential is considerable.

(g) Industry - there is little evidence of a generalized industrial recovery, which appears to be hampered by a number of serious constraints: organizational and managerial problems; the unsettled question of ownership; credit worthiness difficulties; shortage of working capital; and above all, the size of the investments needed to put equipment in working order which is more than originally anticipated. These constraints have produced high cost structures, and the lack of competitiveness of Ugandan products has been exacerbated by tariffs which appear to create a structure of effective protection inimical to the recovery of certain basic industries. The "band-aid" approach of applying small amounts of rehabilitation credits does not seem to be working, and what is needed is more of a restructuring than a rehabilitation. Restructuring, however, can only be done with a clear idea of the medium-term strategy for the sector. The industry sector mission, which overlapped in the field with the economic mission, will give a first indication of what this strategy should be, and further work is planned in its economic sector work.

(h) Transport - while there has been substantial progress in getting the vehicle fleet back in service, rehabilitation of infrastructure has made very little progress. Priority investments are the rehabilitation of the highway infrastructure, completion of the diesel locomotive shop, and cargo handling facilities, particularly of containers.

(i) Education - the mission made two broad recommendations on education. First, that the Government call a halt to the expansion of secondary education and devote resources to improving the quality of existing schools. The emphasis is thus shifted to consolidation. Second, that the present system of financing, whereby the level of subsidization increases with the level of education, be reversed. The level of subsidy would thus be increased for primary education, and fees would be charged at the higher education level and allowances abolished. Priority needs to be given to teacher training and improving the quality of technical education.

(j) Energy - while important steps have been taken to restore the capacity of the energy sector, the main constraints over the medium term are lack of skilled manpower, shortage of financial resources, and lack of planning and coordination at the sector level. Manpower training efforts will be required on a large scale to implement fuelwood supply and energy efficiency programs

(k) Statistical information - a major gap in the Bank's knowledge is information on the status of execution of the RRP projects. The Government is in the process of collecting this information, and the mission has also collected relevant data, but the whole picture has yet to be put together.

Future performance of the economy will obviously depend on the Government's response to these concerns.

Table I. Uganda: IBRD Loans and IDA Credits by Sector

(As of June 30, 1984; in millions of U.S. dollars)

	Total 1/			Disbursed			Undisbursed		
	Total	IBRD	IDA	Total	IBRD	IDA	Total	IBRD	IDA
Agriculture	81.1	--	81.1	12.7	--	12.7	68.4	--	68.4
Education	50.6	--	50.6	19.3	--	19.3	31.3	--	31.3
Water supply	9.0	--	9.0	4.2	--	4.2	4.8	--	4.8
Transport and communication	98.4	--	98.4	23.2	--	23.2	75.2	--	75.2
Power	8.4	8.4	--	8.4	8.4	--	--	--	--
Industry	39.0	--	39.0	3.0	--	3.0	36.0	--	36.0
Reconstruction 2/	192.5	--	192.5	107.1	--	107.1	85.4	--	85.4
Technical assistance	23.0	--	23.0	2.1	--	2.1	20.9	--	20.9
Total	502.0	8.4	493.6	180.0	8.4	171.6	322.0	--	322.0

Source: Data provided by the World Bank.

1/ Total amounts may differ from the sum of disbursed and undisbursed due to exchange rate adjustments.
2/ Includes one bilateral credit administered by IDA.

Table II. Uganda: Medium- and Long-Term Debt Service Projections, 1982-91

(In millions of U.S. dollars)

(a) Without borrowing to cover financing gaps in 1985 and 1986

	Actual 1982	Actual 1983	1984	1985	1986	1987	1988	1989	1990	1991
Debt service (excluding IMF)	55.8	106.6	85.9	63.1	67.6	81.7	86.6	77.2	80.2	89.1
Principal	(43.8)	(83.0)	(61.9)	(42.7)	(46.5)	(56.7)	(59.5)	(47.8)	(45.9)	(49.6)
Interest	(12.0)	(23.6)	(24.0)	(20.4)	(21.1)	(24.9)	(27.0)	(29.4)	(34.3)	(39.5)
IMF debt service	16.0	40.2	71.5	98.2	101.1	86.1	70.5	54.3	30.3	5.8
Repurchases	(1.7)	(17.8)	(37.7)	(65.5)	(73.4)	(63.8)	(59.2)	(43.9)	(24.5)	(2.7)
Charges	(14.3)	(22.4)	(33.8)	(32.7)	(27.7)	(22.3)	(16.3)	(10.5)	(5.8)	(3.1)
Total	71.8	146.8	157.4	161.2	168.7	167.8	137.1	131.5	110.5	94.9
Principal and repurchases	45.5	100.8	99.7	108.2	119.9	120.6	113.7	91.6	70.4	52.3
Interest and charges	26.3	46.0	57.7	53.1	48.8	47.2	43.3	39.9	40.1	42.5
			(In percent of exports of goods and services)							
Debt service ratio	19.7	38.0	34.8	33.5	34.0	31.9	28.1	22.1	17.5	14.0
Excluding IMF	15.3	27.6	19.0	13.1	13.6	15.5	15.5	13.0	12.7	13.2
IMF	4.4	1[illegible].4	15.8	20.4	20.4	16.4	12.6	9.2	4.8	0.8

(b) With borrowing to cover financing gaps in 1985 and 1986 1/

	Actual 1982	Actual 1983	1984	1985	1986	1987	1988	1989	1990	1991
Debt service (excluding IMF)	55.8	106.6	85.9	65.4	73.0	87.7	101.3	94.0	95.8	103.4
Principal	(43.8)	(83.0)	(61.9)	(42.7)	(46.5)	(56.7)	(68.7)	(60.0)	(58.1)	(61.8)
Interest	(12.0)	(23.6)	(24.0)	(22.7)	(26.5)	(31.0)	(32.6)	(34.0)	(37.7)	(41.6)
IMF debt service	16.0	40.2	71.5	98.2	101.1	86.1	70.5	54.4	30.3	5.8
Repurchases	(1.7)	(17.8)	(37.7)	(65.5)	(73.4)	(63.8)	(59.2)	(43.9)	(24.5)	(2.7)
Charges	(14.3)	(22.4)	(33.8)	(32.7)	(27.7)	(22.3)	(16.3)	(10.5)	(5.8)	(3.1)
Total	71.8	146.8	157.4	163.6	174.1	173.9	176.8	148.4	126.1	109.2
Principal and repurchases	45.5	100.8	99.7	108.2	119.9	120.6	127.9	103.9	82.6	64.5
Interest and charges	26.3	46.0	57.7	55.4	54.2	53.3	48.9	44.5	43.5	44.7
			(In percent of exports of goods and services)							
Debt service ratio	19.7	38.0	34.8	33.5	34.0	31.9	30.7	25.0	19.9	16.1
Excluding IMF	15.3	27.6	19.0	13.1	13.6	15.5	18.1	15.8	15.1	15.3
IMF	4.4	10.4	15.8	20.4	20.4	16.4	12.6	9.2	4.8	0.8

Sources: Bank of Uganda; and Fund staff estimates.

1/ Assuming that the financing gaps are closed with commercial financing at 11 percent interest with two years' grace and repayments over five years.

Table III. Uganda: Foreign Exchange Cash Flow, 1985

(In millions of U.S. dollars)

	Q1	Q2	Q3	Q4	Total
Net inflows	-19.7	5.2	-3.2	5.7	-12.0
Inflows	119.8	132.1	129.6	124.5	506.0
Coffee exports	92.0	105.3	98.7	98.7	394.7
Normal receipts	(92.0)	(105.3)	(98.7)	(98.7)	(394.7)
Advance sales receipts	(--)	(--)	(--)	(--)	(--)
Advanced sales payments	(--)	(--)	(--)	(--)	(--)
Cotton exports	4.9	3.9	3.9	3.9	16.7
Other exports	8.6	8.6	8.6	8.6	34.4
Services	7.3	7.3	7.3	7.3	29.1
Private capital	0.5	0.5	0.5	0.5	2.0
Net new short-term capital	--	--	--	--	--
IDA RECON. III	6.5	6.5	7.6	7.6	28.2
Outflows	139.4	126.9	132.8	118.8	517.9
Oil	28.9	28.9	28.9	28.9	115.5
Other imports	45.2	45.2	45.2	45.2	180.6
Services (excluding interest)	10.5	10.5	10.5	10.5	41.9
Official debt services	24.2	24.1	15.6	14.5	78.4
Principal	(12.2)	(12.2)	(9.2)	(9.2)	(42.7)
Interest	(4.9)	(4.9)	(5.3)	(5.3)	(20.4)
Arrears	(7.2)	(7.0)	(1.2)	(0)	(15.3)
BOU and CMB debt service	0.3	0.3	0.3	0.3	1.1
Principal	(--)	(--)	(--)	(--)	(--)
Interest	(0.3)	(0.3)	(0.3)	(0.3)	(1.1)
LC payments	--	--	--	--	--
IMF debt service	30 4	18.0	32.4	19.6	100.4
Repurchases	(15.3)	(15.6)	(17.3)	(17.3)	(65.5)
Charges	(15.1)	(2.4)	(15.0)	(2.3)	(34.9)

Sources: Bank of Uganda; and staff estimates.

Table IV. Uganda: Exchange Rate at WI, WII, WI-II, June 1981-September 1984

	Weights		U Sh per US$			Import-weighted nominal effec. exchange rate June 1981=100			Import-weighted real effec. exchange rate June 1981=100		
	WI	WII	WI	WII	WI-II	WI	WII	WI-II	WI	WII	WI-II
June 1981	100	0	77.0		77.0	100.0		100.0	100.0		100.0
July 1981	100	0	79.8		79.8	100.9		100.9	98.9		98.9
August 1981	100	0	81.4		81.4	100.7		100.7	101.3		101.3
September 1981	100	0	80.6		80.6	102.0		102.0	104.9		104.9
October 1981	100	0	79.3		79.3	101.5		101.5	105.3		105.3
November 1981	100	0	80.2		80.2	104.0		104.0	108.0		108.0
December 1982	100	0	85.1		85.1	109.8		109.8	115.2		115.2
January 1982	100	0	85.5		85.5	108.8		108.8	107.7		107.7
February 1982	100	0	86.2		86.2	107.2		107.2	102.6		102.6
March 1982	100	0	85.7		85.7	104.9		104.9	96.5		96.5
April 1982	100	0	85.9		85.9	103.8		103.8	91.1		91.1
May 1982	100	0	90.4		90.4	111.7		111.7	101.7		101.7
June 1982	100	0	96.7		96.7	114.9		114.9	102.5		102.5
July 1982	100	0	100.0		100.0	117.1		117.1	105.1		105.1
August 1982	91	9	99.3	300.0 1/	117.4	115.6	349.1 1/	136.6	101.3	306.0	119.7
September 1982	91	9	100.0	300.0	118.0	115.3	345.9	136.1	100.9	302.7	119.1
October 1982	77	23	100.0	280.0	141.4	113.7	318.5	160.8	97.9	274.1	138.4
November 1982	77	23	100.2	255.0	135.8	112.2	285.6	152.1	93.9	238.9	127.2
December 1982	77	23	104.3	240.0	135.5	119.2	274.2	154.8	99.6	229.1	129.3
January 1983	65	35	110.0	235.0	153.8	125.9	268.9	176.0	100.2	214.1	140.1
February 1983	65	35	115.0	230.0	155.3	129.6	259.1	174.9	105.2	210.4	142.0
March 1983	65	35	117.8	236.0	159.2	131.0	262.3	176.9	105.0	210.4	141.9
April 1983	57	43	124.5	260.0	182.8	137.8	287.8	202.3	108.3	226.2	159.0
May 1983	57	43	135.0	270.0	193.1	149.4	298.8	213.6	113.2	226.4	161.9
June 1983	57	43	145.0	300.0	211.7	157.5	325.8	229.9	118.3	244.7	172.7
July 1983	45	55	160.0	310.0	242.5	172.0	333.2	260.7	128.9	249.8	195.4
August 1983	45	55	166.5	292.0	235.5	175.7	308.2	248.6	133.9	234.8	189.4
September 1983	45	55	176.7	270.0	228.0	186.2	284.4	240.2	139.1	212.5	179.5
October 1983	53	47	185.6	295.5	237.3	197.4	314.3	252.4	146.3	233.0	187.1
November 1983	53	47	212.1	327.5	266.3	222.3	343.3	279.2	166.5	257.1	209.1
December 1983	53	47	234.4	297.5	264.1	241.9	307.0	272.5	180.4	228.9	203.2
January 1984	53	47	241.8	298.0	268.2	246.5	303.8	273.5	183.1	225.6	203.1
February 1984	53	47	256.2	305.0	279.1	265.8	316.4	289.5	203.3	242.1	221.5
March 1984	53	47	274.4	322.5	297.0	290.6	341.5	314.5	213.3	250.7	230.9
April 1984	53	47	292.1	316.0	303.3	305.9	331.0	317.7	210.5	227.7	218.6
May 1984	53	47	292.1	325.0	307.6	299.1	322.8	314.9	198.2	220.5	208.7
June 1984 2/	0	100	--	318.5	318.5	--	325.2	325.2	--	221.1	221.1
July 1984	0	100	--	340.0	340.0	--	337.2	337.2	--	218.6	218.6
August 1984	0	100	--	377.5	377.5	--	371.7	371.7	--	234.7	234.7
September 1984	0	100	--	400.0	400.0	--	383.0	383.0	--	218.5	218.5
October 1984	0	100	--	449.0	449.0	--	424.8	424.8	--	...	...

Sources: Bank of Uganda; and staff estimates.

1/ The rate applies to the last week of August.
2/ On June 15, the dual exchange system was unified.

Table V. Uganda: External Loan Disbursements under the 1984/85 Budget

Project	Source	Amount (In millions of U.S. dollars)
Reconstruction		53.0
Second reconstruction credit	IDA	30.0
Third reconstruction credit	IDA	23.0
Agriculture		28.2
Rehabilitation Lugazi Sugar	ABD, IFC, CDC, Ex-IM Bank, BADEA	13.7
Agricultural credit	Italian Government	6.0
Agricultural credit	IDA	5.0
Tea factories	ABD	3.0
Animal resources	Indian Government	0.5
Roads, telecommunications		13.0
Highways	IDA	6.0
Rehabilitation of Uganda Post and Telecommunications	ADB	5.0
Roads	ADB, IDB	2.0
Water/Sewerage		9.0
Urban/water/sewerage	ADB	3.0
Water supply studies	IDA	3.0
Land/water resources	Indian Government	3.0
Education	IDA	15.0
Industry		12.3
Industrial rehabilitation	IDA	10.0
Textile mills	Abudhabi Fund	2.3
Other		21.0
Technical assistance	IDA I-II	8.0
Miscellaneous projects	USSR Government	5.5
Miscellaneous projects	Indian Government	2.5
Miscellaneous projects	EX-Im Bank	2.0
Line of credit	IDB	3.0
Total Loan Disbursements		151.5

Source: Data provided by the Ugandan authorities.

Table VI. Uganda: Performance Criteria Relating to External Sector, 1983/84

	End-Sept. 1983	End-Dec. 1983	End-March 1984	End-June 1984
	(In millions of U.S. dollars)			
1. Minimum cumulative sales of foreign exchange at Window Two since July 1, 1983				
Target 2/3/	39.0 1/	78.0 1/	117.0	156.0
Actual	41.9	78.8	120.2	166.5
2. Minimum net cash reduction of external arrears, cumulative since July 1, 1983				
Target 2/	...	10.0 1/	...	20.0
Actual	...	12.3	22.2	22.8
Minimum net cash reduction of external arrears, cumulative since Jan. 1, 1984				
Target 3/	...	...	5.0	10.0 1/
Actual	...	...	9.9	10.6
3a. Contracting of new public and publicly guaranteed external debt of 0-12 years from July 1, 1983 to Dec. 31, 1983				
Target 2/	30.0 1/	30.0 1/	...	...
Actual	20.0	30.0	...	...
b. Contracting of new public and publicly guaranteed external debt of 6-12 years from Oct. 1, 1983 to Dec. 31, 1983				
Target 2/	-- 1/	20.0 1/	...	...
Actual	--	--	...	...
c. Contracting of new public and publicly guaranteed external debt of 0-12 years from Jan. 1, 1984 to June 30, 1984				
Target 3/	...	...	30.0	30.0 1/
Actual	...	...	30.0	30.0
d. Contracting of new public and publicly guaranteed external debt of 0-6 years from Jan. 1, 1984 to June 30, 1984				
Target 3/	...	...	10.0	10.0 1/
Actual	...	...	30.0	30.0
Memorandum items:				
Stock of outstanding new short-term public and publicly guaranteed borrowing				
a. In respect of prepayments of coffee	33.9	46.7	39.8	37.3
b. Commercial bank loans to CMB	--	10.0	40.0	20.0
c. Commercial bank loans to BOU	20.0	10.0	--	--
d. Total	53.9	56.7	79.8	57.3

Source: Bank of Uganda.

1/ Not a performance criterion.
2/ Set at time of approval of stand-by arrangement (EBS/83/180).
3/ Set at time of review of stand-by arrangement (EBS/84/7).

UGANDA--Basic Data

Area, population, and GDP per capita

Area:	241,139 square kilometers
Population:	
Total (1983)	13.9 million
Growth rate	2.8 percent (1969 to 1983)
GDP per capita:	SDR 280

	1979	1980	1981	1982	1983
Gross domestic product (GDP)	(In millions of Ugandan shillings)				
GDP at constant 1966 prices	6,330	6,113	6,351	6,873	7,375
Agriculture	3,497	3,277	3,500	3,854	4,239
Of which: subsistence agriculture	(2,075)	(1,943)	(2,178)	(2,349)	(2,590)
Mining and quarrying	8	6	6	7	7
Manufacturing	246	261	247	282	290
Construction	30	25	25	28	32
Transport and communications	580	508	491	543	587
Government	840	882	890	900	909
Other services	930	910	914	969	1,022
Price movements (percent)					
Cost of living: middle-income index for Kampala	84.9	125.3	83.1	34.9	20.5

UGANDA--Basic Data (continued)

Balance of payments	1980/81	1981/82	1982/83	1983/84	1984/85 Proj.
			(In millions of SDRs)		
Exports, f.o.b.	172	261	328	364	463
Imports, c.i.f.	-341	-367	-411	-403	-499
Trade balance	-169	-109	-83	-39	-36
Services (net)	-67	-103	-107	-94	-97
Balance on goods and services	-236	-209	-190	-133	-183
Unrequited transfers (net)	52	105	99	103	113
Current account balance	-184	-104	-91	-30	-20
Debt cancellation	6	61	--	--	--
Capital movements (n.i.e.)	65	-94	14	72	60
Medium and long term	19	-71	34	21	103
Short term	46	-23	-20	51	-43
SDR allocation	6	--	--	--	--
Overall balance	-107	-137	-77	42	40
Monetary authorities (net) 1/	(33)	(100)	(93)	(-20)	-12
Exceptional financing (net) 1/	(73)	(36)	(-16)	(-22)	-28
Gross foreign reserves of the banking system	70	30	31	91	48
(in months of imports at end of period)	(2.5)	(1.0)	(0.9)	(2.7)	(1.1)
Outstanding stock of external arrears (in millions of US dollars)	163	157	120	62	23
Effective exchange rate (end of period): nominal	100	87	43	31	...
real	100	98	58	45	...
Import price index	104	105	101	100	102
Export price index	86	78	82	100	103
Terms of trade index	83	74	84	100	101

1/ Minus sign denotes decrease in net liabilities.

UGANDA--Basic Data (concluded)

	1979/80	1980/81	1981/82	1982/83	1983/84
Government finance 1/	(In millions of Ugandan shillings)				
Total revenue and grants	3,892	3,296	27,878	53,190	97,442
Revenue	3,809	2,721	24,390	52,607	92,942
Grants	83	575	3,488	583	4,500
Total expenditure	7,950	13,782	52,597	73,028	114,898
Recurrent expenditure	6,637	12,042	28,344	47,846	80,918
Development expenditure	1,050	2,035	7,057	9,166	13,972
Expenditure financed through domestic arrears	--	500	9,300	4,150	--
Other (net)	263	-795	3,896	11,866	20,008
Overall surplus/deficit (-) (commitments basis)	-4,058	-10,486	-24,719	-19,838	-17,456
Change in domestic arrears (increase +)	--	500	9,300	3,300	-8,400
Overall surplus/deficit (-) (cash basis)	-4,058	-9,986	-15,419	-16,538	-25,856
Foreign financing (net)	46	766	1,010	3,689	3,015
Domestic financing (net)	4,012	9,220	14,409	12,849	22,841
Of which: banking system	(3,364)	(9,081)	(13,318)	(11,345)	(-3,200)
Money and credit (end of period)					
Foreign assets (net) 2/	-113	-50,570	-55,390	-64,840	-50,670
Domestic credit	6,415	26,470	48,687	71,975	85,070
Claims on Government (net)	(11,293)	(20,373)	(33,696)	(45,036)	(41,836)
Claims on private sector	(5,123)	(6,097)	(14,986)	(26,939)	(43,234)
Money	10,150	16,939	24,070	36,415	61,767
Of which: currency	(4,497)	(7,286)	(10,508)	(16,796)	(28,642)
Quasi-money	3,742	5,031	7,961	10,802	14,202
Foreign currency revaluation	...	-44,520	-45,400	-47,060	-50,360
Other items (net)	2,410	312	6,666	6,978	8,820

1/ Fiscal year July-June.
2/ 1979/80 and subsequent years not strictly comparable because of currency devaluation in June 1981.