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INFORMATION

February 6, 1985

To: Members of the Executive Board
From: The Secretary
Subject: Uganda - Staff Report for the 1984 Article IV Consultation

The attached supplement to the staff report for the 1984 Article IV consultation with Uganda has been prepared on the basis of additional information.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion on Friday, February 8, 1985, they should contact Mr. Basu, ext. 6511.

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INTERNATIONAL MONETARY FUND

UGANDA

Staff Report for the 1984 Article IV Consultation
Supplementary Information

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

Approved by A.D. Ouattara and W.A. Beveridge

February 5, 1985

The following information supplements the data presented in the Staff Report for the 1984 Article IV consultation with Uganda (SM/85/14). The additional information relates to recent data on (1) financial developments; (2) price adjustments and trends in the CPI; (3) exchange rate developments; and (4) external developments.

1. Financial developments

After increasing by 61 percent during the fiscal year 1983/84 (July/June), broad money continued to grow at a rapid rate through the first five months of the current fiscal year, when it increased by 38 percent (equivalent to an annual growth rate of more than 100 percent).

The Government's recourse to domestic bank financing during the first five months of 1984/85 was more than three times the amount planned for the whole fiscal year. Between June and November of 1984 the banking system's net claims on Government increased by about U Sh 14 billion (18.5 percent of the beginning stock of broad money), as compared with a small reduction (of U Sh 3.2 billion) in such claims over the previous fiscal year 1983/84 (July/June). Concurrently, bank credit to the private sector increased by about U Sh 2 billion (2.8 percent of the beginning stock of broad money), or much less rapidly than in 1983/84 (34.5 percent).

2. Price adjustments and trends in the CPI

The retail prices of petroleum products were raised effective December 10, 1984; the increases ranged from 36 percent for gasoline to 48 percent for diesel and kerosene. At the new retail prices and the current official exchange rate (U Sh 550 per U.S. dollar), petroleum products are not being subsidized; instead, there would be a small contribution of tax revenue to the budget. However, this revenue contribution is likely to fall considerably short of the budgetary target.

On a year-to-year basis, the rate of increase in the consumer price index has accelerated for both the middle- and the low-income group. For the middle-income group the rise in the CPI was from 18 percent in June 1984 to 39 percent in September and 78 percent in December of 1984. In the case of the low-income group, the rate of increase in the CPI accelerated from 31 percent in June to 91 percent in December 1984.

3. Exchange rate developments

In mid-November 1984, when new regulations were introduced requiring importers to prepay customs duties and sales taxes on imported goods before the actual release of foreign exchange, the auction was suspended for one week before being resumed in the final week of November 1984. Moreover, the authorities also introduced a one-week lag between the submission of the bids and the determination of the auction rate. This delay was introduced to provide the bidders with enough time to comply with all the new regulations.

During the months of November and December of 1984 the average weekly sales of foreign exchange amounted to about US\$1.4 million and US\$3.1 million, respectively, as compared with almost US\$4 million in the month of October 1984. In November this decline in the average weekly sales of foreign exchange was mainly attributable to the one-week suspension of the auction described earlier. Furthermore, the sharp increase in both domestic credit and broad money (as noted above), resulted in a depreciation of the exchange rate at the auctions, from a monthly average of U Sh 449 per U.S. dollar in October to U Sh 555 per U.S. dollar in November. As domestic consumer prices rose at a slower pace in November, the real effective exchange rate is estimated to have depreciated by 13 percent. However, consumer prices increased substantially in December while the shilling appreciated slightly to U Sh 550 per U.S. dollar. Thus, there are indications that the movement of the real effective exchange rate of the previous month was more than reversed in December 1984.

4. External developments

Uganda's gross official reserves continued to decline during the final quarter of 1984. After decreasing by US\$33 million between June and September of 1984, reserves fell by a further US\$8 million during the final quarter of 1984. As a result, at the end of 1984 gross official reserves stood at US\$53.3 million, a level that covered only about 1.5 months of 1984 imports.

At the end of June 1984 Uganda's outstanding stock of external arrears amounted to US\$55.8 million in respect of medium- and long-term debt and US\$7.1 million in respect of letters of credit. In the second half of 1984 the Ugandan authorities reduced arrears on medium- and long-term debt by US\$15.9 million and arrears relating to letters of credit by US\$3 million. Thus, at the beginning of 1985 outstanding external arrears totalled US\$44 million.

During the second half of 1984 the contracting of new foreign loans on nonconcessional terms amounted to US\$11 million; the repayment periods and interest rates of the new loans varied between three and eight years and between 8.5 percent and 12 percent, respectively. During the same period two new loans were contracted on concessional terms. One of these concessional loans was from the EEC for a sugar project (ECU 2.5 million) and the other was from the IDA for a water project (US\$28 million).

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